

PRESS RELEASE

KILLAM PROPERTIES INC.

Halifax, Nova Scotia

May 6, 2014

KILLAM PROPERTIES INC. ANNOUNCES Q1 2014 RESULTS

Killam Properties Inc. ("Killam" or the "Company") (TSX: KMP) is pleased to announce its financial results for the first quarter ended March 31, 2014.

Q1 Highlights

- Generated funds from operations ("FFO") of \$0.13 per share, compared to FFO of \$0.15 per share during Q1-2013.
- Increased same store revenue by 1.3%.
- Higher heating and operating costs resulted in a decrease in same store net operating income ("NOI") of \$1.2 million, or 6.9%.
- Completed \$19.5 million in acquisitions.
- Reduced the weighted average interest rate on mortgage debt to 3.93% from 4.05% at December 31, 2013, and extended the weighted average term to maturity of mortgage debt to 4.0 years from 3.9 years.

Financial Highlights (in thousands, except per share amounts)

For the three months ended,	Mar 31, 2014	Mar 31, 2013	Change
Property Revenue	\$35,065	\$33,249	5.5%
Net Operating Income	\$17,620	\$18,166	(3.0%)
Income Before Fair Value Gains, Gain on Disposition, and Income Taxes	\$7,046	\$8,016	(12.1%)
Fair Value Gains	-	\$4,291	(100.0%)
Net Income Attributable to Common Shareholders	\$4,869	\$8,967	(45.7%)
Earnings Per Share	\$0.09	\$0.17	(47.1%)
Funds from Operations	\$6,827	\$7,812	(12.6%)
Funds from Operations per Share (basic)	\$0.13	\$0.15	(13.3%)
Funds from Operations per Share (diluted)	\$0.12	\$0.14	(14.3%)
Shares Outstanding (weighted average)	54,606	53,874	1.4%

As at	Mar 31, 2014	Dec 31, 2013	Change
Investment Properties	\$1,505,274	\$1,476,116	2.0%
Total Assets	\$1,550,953	\$1,532,431	1.2%
Total Liabilities	\$947,997	\$928,371	2.1%
Total Equity	\$602,956	\$604,060	(0.2%)
Total Debt to Total Assets	52.9%	52.9%	-

FFO per Share of \$0.13

Killam earned FFO of \$6.8 million, or \$0.13 per share, during Q1-2014 compared to \$7.8 million, or \$0.15 per share, during Q1-2013. The \$1.0 million decrease in FFO is primarily attributable to higher natural gas and operating costs and the timing of redeployment of net proceeds from an MHC portfolio disposition in Q4-2013. These factors were partially offset by earnings attributable to acquisitions completed in the last twelve months and interest expense savings on Killam's same property portfolio.

High Natural Gas and Operating Costs Resulted in a Decrease in Same Store NOI

Same store NOI for Q1-2014 was \$15.7 million, 6.9% below the \$16.8 million earned during Q1-2013. Despite a 1.3% increase in revenue, higher natural gas and operating costs negatively impacted Killam's same store portfolio NOI compared to Q1-2013. Consolidated same store results for Q1 are summarized below:

Consolidated Same Store NOI (in thousands)

For the three months ended,	Mar 31, 2014	Mar 31, 2013	Change	% Change
Property Revenue	\$31,397	\$31,000	\$397	1.3%
Property Expenses				
Operating Expenses	(5,365)	(4,948)	(417)	8.4%
Utility and Fuel Expenses	(6,678)	(5,672)	(1,006)	17.7%
Property Taxes	(3,699)	(3,570)	(129)	3.6%
Total Property Expenses	(15,742)	(14,190)	(1,552)	10.9%
Net Operating Income	\$15,655	\$16,810	(\$1,155)	(6.9%)

Revenue growth in the quarter was primarily attributable to higher rental rates, which increased by 1.4% quarter-over-quarter, and improved occupancy. Killam achieved apartment occupancy of 96.0% at March 31, 2014 compared to 95.4% at March 31, 2013.

Increased natural gas prices and consumption accounted for \$0.7 million of the total \$1.6 million variance in total property expenses quarter-over-quarter. High natural gas prices persisted in Atlantic Canada during Q1-2014 as colder than normal temperatures increased demand, driving increased pricing in a market already constrained by a shortage of pipeline capacity and storage facilities. The colder than normal

temperatures also resulted in increased energy consumption. Killam expects to mitigate its exposure to the price volatility by entering into fixed-price contracts either directly or through its distributors.

Following the decrease in NOI during Q1, Management has adjusted its same store NOI growth forecast for 2014 to 0%, from 0% to 2%. Overall, improved quarter-over-quarter occupancy is expected during Q2 and Q3, as well as a moderating of utility and fuel costs.

\$19.5 Million of Acquisitions Completed in Q1

Killam completed \$19.5 million in acquisitions during Q1-2014, including the purchase of two apartment buildings in Ottawa totaling 136 units and a 35-unit apartment building in Moncton. Subsequent to the end of the quarter, Killam acquired a newly constructed 83-unit apartment building in Halifax. Year-to-date Killam has completed \$38.1 million in acquisitions, approximately 50% of its acquisition target of \$75 million for the year. Killam expects to meet its 2014 acquisition target with its existing acquisition capacity.

The 2014 acquisitions completed to-date replace part of the NOI associated with the MHC portfolio sold for \$69.0 million in November 2013. The timing difference between the sale and the redeployment of the net sale proceeds of \$42.6 million has had a short-term dilutive effect on FFO, as seen in Q1-2014. Management expects to have the net cash from the sale fully redeployed by the end of Q3.

Interest Expense Savings on Mortgage Refinancings

During Q1-2014, Killam successfully refinanced \$36.8 million of maturing apartment mortgages at a weighted average interest rate of 2.71%, 164 basis points lower than the weighted average interest rate prior to refinancing. The Company's weighted average mortgage interest rate improved to 3.93%, an improvement of 12 basis points from 4.05% at December 31, 2013. The average number of years to mortgage maturity was extended to 4.0 years from 3.9 years at December 31, 2013.

Subsequent to March 31, 2014, Killam refinanced \$29.6 million of maturing apartment mortgages at a weighted average interest rate of 3.25%, 111 basis points lower than the weighted average interest rate prior to refinancing. With \$73.9 million of debt maturing during the remainder of the year, Killam expects to reduce the weighted average interest rate, the term to maturity and continue to achieve interest expense savings throughout 2014. Management will use a combination of 5-year and 10-year debt on the mortgages refinanced during the year.

Killam's balance sheet remains conservative with debt as a percentage of total assets of 52.9% at March 31, 2014, consistent with 52.9% at December 31, 2013. Killam's interest coverage ratio for the last twelve months was 2.05 times, down modestly from 2.08 times at December 31, 2013.

Stable Cap Rates in Q1

Killam did not record any fair value gains related to IFRS fair value accounting during Q1-2014 as there was only nominal movement in the market capitalization rates used to value its properties. This compares with a 20 basis point decrease in capitalization rates in Q1-2013, reflected in a \$4.3 million gain.

Management's Comments

"Q1 was a challenging start to the year", noted Philip Fraser, Killam's President & CEO. "The effects of an unstable natural gas market in Atlantic Canada, a colder than normal winter and a competitive rental market in Nova Scotia and New Brunswick resulted in a reduction in Killam's same store NOI in the quarter."

“Despite these challenges, I am pleased with our operational performance. We are improving occupancy levels in many of our core markets, generating revenue growth from the portfolio and making good progress with the initial lease-up of two of the developments we completed last year, as well as two newly constructed apartments we acquired in 2013. These four properties represent 295 units and are currently 82% leased, compared to 61% at December 31, 2013, and we expect to reach full occupancy during Q3-2014. The timing of the lease-up phase has impacted our FFO per share results as we have not yet experienced the full earnings potential from these four buildings, which we expect to realize next year.”

“Finally, looking forward, we anticipate improved economic growth in Atlantic Canada fueled by major projects, both underway and proposed, in Halifax and across the Atlantic region. Projects like the Irving Shipbuilding Contract (\$25 billion), offshore energy exploration (\$2.1 billion), construction of the Maritime Link (\$1.5 billion), and the proposed Energy East Pipeline (\$12 billion, including \$2.1 billion in New Brunswick) are projected to create both job and population growth in the region. This growth is expected to be positive for the multi-family market with increased demand for housing. In addition, we believe that our focus on expanding our asset base outside of Atlantic Canada, primarily in Ontario, will continue to enhance the diversification of Killam’s portfolio, including increased exposure to markets with higher population growth.”

Financial Statements

Killam’s Q1-2014 Financial Statements and Notes, and Management’s Discussion and Analysis can be found under Financial Reports in the Investor Relations section of Killam’s website at www.killamproperties.com/investor-relations.

Results Conference Call

Management will host a conference call to discuss these results on Wednesday, May 7, 2014, at 9:00 AM Eastern. The dial-in numbers for the conference call are 647-427-7450 (in Toronto) or 888-231-8191 (toll free, within North America).

A live audio webcast of the conference call will be accessible on the Company’s website at www.killamproperties.com/investor-relations/events-and-presentations and at www.newswire.ca.

Corporate Profile

Killam Properties Inc., based in Halifax, Nova Scotia, is one of Canada’s largest residential landlords, owning, operating and developing multi-family apartments and manufactured home communities.

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forecast and projections, which we believe are reasonable as of the current date. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of Killam to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. For more exhaustive information on these risks and uncertainties, you should refer to our most recently filed annual information form which is available at www.sedar.com. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made and should not be relied upon as of any other date. Other than as required by law, Killam does not undertake to update any of such forward-looking statements.