Management's Discussion & Analysis

Dollar amounts in thousands of Canadian Dollars (except as noted)

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PART I

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 2013, and 2012. The consolidated financial statements for the years ended December 31, 2013, and 2012 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with the Company's 2013 Annual Information Form, are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at February 18, 2014.

Forward-looking Statements

Certain statements in this MD&A constitute "forward-looking statements". In some cases, forward-looking statements can be identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "potential", "continue" or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward looking statements, including: competition, national and regional economic conditions and the availability of capital to fund further investments in Killam's business. Further information regarding these risks, uncertainties and other factors may be found under the heading "Risk Management" in this MD&A and in the Company's most recent Annual Information Form. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained, or incorporated by reference, in this MD&A.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events may not occur. Although Management believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated. Neither Killam nor any other person assumes responsibility for the accuracy and completeness of any forward-looking statements, and no one has any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, circumstances, or such other factors which affect this information, except as required by law. The forward-looking statements in this document are provided for the limited purpose of enabling current and potential investors to evaluate an investment in the Company. Readers are cautioned that such statements may not be appropriate and should not be used for any other purpose.

Non-IFRS Measures

There are measures included in this MD&A that do not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures as a means of measuring financial performance.

- Net operating income ("NOI") is calculated by the Company as income from property operations. The use of NOI when referring to a particular segment is calculated as property revenue less property operating costs for that segment.
- Funds from operations ("FFO") are calculated by the Company as net income plus deferred tax expense, loss on disposition and depreciation on owner-occupied property, less fair value gains, gain on disposition and non-controlling interest. Killam's definition of FFO is calculated in accordance with the REALpac definition.
- Adjusted funds from operations ("AFFO") are calculated by the Company as FFO less the industry standard of $450 per apartment unit for "maintenance" versus "NOI enhancing" related capital costs and $100 per Manufactured Home Community ("MHC") site, although the MHC industry does not have a standard amount for "maintenance" related capital costs.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2013 and 2012 (89% of the portfolio based on December 31, 2013 unit count).
- Capitalization Rate ("cap-rate") is the rate calculated by dividing the forecasted NOI from a property by the property's purchase price.
- Interest coverage is calculated by dividing the earnings before interest, tax, depreciation, and fair value adjustments by interest expense.
- Debt service coverage is calculated by dividing the earnings before interest, tax, depreciation, and fair value adjustments by interest expense and principal mortgage repayments.

PART II

Business Overview

Killam Properties Inc., based in Halifax, Nova Scotia, is one of Canada's largest residential landlords, owning, operating, managing and developing multi-family residential and Manufactured Home Community ("MHC") properties. Killam's 164 apartment properties are located in Atlantic Canada's six largest urban centres and in Ontario. The Company's 35 MHCs are located in Ontario and Atlantic Canada. The value of Killam's real estate assets at December 31, 2013, was $1.5 billion. Killam is focused on growing its portfolio, maximizing the value of its properties and increasing FFO per share.

Killam was founded in 2000, based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam's first apartment was purchased in 2002 and its first MHC was purchased in 2003. From 2002 to 2009, Killam's apartment portfolio grew through the acquisition of properties in Atlantic Canada's six largest cities, namely Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown. Killam is now Atlantic Canada's largest residential landlord, with a 14.2% market share of the multi-family rental units in these core markets. Killam entered the Ontario apartment market in 2010, and today owns twelve properties in the province, including assets in Toronto, Ottawa, London and Cambridge. Killam plans to expand its presence in Ontario with additional acquisitions and developments. The apartment business is Killam's largest business segment, accounting for 86% of the Company's NOI from property operations and equity income in 2013. At December 31, 2013, Killam's apartment portfolio consisted of 12,647 units.

Killam complements its acquisition program with the construction of apartment buildings. During 2013, Killam completed the development of four projects totalling 282 units and commenced two additional projects in the second half of the year. Management does not expect developments to exceed 5% of the total asset base in any given year.

In addition, the Company owns MHCs, also known as land-lease communities or trailer parks. Killam owns the land and infrastructure supporting each community and leases the lots to tenants, who own their own homes and pay Killam a monthly site rent. Killam owns 35 communities which accounted for 14% of Killam's NOI in 2013. During the year Killam sold ten MHC properties located in New Brunswick, allowing the Company to crystallize the value of the properties at attractive cap-rates and use the funds to continue to grow the apartment portfolio.

Key Performance Indicators (KPIs)

Management measures Killam's performance based on the following KPIs:

1) FFO per Share – A standard measure of earnings for real estate entities. Management is focused on growing FFO per share on an annual basis.

2) Rental Increases – Management expects to achieve increases in average rental rates on an annual basis and measures the average rental increases achieved.

3) Occupancy – Management is focused on maximizing occupancy levels while also managing the impact of higher rents. This measure considers units rented as a percentage of total stabilized units at a point in time.

4) Same Store NOI Growth – This measure considers the Company's ability to increase the NOI at properties that it has owned for equivalent periods year-over-year, removing the impact of acquisitions, dispositions, developments and other non same store operating adjustments.

5) Weighted Average Cost of Debt – Killam monitors the weighted average cost of its mortgage debt and total debt.

6) Debt to Total Assets – Killam measures its debt levels as a percentage of total assets and works to ensure that the debt to total assets remains at a range of 55% to 65%.

7) Term to Maturity – Management monitors the average number of years to maturity on its debt.

8) Interest Coverage Ratio – A common measure of credit risk used by lenders, this measure considers Killam's ability to pay interest on outstanding debt. Generally, the higher the interest coverage ratio, the lower the credit risk.

9) Debt Service Coverage Ratio – A common measure of credit risk used by lenders, this measure considers Killam's ability to pay interest and principal on outstanding debt. Generally the higher the debt service coverage ratio, the lower the credit risk.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Financial and Operational Highlights

The following table presents a summary of Killam's financial and operating performance for the year ended December 31, 2013 and 2012:

Results of Operations

	2013	2012	Change
Property revenue	**$141,112**	$133,641	5.6%
NOI	**$83,040**	$80,444	3.2%
Income before fair value gains, loss on disposition and income taxes	**$40,064**	$37,023	8.2%
Fair value gains	**$13,070**	$37,726	(65.4)%
Net income applicable to common shareholders	**$39,779**	$51,727	(23.1)%
Earnings per share (basic)	**$0.74**	$1.03	(28.2)%
FFO	**$38,770**	$36,096	7.4%
FFO per share (basic)	**$0.72**	$0.72	-%
FFO per share (diluted)	**$0.71**	$0.71	-%
AFFO per share	**$0.60**	$0.60	-%
Weighted average shares outstanding (basic)	**54,143**	50,227	7.8%

Same Store Results

	2013	2012	Change
Same store revenue	**$121,530**	$119,390	1.8%
Same store expenses	**(50,404)**	(47,994)	5.0%
Same store NOI	**$71,126**	$71,396	(0.4)%

Balance Sheet

	2013	2012	Change
Investment properties	**$1,476,116**	$1,354,665	9.0%
Total assets	**$1,532,431**	$1,443,128	6.2%
Total liabilities	**$928,371**	$854,692	8.6%
Total equity	**$604,060**	$588,436	2.7%

Ratios

	2013	2012	Change
Total debt to total assets	**52.9%**	51.6%	130 bps
Weighted average mortgage interest rate	**4.05%**	4.48%	(43) bps
Weighted average years to debt maturity	**3.9**	3.4	0.5 years
Interest coverage	**2.08x**	2.00x	4.0%
Debt service coverage	**1.34x**	1.30x	3.1%

Summary of 2013 Results and Operations

Acquisitions and Developments Drive Revenue Growth of 5.6%

Killam completed $114.2 million in property acquisitions throughout 2013 and also completed $69.6 million of development projects in the first half of 2013, adding 1,025 apartment units and 65 MHC sites to the portfolio. $84.8 million of acquisitions completed throughout 2012 also contributed to revenue growth in 2013. This growth was partially offset by the disposition of ten MHC properties located in New Brunswick for proceeds of $69.0 million during the fourth quarter of 2013 and the disposition of twelve MHCs during 2012 for $72.9 million. The development projects completed in 2013 located in Halifax and Fredericton are expected to be substantially leased by mid-2014 and will generate additional revenue growth for the Company in 2014.

Consolidated Same Store Revenue Growth of 1.8%

Killam's same store portfolio posted a 1.8% increase in revenue growth compared to 2012, driven by an increase of 1.3% in rental rates related to the apartment portfolio and a 3.7% increase in rental rates related to the MHC portfolio. These rental rate gains were partially offset by higher vacancy during the first half of 2013, compared to 2012, and higher rental incentives due to increased competition in certain of the Company's core markets in Atlantic Canada as a result of increased supply.

The Halifax market, which comprises approximately 50% of the Company's same store apartments, contributed to the rental growth, posting a 2.5% increase in residential rents. The improved top-line growth in Halifax reflects the marketing and leasing changes implemented in 2013 and the quality and location of the Company's assets in the city. Growth in Halifax offset the Charlottetown and Saint John markets, which saw flat revenues year-over-year and a decline of 2.4% in revenue, respectively.

14% Increase in Same Store Utility Costs Due to Pressure on Natural Gas Pricing

During the first quarter of 2013 the Company experienced high natural gas prices as a result of supply constraints and high demand from utilities in New England, which drove up pricing within Atlantic Canada. Unanticipated disruptions at the Sable Offshore Energy project and delays in the Deep Panuke Project coming on-line created a regional supply deficit and forced distributors to purchase the commodity at higher prices from the day markets in the Northeastern United States. During the fourth quarter of 2013 Killam also saw a spike in pricing, specifically in the New Brunswick market, as colder than normal weather increased demand from utilities in Northeast New England and placed added pressure on day pricing in a market with a shortage of gas pipeline capacity. Pricing was more stable during the fourth quarter in Nova Scotia as the region's largest supplier had previously entered into a number of fixed gas-supply contracts for the 2013-2014 heating season.

Stability in Controllable Operating Costs

Excluding energy and property taxes, Killam delivered an impressively modest 0.3% increase in same store operating expenses in 2013 compared to 2012. Killam managed operating costs by renegotiating key contracts, including garbage and elevator contracts, and reducing repair and maintenance and property administrative expenses through a company-wide focus on minimizing discretionary spending. In addition, the increase in same store property tax expense was managed to 2.8% as a result of successful assessment appeals.

Interest Cost Savings on Refinancings

During 2013 Killam successfully refinanced $66.7 million of maturing apartment mortgages at a weighted average interest rate of 3.03%, 155 basis points ("bps") lower than the weighted average interest rate prior to refinancing. The Company also refinanced $10.7 million of MHC mortgages at a weighted average interest rate of 4.34%, 190 bps lower than the weighted average interest rate prior to refinancing. These refinancings create interest savings of $1.2 million on an annualized basis.

Stable FFO Despite Pressures on Non-Controllable Costs

Killam generated FFO per share of $0.72 during 2013 consistent with FFO per share of $0.72 in 2012. Lower interest costs, earnings associated with new acquisitions and developments, and savings in administrative costs were offset by an unprecedented increase in natural gas pricing in Atlantic Canada, a reduction in NOI related to the disposition of ten MHCs in December 2013 and twelve MHCs in May 2012, and an 8.9% increase in the weighted average number of shares outstanding. The equity raise in late 2012 included funds to support development and acquisitions, the full benefit of which was not realized until halfway through 2013. The Company also acquired land for future development of $2.9 million and incurred costs related to two new developments projects in St. John's and Cambridge totalling $12.7 million during 2013. The benefit on FFO of the deployment of these funds will not be realized until the respective projects are completed in Q3 2014 and early 2015.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Continued Geographic Expansion in Ontario

Killam acquired two buildings in Ontario during 2013 including a 102-unit building located in Ottawa for $10.4 million as well as a newly constructed, 8-storey, mixed-use complex containing 21,242 square feet of street level retail (TD Bank, Shoppers Drug Mart and Tim Hortons) and 179 apartment units in downtown Toronto for $40.0 million. With the completion of these two acquisitions, Killam's future NOI generated from its Ontario properties is expected to increase to 15.0% from 7.5%.

Reduced Cap-Rate Compression in 2013

During 2013 Killam recorded $13.1 million in fair value gains related to its portfolio compared to $37.7 million in 2012. This decrease year-over-year was driven by a combination of reduced cap-rate compression in 2013 and a slight uptick in cap-rates of 25 bps in the Saint John market in the fourth quarter of 2013. The net gain in real estate valuations does not impact the Company's FFO per share, its key measure of performance.

Dividend Increase

On December 23, 2013, Killam announced an increase in its annual dividend by 3.4% to $0.60 per share from $0.58 per share. The increase reflects Management's expectation of earning's growth to be generated in 2014.

Performance Compared to 2013 Key Objectives

Consolidation of Multi-family Residential Real Estate Market	
2013 Target	Complete approximately $75-$125 million in acquisitions.
2013 Performance	Killam completed $121.1 million in acquisitions in 2013 which includes $112.8 million in apartment acquisitions, $1.4 million for 65 MHC sites and $6.9 million in vacant land for future developments.

Increase Investment in New Properties	
2013 Target	Focus on newer properties as part of the acquisition program in 2013. Complete and lease-up Killam's four developments, and commence two new development projects.
2013 Performance	During 2013 Killam acquired 552 units which were constructed after 2001, representing 74% of the total units added to the portfolio during the year. The acquisitions included three buildings constructed in 2013, an 83-unit luxury building in Halifax, a 48-unit building in Moncton, and a 179-unit building on Queen Street West in Toronto. The Company also completed the construction of four development projects totaling 282 units during the first half of the year. These buildings were all ready for occupancy by the beginning of May 2013 with lease-up periods varying by project. Bennett House and Brighton House were fully leased within three months of opening while the S2 and The Plaza are currently 62% and 61% leased. Both properties are expected to be substantially leased by mid-2014. Killam commenced two new development projects during the year. Development started on a 101-unit project in St. John's in Q3-2013 and a 122-unit project in Cambridge broke ground in December 2013. Please refer to the Investment Properties Under Construction section of the MD&A on page 29 for further details on these projects.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Geographic Diversification	
2013 Target	2013 acquisition program to include investments in Ontario.
2013 Performance	During 2013 Killam acquired Kristin Way, a 102-unit building located in Ottawa, and 1033 Queen Street West in Toronto. These acquisitions increased Killam's total unit count in Ontario to 1,359 units, representing 11% of the total apartment portfolio. Killam has continued to expand its operating platform in Ontario by adding property managers, dedicated leasing representatives and administrative staff to manage the growing portfolio.

Growth in Same Store Net Operating Income	
2013 Target	Same Store NOI growth of 0% to 1% (adjusted from 2% to 4% following Q2 2013).
2013 Performance	Consolidated same store NOI decreased by 0.4% for the year ended December 31, 2013. This decrease was driven by an increase in natural gas prices in Atlantic Canada during the peak heating season in the first quarter as well as another spike in pricing in New Brunswick in December 2013. This resulted in a 14.6% increase in utility and fuel expenses compared to 2012 within the apartment portfolio. An increase in net property revenues, as well the management of other property operating expenses at levels consistent with 2012, helped to offset the impact of higher utility costs.

2014 Targets

Consolidation of Multi-family Residential Real Estate Market and Increase Investment New Properties	Complete a minimum of $75 million in acquisitions and continue to develop two current projects on schedule and within 5% of budget.
Geographic Diversification	Killam's 2014 acquisition program is to include over 50% of acquisitions outside of Atlantic Canada, with a focus on Ontario.
Growth in Same Store Net Operating Income	Same Store NOI growth of 0% to 2%.

2014 Outlook

Economic Growth Opportunities in Atlantic Canada

Large economic projects, either proposed or underway in Atlantic Canada, are expected to drive economic and population growth. Highlights from the five largest projects are included below:

- ❖ Continued progress on the $25 billion Irving Shipbuilding project is expected to generate growth in Nova Scotia in 2014, 2015 and beyond. Presently, Irving is investing approximately $350 million modernizing the Halifax Shipyard to begin cutting steel in 2015.
- ❖ The $7.8 billion Muskrat Falls hydro project is driving strong economic growth in Newfoundland and Labrador ("NL") and recently the $1.52 billion Maritime Link subsea cable designed to transport electricity from NL to Nova Scotia has been approved.
- ❖ Shell Canada has been awarded the exploration rights for eight parcels offshore Nova Scotia and has committed to spending more than $1 billion exploring these parcels over the next six years.
- ❖ BP Exploration Company Ltd ("BP") was awarded another four deep water parcels for a total exploration spending commitment of nearly $1.1 billion over six years. This offshore oil activity has the potential for long-term spending and employment opportunities in the region depending on the results of the exploration activity over the coming years.
- ❖ The proposed Energy East Pipeline Project is positive economic news for the Saint John, New Brunswick market.

Killam's Atlantic portfolio is also poised to benefit from the continued migration to urban centers, which is generating population growth in Killam's core markets in Atlantic Canada.

Occupancy Gains Expected

Killam expects to see modest gains in occupancy levels in the first and second quarter of 2014 compared to 2013. These gains are expected from further expansion of marketing and leasing activities, including a focus on tenant retention. Killam expects to see continued positive results from its Ontario portfolio throughout the next year as the Company's Ottawa properties acquired in 2012 and early 2013 have stabilized. Killam forecasts to operate these properties at an average vacancy rate of approximately 2%, consistent with market norms in this region. Furthermore, the Company expects to continue to outperform CMHC in its core markets located in Atlantic Canada. Trending in the first quarter of 2014 has shown steady occupancy gains in all New Brunswick markets as well as PEI, more than offsetting a slight decrease in occupancy in Halifax. Rental revenue growth is expected in the range of 1% - 2% across the portfolio in 2014, given Ontario's rental increases are capped at 0.8% for 2014 and market pressures from new supply in Killam's core markets in Atlantic Canada.

Natural Gas Volatility

The Company expects to see continued volatility in natural gas pricing in Nova Scotia and New Brunswick until additional pipeline capacity is built to alleviate supply constraints in Atlantic Canada and the Northeastern US, bringing pricing more in-line with other areas of North America. In the short-term, Management will continue to manage properties to maximize energy efficiencies. In addition, where dual-fired heating systems exist, the Company will switch to oil when the economics support the change and will explore investing in increasing the base of dual-fired systems.

Acquisition Activity With a Focus in Ontario and Two New Developments Underway

The Company expects to purchase a minimum of $75 million in assets in 2014. The concentration of acquisition activity is expected to take place in Ontario, in-line with the Company's long-term strategic goal of increasing NOI generated from outside of Atlantic Canada to 50%. Killam also has two new development projects underway, including a two building 101-unit complex located in St. John's, expected to be completed in Q3 2014, and one located in Cambridge, with the first phase of 122 units expected to be completed in the first half of 2015.

$139 Million in Debt Maturing in 2014

Killam has approximately $139.4 million of debt maturing in 2014 at a weighted average interest rate of 4.6%. The current bond yields for 5-year and 10-year debt are below the Company's weighted average interest rate on the debt to be refinanced. To-date the Company has refinanced or locked in interest rates for seven maturing mortgages representing $34.2 million of the maturing debt at a weighted average interest rate of 2.64%, 160 bps lower than the weighted average interest rate prior to refinancing. The Company expects to generate annualized interest savings of $0.6 million from the refinancings completed to date.

Business Strategy

Maximize NOI from Existing Portfolio

Management is focused on increasing the value of its real estate portfolio by maximizing revenue and operating efficiencies. To achieve NOI growth, Killam must address three critical factors; occupancy, rental rates, and operating costs. The Company focuses on customer service, investing in its properties, leasing and marketing initiatives, and training its employees to maximize these outcomes.

Management is able to directly control approximately 40% of operating expenses, including labour costs, repairs and maintenance and property general and administrative expenses. The remaining operating costs, including utilities and property taxes, are less controllable. Killam's apartments are currently heated with a combination of natural gas, electricity and oil. Volatile oil and natural gas prices have an impact on Killam's operating costs. To mitigate this volatility, the Company is active in energy conservation initiatives and regularly monitors its energy usage.

Growth through Acquisitions

Killam is expanding its portfolio by acquiring newer, centrally located buildings and is focused on Ontario. During 2013 Killam completed $121.1 million in acquisitions, including properties in Toronto, Ottawa, Moncton and Prince Edward Island.

Growth through Development

Killam enhances its portfolio growth opportunities by developing properties. Killam started apartment developments in 2010 and has completed five properties to-date, including four in 2013. Building new properties directly allows Killam to control the quality and features of the buildings, maximizes the use of excess land and eliminates the seller's profit, generating higher returns than through acquisitions. Management expects to limit development projects to approximately 5% of the balance sheet on an annual basis.

Investment in New Properties

In addition to developing new properties, Killam also acquires newly constructed assets. Management believes that increasing Killam's ownership in new, high-quality buildings will result in above-market and long-term demand for the Company's assets from an aging population, reduce annual capital requirements for deferred maintenance, and transform Killam's portfolio, over time, into one of the highest quality portfolios in Canada.

Demand by renters for newly constructed rental apartments is strong, with high occupancy rates and above-average rents. CMHC's Fall 2013 Halifax Rental Market Report reported 97.3% occupancy for properties built in 2000 or later, compared to 96.8% for all rental markets in the city. The average rent for a two-bedroom unit in these newer buildings was $1,320 per month, compared to a market average two-bedroom rent of $976.

The new properties added to Killam's portfolio are condo quality, providing tenants with features and amenities traditionally associated with ownership. The Company believes that demand for this type of rental accommodation will grow given an increasing number of homeowners reaching retirement age and looking for alternatives to home ownership. Killam is also attracted to the low capital spend requirements from new assets compared to older buildings, which often include significant capital investment to address deferred maintenance. Generally, the amount of annual capital to maintain a property increases as the building ages. In addition, with energy efficient features, the NOI margins are generally higher in newer buildings.

With strong demand for the acquisition of apartments over the last three years, cap-rates have declined and the pricing differential between older and newer buildings has reduced. This enables Killam to increase the amount of newer apartments in its portfolio without paying a significant premium for quality assets.

Geographic Diversification

Geographic diversification in the apartment segment is a priority for Killam. With a 14.2% market share in its core markets in Atlantic Canada, Killam is the region's largest residential landlord. The maximum market share Management foresees Killam reaching in Atlantic Canada is between 15%-18%. With Atlantic Canada representing only 4.9% of the Canadian rental market, Killam's growth opportunities increase significantly when considering assets outside Atlantic Canada.

With its strong operating platform, Killam can support a larger and more geographically diverse portfolio. The Company is actively building a portfolio in targeted Ontario markets, including Ottawa, the Greater Toronto Area, and Southwestern Ontario. An increased investment in Ontario, and potentially Western Canada, will increase the Company's diversification and exposure in high growth centres in Canada. Based on the Company's portfolio at year-end, 15% of Killam's 2014 NOI will be generated in Ontario. Management has set a long-term target of growing the amount of NOI generated outside of Atlantic Canada to 50%.

Dollar amounts in thousands of Canadian Dollars (except as noted)

In 2013, Killam sold a portfolio of ten MHCs in New Brunswick that allowed Killam to crystallize the increased value of this portfolio at attractive cap-rates. This creates moderate short-term dilution but it provides the Company with funds to continue its geographic diversification by accretively growing its apartment portfolio in Ontario.

Portfolio Summary

The following table summarizes Killam's apartment portfolio by market as at and for the year ended December 31, 2013:

Apartment Properties

	Units(1)	Number of Properties	% of Apartment NOI and Equity Income
Nova Scotia			
Halifax(2)	4,970	54	47.1%
Sydney	139	2	1.2%
	5,109	56	48.3%
New Brunswick			
Moncton	1,593	30	9.8%
Fredericton	1,394	20	9.9%
Saint John	1,143	13	5.6%
Miramichi	96	1	0.7%
	4,226	64	26.0%
Ontario(3)			
Ottawa	492	6	2.7%
London	264	2	2.8%
Cambridge	225	2	3.4%
Toronto	378	2	1.5%
	1,359	12	10.4%
Newfoundland and Labrador			
St. John's	813	11	7.3%
Grand Falls	148	2	1.1%
	961	13	8.4%
Prince Edward Island			
Charlottetown	906	17	6.6%
Summerside	86	2	0.3%
	992	19	6.9%
Total	**12,647**	**164**	**100.0%**

(1) Unit count includes properties held through Killam's partnerships and joint ventures.

(2) Killam owns a 47% interest in and manages Garden Park Apartments, a 246-unit building located in Halifax, NS. Killam's 47% ownership interest represents 116 of the 246 units related to this property.

(3) Killam owns three buildings located in Ontario through a joint venture, with Killam having a 25% ownership interest and managing the properties. Killam's 25% ownership interest represents 118 of the 472 units related to these properties.

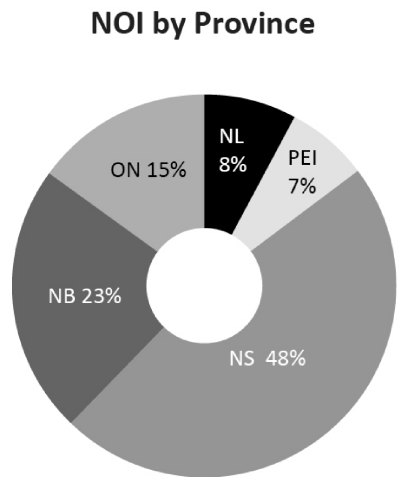
Manufactured Home Communities Portfolio

The following table summarizes Killam's MHC investment by province as at and for the year ended December 31, 2013:

	Sites	Number of Communities	% of MHC NOI
Nova Scotia	2,626	16	34.3%
New Brunswick	224	1	34.2%
Ontario	2,144	16	29.3%
Newfoundland and Labrador	170	2	2.2%
Total	**5,164**	**35**	**100.0%**

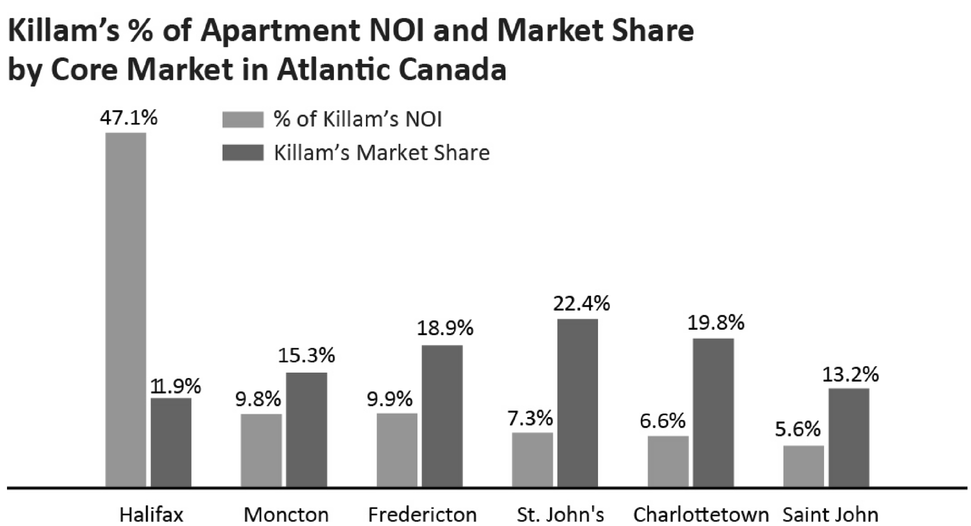
Killam's NOI by Province

Combining apartment and MHC's, the following chart highlights the percentage of Killam's forward-looking NOI by province based on ownership interest at December 31, 2013:



The Multi-family Market Leader in Atlantic Canada

Atlantic Canada is home to 2.3 million people, approximately 43% of whom live in the six largest cities, representing Killam's core markets in the region. Killam has a 14.2% market share of apartment units in these six largest centres. The chart below highlights the apartment NOI generated from each of the key urban markets in Atlantic Canada in 2013, and Killam's market share in each.



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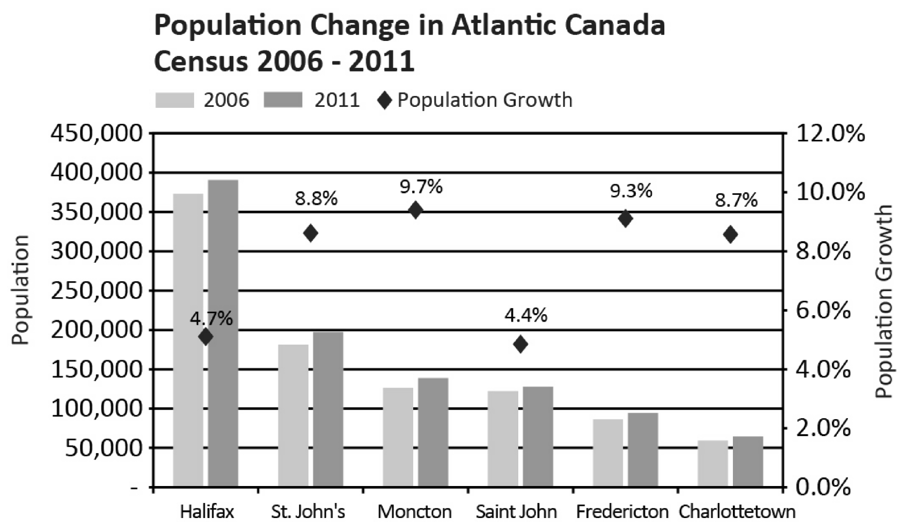
Urbanization Leading to Population Growth in Killam's Core Markets

The urbanization trend is strong across Atlantic Canada, driving population growth in each of the core cities. The net change in population in Killam's core markets, as measured by Statistics Canada in the 2011 Census, is shown in the following graph. Immigration is also contributing to population growth in the urban centres.



47% of Killam's Apartment NOI Generated in Halifax

47% of Killam's 2013 apartment NOI was earned in Halifax. Killam's investment in Halifax corresponds to the city's rental unit base as a percentage of the rental units in Atlantic Canada, with Halifax rental units accounting for 46% of the total rental universe as measured by CMHC.

Halifax is the largest city in the region and home to 17% of Atlantic Canadians. It is the economic hub of the region and attracts a diverse population base, both from rural areas of Nova Scotia and internationally. With six degree-granting universities and three large community college campuses, Halifax is home to approximately 35,000 students per year, including 4,000 international students.

Halifax's employment base is well diversified, with jobs focused around retail and wholesale trade, health care, public administration and education among the largest sectors. Halifax is home to the largest Canadian Forces Base by number of personnel in Canada and the Department of National Defence is the largest employer in the city.

Management expects population growth in Halifax to exceed recent growth levels due to large-scale projects taking place in the region. Irving Shipyard's award of the $25 billion, 25-year shipbuilding contract will have positive long-term implications for Halifax and Atlantic Canada. The contract is expected to generate an average of 8,500 direct and indirect jobs, and up to 11,500 jobs during its peak year in 2020. The shipyard is scheduled to begin to cut steel in 2015. In the meantime, Irving is working on $350 million in infrastructure upgrades to facilitate the work. Investment in offshore energy in Nova Scotia is also projected to lead to future growth for both Halifax and Nova Scotia with $2 billion in exploration commitments awarded in the last two years.

With a diversified asset base of almost 5,000 centrally located apartment units in Halifax and 1,100 MHC sites in and around the city, Killam expects to benefit from increased demand for housing that will come from economic and population growth.

Growing Investment in St. John's

St. John's, NL has been transformed by offshore investments, with exceptionally strong economic growth in recent years. The strength of the oil business has resulted in both a growing population base in the city and a 21% increase in the average home price over the last three years as per CMHC's Fall 2013 Housing Market Outlook. The decrease in home affordability coupled with an absence of new rental unit construction for the last twenty years, is generating strong demand for rental units in St. John's.

With 813 apartment units in the city, Killam has a 22% market share of the rental product, as measured by CMHC, including a new 71-unit property development which opened in 2013. The Company's highest rental growth and NOI growth has been earned in St. John's over the last four years. Despite this, the current average rent for a two-bedroom unit in St. John's is $864 per CMHC, which is very affordable.

Investment in the Urban Centres of New Brunswick and PEI

26% of Killam's apartment NOI is currently generated in New Brunswick, split principally between the province's three major urban centres, Fredericton, Moncton and Saint John. Fredericton and Moncton both experienced high population growth over the last number of years, posting 9.3% and 8.7% growth, respectively, between the 2006 and 2011 Census periods. Fredericton is the provincial capital and home to the province's largest university. Moncton is the largest city and a transportation and distribution hub for Atlantic Canada. Population growth in Moncton in recent years has been driven by urbanization from French communities in Northern New Brunswick. The Saint John market, representing 5.6% of Killam's apartment NOI, is focused on industry and energy. After strong energy investments in the city in the mid-2000s, the city has seen a reduction in economic projects over the last three years. Home to Irving Oil's refinery operations, the proposed Energy East Pipeline project to bring oil from Western Canada to refineries in Quebec and New Brunswick, has potential for strong economic growth for the city and the province.

Killam also has a 19% market share in Charlottetown, the capital and economic center of Prince Edward Island.

Expanding ownership in Ontario

Killam's apartment portfolio includes 1,359 apartment units in Ontario, up from 225 units three years ago, and includes properties in Ottawa, Toronto, London and Cambridge. In addition to apartments, 42% of Killam's MHC sites are located in Ontario. Killam is focused on increasing its geographic diversification by acquiring more properties in Ontario.

A Diversified Portfolio of Apartment Properties

Killam's apartment portfolio includes a variety of property types, including high-rise (24% of units), mid-rise with elevators (33%) , walk-ups (41%) and a small number of townhouses (2%). The portfolio includes rents ranging from affordable to high-end Class A properties. The average rent for Killam's apartment units at the end of 2013 was $915.

The average age of Killam's apartment portfolio is 28 years. With a focus on both developing and acquiring newer properties, 23% of Killam's apartments are considered new (built after 2001), on a unit count basis. Compared to the national average of 7%, as per CMHC's 2010 Housing Observer, Killam's portfolio is considerably newer and should result in lower capital and maintenance costs for the foreseeable future. 43% of Killam's NOI is generated from apartment units that are considered new, with 20% of the Company's NOI generated from units built in the last five years.

MHCs Compliment Killam's Apartment Portfolio

With MHCs, Killam owns the land and infrastructure supporting each community and leases the sites to the tenants, who own their own homes and pay Killam a monthly rent. In addition to site rent, the tenant may have a mortgage payment to a financial institution for their home. The average site rent in Killam's MHC portfolio was $222 per month, which offers value and affordability to tenants. The homeowner is responsible for property taxes based on the assessed value of their home and Killam is responsible for the property tax on the land.

MHCs require less recurring capital investment and deliver a more predictable and stable cash flow than apartments. MHC home owners are responsible for the repair, maintenance and operating costs of their homes, which removes significant variable costs that are typically borne by Killam for apartments. The operating profit margin in Killam's MHC business averaged 62.4% over the last two years, compared to 58.9% for apartments.

The most significant costs to operate MHCs are water, land property tax and general repairs and maintenance to the water and sewer infrastructure. Killam's experience with MHCs has shown that the largest variable expenses are costs related to the water and sewer infrastructure. The majority of other costs have little variability. Killam's MHCs enjoy a stable tenant base, with consistently strong occupancy of approximately 98%. Should a tenant choose to leave a community, they sell their home, with the home typically remaining on the site and rent collection continuing uninterrupted from the new homeowner, who Killam approves as part of the sale process.

Limited Exposure to Rent Control

The majority of Killam's portfolio does not fall under rent control, allowing Killam to move rents to market on an annual basis. PEI is the one province in Atlantic Canada with rent control for apartments, and this represents only 6.9% of Killam's apartment units. Ontario has rent control; however the legislation excludes properties built after 1991. Six of Killam's twelve properties in Ontario (814 units) are newer properties (built after 2004) and therefore do not fall under the rent control guideline.

Ontario and Nova Scotia both have rent control for MHCs. In both provinces owners may apply for above-guideline increases to offset significant capital expenditures. Higher rent increases are also allowed for new tenants entering the communities.

To determine rental increases for its portfolio, the Company analyzes each property on a regular basis, considering its location, tenant base and vacancy, to evaluate the ability to increase rents for both existing tenants and on turnovers.

CMHC Insured Debt Available for 90% of Killam's Portfolio

Canadian apartment owners can apply for CMHC mortgage loan insurance. The mortgage insurance guarantees the repayment of the loan to the lender, eliminating default risk to the lender which results in lower interest rates for the borrower than with conventional mortgages. Killam uses CMHC insurance and has 72% of its apartments financed with CMHC insured debt. As mortgages are renewed or new properties are financed, Killam expects to use CMHC insurance and increase the percentage of insured debt. CMHC insurance is not available for the owners of MHCs, however, it is available for the individual homeowners.

Dollar amounts in thousands of Canadian Dollars (except as noted)

PART III

2013 Financial Overview

Consolidated Results

For the years ended December 31,

	Total Portfolio			Same Store			Non Same Store		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Property revenue	**$141,112**	$133,641	5.6%	**$121,530**	$119,390	1.8%	**$19,582**	$14,251	37.4%
Property expenses									
Operating expenses	**(23,611)**	(22,713)	4.0%	**(20,313)**	(20,250)	0.3%	**(3,298)**	(2,463)	33.9%
Utility and fuel expenses	**(18,403)**	(15,915)	15.6%	**(16,189)**	(14,225)	13.8%	**(2,214)**	(1,690)	31.0%
Property taxes	**(16,058)**	(14,569)	10.2%	**(13,902)**	(13,519)	2.8%	**(2,156)**	(1,050)	105.3%
Total property expenses	**(58,072)**	(53,197)	9.2%	**(50,404)**	(47,994)	5.0%	**(7,668)**	(5,203)	47.4%
NOI	**$83,040**	$80,444	3.2%	**$71,126**	$71,396	(0.4)%	**$11,914**	$9,048	31.7%
Operating margin	**58.8%**	60.2%	(2.3)%	**58.5%**	59.8%	(2.2)%	**60.8%**	63.5%	(4.3)%

Total property revenue for the year ended December 31, 2013, excluding the properties held through the Company's joint ventures, was $141.1 million, a 5.6% increase in revenue over the same periods in 2012. The growth was generated through revenue from acquisitions, developments and increased rental rates, partially offset by increased vacancy.

Killam's total property operating expenses increased 9.2% for 2013 compared to 2012, decreasing the operating margins by 140 bps during the year. The overall decrease in the operating margin can be attributed to higher utility costs and new acquisitions and developments in the lease-up phase that were not yet stabilized during 2013. As well, 2013 had a higher percentage of apartment units versus MHC sites than 2012, which operate with a slightly lower margin.

Same store property NOI reflects the 172 stabilized properties that Killam has owned for equivalent periods in 2013 and 2012. The same store analysis includes 15,848 units and sites, or 89% of Killam's portfolio. Home sales are excluded from the analysis. Same store properties realized net revenue growth of 1.8% in 2013. This growth was offset by a 5.0% increase in same store expenses. The main driver of the increased property expenses was higher utility costs, generating a decrease in NOI of 40 bps compared to 2012. These variances are discussed in more detail in the Apartment and MHC results sections of the MD&A.

Non same store property NOI consists of properties acquired in both 2012 and 2013, MHC properties sold in Q2 2012 and Q4 2013, completed development projects, other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items. Details of properties acquired in 2013 are found on page 28.

Apartment Results

For the years ended December 31,

	Total Portfolio			Same Store			Non Same Store		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Property revenue	**$121,305**	$110,463	9.8%	**$108,233**	$106,503	1.6%	**$13,072**	$3,960	230.1%
Property expenses									
Operating expenses	**(19,144)**	(18,033)	6.2%	**(17,017)**	(16,891)	0.7%	**(2,127)**	(1,142)	86.3%
Utility and fuel expenses	**(16,321)**	(13,463)	21.2%	**(14,897)**	(13,002)	14.6%	**(1,424)**	(461)	208.9%
Property taxes	**(14,970)**	(13,392)	11.8%	**(13,343)**	(12,994)	2.7%	**(1,627)**	(398)	308.8%
Total property expenses	**(50,435)**	(44,888)	12.4%	**(45,257)**	(42,887)	5.5%	**(5,178)**	(2,001)	158.8%
NOI	**$70,870**	$65,575	8.1%	**$62,976**	$63,616	(1.0)%	**$7,894**	$1,959	303.0%
Operating margin	**58.4%**	59.4%	(1.7)%	**58.2%**	59.7%	(2.5)%	**60.4%**	49.5%	22.0%

Dollar amounts in thousands of Canadian Dollars (except as noted)

Apartment Property Revenue

Total apartment property revenue for the year ended December 31, 2013, was $121.3 million, a 9.8% increase over 2012. This growth was attributable to acquisitions, the completion of four development projects during the year and growth in rental rates.

Same store apartment net revenue increased 1.6% for the year ended December 31, 2013. Despite lower occupancy in the first half of the year, Killam achieved increased rental rates of 1.3%. Killam realized higher vacancy throughout 2013 compared to 2012 in its stabilized portfolio, but succeeded in achieving higher occupancy than 2012 for each of the last four months of 2013.

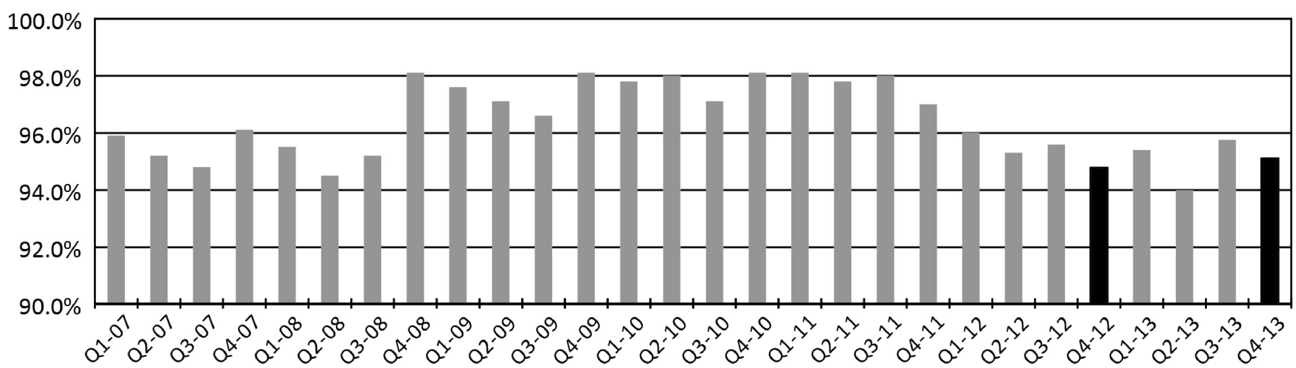
Based on current rents, an annualized 100 bps change in apartment vacancy rates would impact the annualized rental revenue by $1.3 million.

Apartment Occupancy by Core Market

	As at December 31, 2013			As at December 31, 2012				
	Units	**Occupancy[1]**	**Average Rent**	Units	Occupancy[1]	Average Rent	Change Occ. (bps)	% Change Avg Rent
Halifax, NS	4,970	96.0%	$923	4,822	96.6%	$889	(60) bps	3.8%
Moncton, NB	1,593	97.1%	831	1,424	96.3%	800	80 bps	3.9%
Fredericton, NB	1,394	96.3%	896	1,293	97.8%	846	(150) bps	5.9%
Saint John, NB	1,143	94.4%	746	1,143	93.6%	747	80 bps	(0.1)%
St. John's, NL	813	97.0%	849	742	97.8%	776	(80) bps	9.4%
Charlottetown, PE	906	95.6%	878	687	91.6%	871	400 bps	0.8%
Ontario	1,359	98.6%	1,254	1,078	93.1%	1,331	550 bps	(5.8)%
Other Atlantic	469	95.3%	798	431	96.1%	776	(80) bps	2.8%
Total Apartments (weighted average)	**12,647**	**96.3%**	**$915**	11,620	95.9%	$888	40 bps	3.0%

(1) Includes all stabilized properties.

Killam's Historic Apartment Occupancy by Quarter



Killam experienced softer occupancy levels in its apartment portfolio during the first half of 2013 followed by a strong uptick in occupancy in Q3 and a typical seasonal decrease in Q4. Overall Killam's occupancy levels were down in both 2012 and 2013 compared to highs maintained throughout 2010 and 2011. The decreased occupancy was primarily attributable to higher than normal amounts of new multi-family rental construction in Halifax, Moncton and Charlottetown, and softness in the Saint John economy. Offsetting an increase in supply was continued strong demand for rental product, population growth in urban centres and an aging population with an increased tendency to rent. Despite a decline in occupancy, Killam achieved an average rental rate increase in its apartment portfolio of 1.3% in 2013. Occupancy remains strong for the Company's MHC business, ending the year with 98.1% occupancy. MHC rents increased an average of 3.7% during the year.

Marketing and leasing initiatives have been a priority at Killam, including increasing the number of leasing agents, investment in marketing promotions (including a successful radio campaign) and expanding incentive offerings at specific properties. Management was pleased with the improvements realized during the second half of the year. The marketing and leasing focus will continue in 2014 and will also include programs targeting tenant retention. Killam's expanded leasing process and well-maintained, quality asset base has enabled Killam to outperform CMHC's reported averages in Killam's core markets in Atlantic Canada. Killam's increased investment in Ontario has also been beneficial in 2013, with improvement in occupancy during each quarter of the year.

Halifax, representing 45% of Killam's apartment NOI, ended the year with 96.0% occupancy compared to 96.6% at year-end 2012. CMHC reported vacancy of 3.2% in Halifax in October for its Fall 2013 Rental Market Report, compared to Killam's vacancy of 2.7% for October. Competition has increased in Halifax due to new supply with rental construction levels above the ten-year annual average of 760 units per year, for the last three years, including apartment starts of 1,565, 1,437 and 1,258 in 2011, 2012 and 2013, respectively (as reported by CMHC). CMHC expects new starts to stay above the 10-year average into 2014 and throughout 2015 and 2016. Offsetting new supply is positive net-migration leading to population growth and increasing demand for rental units from an aging population that is transitioning away from home ownership and into the rental market. The population of Halifax grew by 4.7% (18,000 people) from 2006 to 2011, as reported by Statistics Canada. Despite increased rental supply in the city, Killam continues to achieve rental rate growth, with average rents for same store properties located in Halifax up 1.8% over the last year. Same store revenue was up 1.7% year-over-year. The improved top-line growth in Halifax reflects the marketing and leasing changes and the quality and central locations of Killam's apartment portfolio.

Looking to 2014 and beyond, population growth, fuelled in part by the $25 billion, 25-year, Irving Shipbuilding Contract, is predicted to increase demand for rental product and absorb the new supply. In addition, Nova Scotia's offshore oil industry has potential for growth with BP and Shell both launching seismic surveys off the province's coast.

New Brunswick's rental market also experienced softness over the last year. As CMHC reported in its Fall 2013 Rental Market Report, the overall vacancy for the province's urban centres was 8.9% for October 2013, 200 bps higher than October 2012. CMHC reported Fredericton as the strongest of the larger centres in New Brunswick, with 6.2% vacancy (compared to 4.0% for October 2012), while the weakest market was Saint John, with CMHC reporting 11.4% vacancy in Fall 2013 compared to 8.7% for 2012. CMHC reported Moncton with 9.1% vacancy for October 2013, compared to 6.7% a year earlier, with new supply to the market contributing to the vacancy rise.

Despite the more challenging rental market in 2013, Killam achieved occupancy gains in all three New Brunswick markets and achieved higher occupancy rates than those reported by CMHC in all New Brunswick markets . Killam has successfully responded to the increased competition in New Brunswick by expanding marketing programs and rental incentives. These incentives include offering one-month free rent on some new leases, allowing for early move-ins or including electricity in the rental rates where this is becoming the norm (most notably in Moncton). Enhanced training of leasing representatives in each of the New Brunswick cities has improved the leasing process for prospective tenants and contributed to increased leasing activity in the summer months and even stronger occupancy in Q4. As noted above, Killam's New Brunswick occupancy levels were well above the market averages, with Fredericton ending the year with 96.3% occupancy, Saint John ending the year at 94.4% and Moncton at 97.1%.

St. John's, NL, remains a strong market within the Company's apartment portfolio with occupancy between 97.0% and 99.0% during the year. Demand for rental units are expected to remain high in St. John's as strong economic growth continues to attract population growth from other areas of the province and high home prices deter many from home ownership. The St. John's market leads Killam's portfolio for same store rental rate growth with a 3.5% increase in average rates in 2013.

Killam experienced a rebound in occupancy levels in Charlottetown during 2013 after a sharp decline in the later part of 2012 due to new supply and a slowdown in the number of immigrants coming to the province as part of PEI's Provincial Nominee Program. This has proven to be a shorter-term challenge as Killam improved occupancy in Charlottetown by 400 bps at December 31, 2013, compared to December 31, 2012, ending the year at 95.6% occupancy.

Ontario now represents approximately 12% of Killam's apartment NOI and equity earnings on a go-forward basis. Management was pleased to report strong improvement in occupancy levels in its Ontario portfolio in 2013. The most notable improvement was in Ottawa. Killam's repositioning of a portfolio of four buildings acquired in September 2012 is complete and the Company is now realizing positive return on the investment with the portfolio's occupancy at 97.5% at year-end, up 1,100 bps from 86.5% a year earlier. Killam's apartment occupancy in Ontario was 98.6% at December 31, 2013, compared to 93.1% at December 31, 2012. Average rent for the Ontario portfolio decreased 5.8% as at December 31, 2013, when compared to 2012 due to the addition of lower priced units in the past twelve months. Rents for same store properties were flat in the year as the focus was on occupancy improvement. Overall, Ontario's same store rental revenue was up 2.3%.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Looking forward to 2014, Management expects to realize occupancy gains in the year compared to 2013 overall and to continue to outperform CMHC averages in its core markets. However, occupancy levels are expected to remain below the levels experienced in 2010 and 2011 due to the increased competitiveness in certain markets in Atlantic Canada, including Halifax.

Apartment Property Expenses

Same store apartment property expenses increased 5.5% for the year ended December 31, 2013, due primarily to increased utility and fuel expenses as a result of high natural gas prices in Atlantic Canada, and higher electricity costs.

Utility and Fuel Expense - Same Store

For the years ended December 31,

	2013	2012	% Change
Natural gas	**$4,565**	$2,729	67.3%
Oil	**1,523**	2,095	(27.3)%
Electricity	**5,197**	4,671	11.3%
Water	**3,582**	3,474	3.1%
Other	**30**	33	(9.1)%
Total utility and fuel expenses	**$14,897**	$13,002	14.6%

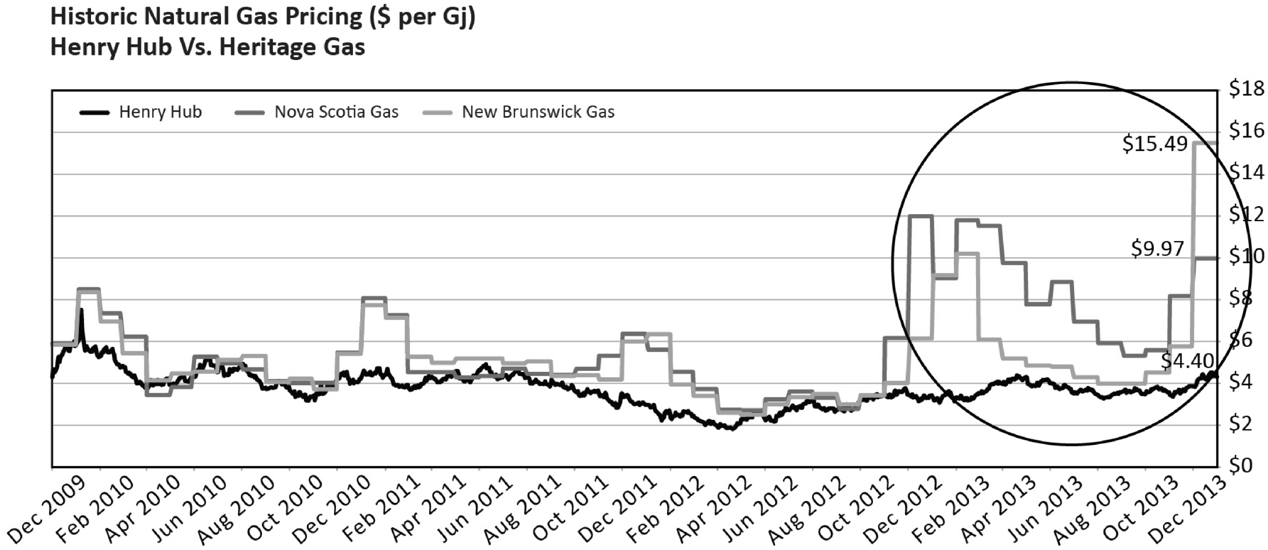
Killam's apartment properties are heated with a combination of natural gas (55%), electricity (36%), oil (8%) and other sources (1%).

Electricity costs at the unit level are usually paid directly by tenants, reducing Killam's exposure to the majority of the 4,500 units heated with electricity. Fuel costs associated with natural gas or oil fired heating plants are paid by Killam. As such, the Company is exposed to fluctuations in natural gas and oil costs, which represent 40.9% of total same store utility and fuel costs in 2013. Killam invests in green initiatives at its properties to maximize efficiencies, including converting many of its Halifax properties to natural gas from oil over the last three years as natural gas infrastructure has been expanded in the city. The decision to convert was supported by the substantial price difference between the cost of natural gas and oil in recent years.

As noted in the table above, Killam's utility and fuel expenses increased 14.6% in 2013 compared to 2012. The increase was primarily attributable to higher natural gas, electricity costs and water costs.

Killam's natural gas expenses increased by 67.3% in 2013 due to higher gas prices in Atlantic Canada and an increase in properties burning natural gas following conversions of certain Halifax heating plants from oil to gas in 2012 and 2013. The reduction in oil expense in the quarter and year-to-date reflects this reduction in oil exposure.

As the following chart highlights, the per gigajoule (Gj) commodity cost for natural gas in New Brunswick and Nova Scotia was much higher than NYMEX in 2013 and less correlated to NYMEX than in previous years. (NYMEX is the New York Mercantile Exchange, a commodity futures exchange. Henry Hub, a gas distribution hub in Louisiana is the pricing point for natural gas futures contracts traded on NYMEX). The cost of natural gas in Atlantic Canada and New England experienced a spike from December 2012 until late spring 2013 and a second spike in December 2013, compared to other areas of Canada. Those spikes were both due to increased demand from utilities in Northeast New England and a shortage of gas pipeline capacity in Northeastern New England and Atlantic Canada. A temporary decline in gas supply off the coast of Nova Scotia further contributed to the high pricing in the first part of the year.



Killam's weighted average cost of natural cost on a per Gj basis increased by 32% in the year. Excluding the delivery charge component of the cost, the actual commodity cost increased by a weighted average of 80% compared to 2012. This cost increase resulted in approximately $1.2 million in additional natural gas expense in the year. Killam saw a decrease in the cost per Gj in Nova Scotia in December year-over-year due to fixed contracts noted above, however colder than normal weather resulted in an increase of 17% in heating degree days in the fourth quarter, more than offsetting the price savings. Pricing increased in New Brunswick in December 2013, as noted in the graph above, and reflects the spike in day pricing during the exceptionally cold weather during the second half of December 2013.

Looking forward, Management expects to see continued volatility in natural gas prices in New Brunswick and Nova Scotia in periods of cold weather in the Northeastern US due to limited pipeline capacity and increasing demand from utilities. Originally expected to be a 2013 winter costing issue, this volatility may continue in periods of cold weather until additional pipeline infrastructure is built. In the short-term, Management will continue to manage assets to minimize its natural gas usage and is working with natural gas suppliers to explore fixing a portion of its gas requirement in next year's heating season. Despite the volatility in gas prices since late 2012, natural gas is generally more economical than oil. Management monitors this price differential and has the capacity to switch to oil when it is more economical for a small number of assets with dual-fired capacity.

Electricity costs also increased in 2013, up 11.3% year-over-year. Killam's rental incentives have increased the amount of rents with electricity included at certain New Brunswick properties to compete with similar promotions offered by other apartment owners in the market. Rents are typically increased to offset this additional expense, however tenants are attracted to fixing the cost of electricity in a monthly rental payment.

Same store water expense increased by 3.1% for the year. Increased water rates in Halifax contributed to this increase, but were partially offset by water saving initiatives. Water cost as a percentage of revenue is expected to increase over the next year and a half due to increased water rates in Halifax that became effective July 2013. An additional increase will come into effect in April 2014. Killam is evaluating the full impact of these increases, but expects a 10% to 15% increase in water costs in 2014 compared to 2013. Killam will continue to invest in water saving initiatives to mitigate its exposure to these increased costs.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Apartment Same Store NOI by City

Net revenue growth of 1.6%, offset by increased property operating expenses, has resulted in a decrease in same store apartment NOI by 1.0% during 2013. Excluding the impact of the spike in natural gas costs, same store NOI would have increased by 1.0% in 2013. Same store NOI results by city, as shown in the chart below, vary depending on changes in occupancy levels in each market and the higher utility costs experienced in some regions during 2013.

For the years ended December 31,

	2013	2012	$ Change	% Change
Halifax	**$30,093**	$30,052	$41	0.1%
Moncton	**6,652**	6,724	(72)	(1.1)%
Fredericton	**6,978**	7,163	(185)	(2.6)%
Saint John	**3,997**	4,654	(657)	(14.1)%
Ontario	**4,470**	4,278	192	4.5%
St. John's	**4,705**	4,502	203	4.5%
Charlottetown	**3,722**	3,979	(257)	(6.5)%
Other Atlantic locations	**2,359**	2,264	95	4.2%
	$62,976	$63,616	$(640)	(1.0)%

Halifax's NOI was generally flat in 2013 as higher rental revenue was offset by increased utility expenses. The highest same store NOI growth for the year was achieved at properties located in the St. John's and Ontario markets, posting gains of 4.5% in each region. These markets were not impacted by higher natural gas costs and have experienced strong revenue growth year-over-year.

Saint John was Killam's softest market with higher vacancy rates driving the 14.1% decline in NOI in 2013 compared to 2012. The decline in overall 2013 occupancy in Charlottetown compared to 2012 resulted in decreased NOI of 6.5%.

Fredericton and Moncton both recorded negative NOI growth, 1.1% and 2.6%, respectively, for the year due to higher vacancy in 2013 compared to 2012, partially offset by positive rental rate growth in each region.

Other Atlantic locations include seven properties in other cities in Atlantic Canada. These properties realized NOI growth in 2013 due to rental rate increases, lower vacancy and minimal operating expense growth as they are not heated with natural gas.

MHC Results

For the years ended December 31,

	Total Portfolio			**Same Store**			**Non Same Store**		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Property revenue	**$19,253**	$22,653	(15.0)%	**$13,296**	$12,887	3.2%	**$5,957**	$9,766	(39.0)%
Property expenses									
Operating expenses	**(4,308)**	(4,921)	(12.5)%	**(3,296)**	(3,358)	(1.8)%	**(1,012)**	(1,563)	(35.3)%
Utility and fuel expenses	**(2,048)**	(2,418)	(15.3)%	**(1,291)**	(1,223)	5.6%	**(757)**	(1,195)	(36.7)%
Property taxes	**(980)**	(1,082)	(9.4)%	**(559)**	(525)	6.5%	**(421)**	(557)	(24.4)%
Total property expenses	**(7,336)**	(8,421)	(12.9)%	**(5,146)**	(5,106)	0.8%	**(2,190)**	(3,315)	(33.9)%
NOI	**$11,917**	$14,232	(16.3)%	**$8,150**	$7,781	4.7%	**$3,767**	$6,451	(41.6)%
Operating margin	**61.9%**	62.8%	(1.4)%	**61.3%**	60.4%	1.5%	**63.2%**	66.1%	(4.4)%

Killam's MHC business accounted for 14% of NOI from property operations during the year ended December 31, 2013, compared to 18% in 2012. Property revenue from the MHCs decreased 15.0% in 2013 compared to 2012, primarily due to the sale of twelve Western Canadian and Ontario MHC properties in May 2012 and ten New Brunswick MHC properties in November 2013. The impact of these sales was partially offset by increased revenue at same store properties. Killam's MHC properties were 98.1% occupied at December 31, 2013, consistent with the occupancy at December 31, 2012.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Same store MHC property revenue increased 3.2% for the year ended December 31, 2013, compared to 2012. This was a result of a 3.7% increase in weighted average rent per unit of $222 up from $214 in 2012. Total same store property expenses increased only by 0.8% in 2013, due primarily to lower water testing and water repair costs following recent capital upgrades, and negotiated garbage removal savings. The operating cost savings initiatives were offset by water cost increases of 5.6% and property tax increases of 6.5%.

Same store revenue growth, combined with efforts to minimize operating expenses, increased MHC same store NOI by 4.7% for the year ended December 31, 2013. Operating margins have also increased by 90 bps from 2012.

Non same store revenues and expenses were primarily generated by the twelve Western Canadian and Ontario MHC properties sold in May 2012 and the ten New Brunswick MHC properties sold in November 2013. These properties generated $3.8 million in NOI in 2013 and $6.5 million in 2012.

PART IV

Other Income

Home Sales

For the years ended December 31,

	2013	2012	% Change
Home sale revenue	**$2,598**	$2,241	15.9%
Cost of home sales	**(2,226)**	(1,789)	24.4%
New home placement fees	**17**	98	(82.7)%
Operating expenses	**(66)**	(81)	(18.5)%
Income from home sales	**$323**	$469	(31.1)%

Killam completed 27 home sales and 1 home sale placement during 2013, compared to 18 home sales and 8 home sale placements in 2012.

Although the number of home sales were higher in 2013, the margins were lower due to two contributing factors; a softening of the market in the Birchlee development required lowering margins to close sales of existing stock homes and the decision to sell two long-standing, inventoried stock homes at below cost in two Ontario MHCs. This allowed for recovery of over $100,000 in inventory costs, and the elimination of utility costs for these stock homes during the winter months. The Company currently has four stock homes and does not anticipate selling any other homes below cost. However local market conditions and age of inventoried stock homes will always play a factor in the pricing, and thus margin, of Killam's home sales.

The Company projects 15-20 home sales for 2014 which will include a mix of new development sites and sales on current vacant lots throughout the remaining MHC portfolio.

Equity Income

For the years ended December 31,

	2013	2012	% Change
Equity Income	**$1,296**	$758	71.0%

Equity income represents Killam's 25% interest in the net income of the joint ventures that own 180 Mill Street, Kanata Lakes and Silver Spear Apartments, all of which are located in Ontario.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Equity income increased year-over-year by 71.0% due to fair value gains recorded on the Kanata Lakes property in Q2 2013. Excluding this non-cash increase in fair value due to cap-rate compression in the Ottawa market, the equity income for the year was $0.7 million, a 13.9% decline over 2012. This decrease was due to higher interest expense in 2013 as mortgages were placed on all three properties in late 2012 and early 2013, resulting in a higher leveraged yield.

Corporate Income

For the years ended December 31,

	2013	2012	% Change
Corporate income	**$746**	$962	(22.5)%

Corporate income includes property management fees, interest on bank accounts and transaction fees related to the joint venture partnership. The decrease year-over-year relates to transaction fees earned on the acquisitions under the joint venture partnership in 2012, partially offset by increased property management fees earned in 2013 as a result of higher revenues generated from the joint venture properties.

Fair Value Gains

For the years ended December 31,

	2013	2012	% Change
Apartments	**$1,272**	$31,593	(96.0)%
MHCs	**11,798**	6,133	92.4%
	$13,070	$37,726	(65.4)%

The effective weighted average cap-rate used to value the apartment properties decreased 14 bps to 5.88% from December 31, 2012, resulting in an increased valuation for Killam's investment properties early in 2013. Apartment cap-rates stabilized in most regions during the second half of the year. Slight increases in cap-rates in the Saint John market were realized in late 2013, reflecting the city's softening economy.

The effective weighted average cap-rate used to value the MHCs decreased 18 bps to 6.86% from December 31, 2012, resulting in increased valuations for 2013. See further discussion on cap-rates in the "Investment Properties" section of the MD&A.

Other Expenses

Financing Costs

For the years ended December 31,

	2013	2012	% Change
Mortgage and loan interest	**$30,090**	$28,590	5.2%
Amortization on fair value adjustments on assumed debt	**(459)**	(229)	100.4%
Convertible debenture interest	**6,687**	6,632	0.8%
Subordinated debenture interest	**10**	703	(98.6)%
Capitalized interest	**(1,097)**	(1,063)	3.2%
	$35,231	$34,633	1.7%

Financing costs were up $0.6 million, or 1.7%, in 2013 compared to 2012 due primarily to increased interest costs on debt placed or assumed on new acquisitions and developments. This increase was partially offset by refinancings at lower interest rates, payout of the subordinated debentures on January 4, 2013, and the sale of the MHCs in 2012 and 2013.

Mortgage and loan interest expense, as a percentage of NOI, has decreased year-over-year as the Company refinances and acquires new debt at lower interest rates. In 2013, Killam placed $76 million of new debt on acquisitions and completed developments, including 10-year and 5-year term mortgages at an average interest rate of 3.44%. During 2013 the average interest rate on refinanced debt related to the Company's existing properties decreased from 4.58% to 3.03% for apartments and 6.24% to 4.34% for MHCs.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Killam manages interest rate risk by entering into fixed-rate mortgages and staggering the maturity dates. An annualized 100 bps change in the interest rate on Killam's mortgage and vendor debt at December 31, 2013, would affect financing costs by approximately $7.1 million per year. However, only $139.3 million of Killam's mortgage and vendor debt matures in the next twelve months and that same interest rate change would impact Killam by only $1.4 million per year. The Company's credit facility and operating facility are discussed on pages 35-36 of the MD&A.

Capitalized interest was flat year-over-year with $1.1 million capitalized on the development projects in progress during both 2013 and 2012. Interest costs associated with development projects are capitalized to their respective development property until substantial completion is achieved.

Depreciation Expense

For the years ended December 31,

	2013	2012	% Change
Total	**$589**	$540	9.1%

Depreciation expense relates to the Company's head office building, vehicles, heavy equipment and administrative office furniture, fixtures and computer equipment. Although the vehicles and equipment are used at various properties, they are not considered part of investment properties and are depreciated for accounting purposes. The increase year-over-year was a result of depreciation of additional vehicles, computer software and leasehold improvements.

Amortization of Deferred Financing Costs

For the years ended December 31,

	2013	2012	% Change
Total	**$1,643**	$1,605	2.4%

Deferred financing amortization increased 2.4% as a result of refinancings and new debt placements on acquired properties and completed developments. This was partially offset by the sale of the MHCs portfolios in May 2012 and November 2013 and their related deferred financing costs.

Deferred financing costs include mortgage assumption fees, application fees and legal costs related to obtaining financing, and these costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. The costs associated with the convertible debentures are amortized over the terms of the debentures.

Administration Expenses

For the years ended December 31,

	2013	2012	% Change
Total	**$7,878**	$8,832	(10.8)%
As a percentage of total revenues	**5.6%**	6.6%	

Administration expenses include expenses which are not specific to an individual property. These expenses include TSX related costs, management and head office salaries and benefits, marketing costs, office equipment leases, professional fees and other head office and regional office expenses.

Administrative expenses as a percentage of revenues were lower in 2013 due to increased capitalized overhead as a result of the increased capital spending on the developments and the remaining portfolio, a decrease in consulting and professional fees, lower incentive payments and a reduction in salary related costs year-over-year. Theses savings were offset by an increase in marketing costs which aided in Killam's success in reducing vacancy in most regions.

Management targets annualized administrative costs at approximately 6.0% of total revenues.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Loss on Disposition

For the years ended December 31,

	2013	2012	% Change
Total	**$1,401**	$1,286	8.9%

During the fourth quarter of 2013, the Company disposed of ten MHC properties located in New Brunswick. In May 2012, the Company also disposed of twelve MHC properties located in Western Canada and Ontario. The loss on disposition of the investment properties for the twelve months ended December 31, 2013, and 2012 represents the difference between the proceeds from disposition compared to the fair value of the properties less the carrying costs of the related mortgages, as well as deferred financing fees, professional fees and any other directly attributable costs.

Deferred Tax Expense

The Company has booked future income tax expense for the years ended December 31, 2013, and 2012. Killam is not currently cash taxable and does not expect to pay significant cash taxes in the near future as the Company has the ability to claim CCA deductions to reduce taxable income. Based on the assumption that the Company does not add to its asset base, Management estimates that it would become cash taxable in three to five years.

Dollar amounts in thousands of Canadian Dollars (except as noted)

PART V

Funds from Operations ("FFO")

FFO is recognized as an industry-wide standard measure for real estate entities' operating performance, and Management considers FFO per share to be a key measure of operating performance. The calculation of FFO includes adjustments specific to the real estate industry applied against net income to calculate a supplementary measure of performance that can be compared with other real estate companies and real estate investment trusts. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other public companies. Killam calculates FFO in accordance with the REALpac definition as follows:

For the years ended December 31,

	2013	2012	% Change
Net income	**$40,932**	$54,229	(24.5)%
Fair value gains	**(13,070)**	(37,726)	(65.4)%
Fair value gains included in equity income	**(664)**	(30)	2,113.3%
Non-controlling interest (before tax and gains)	**(998)**	(951)	4.9%
Income tax expense	**10,801**	19,234	(44)%
Loss on disposition	**1,401**	1,286	8.9%
Depreciation on owner-occupied building	**145**	54	168.5%
Tax planning costs	**223**	-	-
FFO	**$38,770**	$36,096	7.4%
FFO/share - basic	**$0.72**	$0.72	-%
FFO/share - diluted	**$0.71**	$0.71	-%
Weighted average shares- basic (000's)	**54,143**	50,227	7.8%
Weighted average shares - diluted (000's) (1)	**54,502**	50,797	7.3%

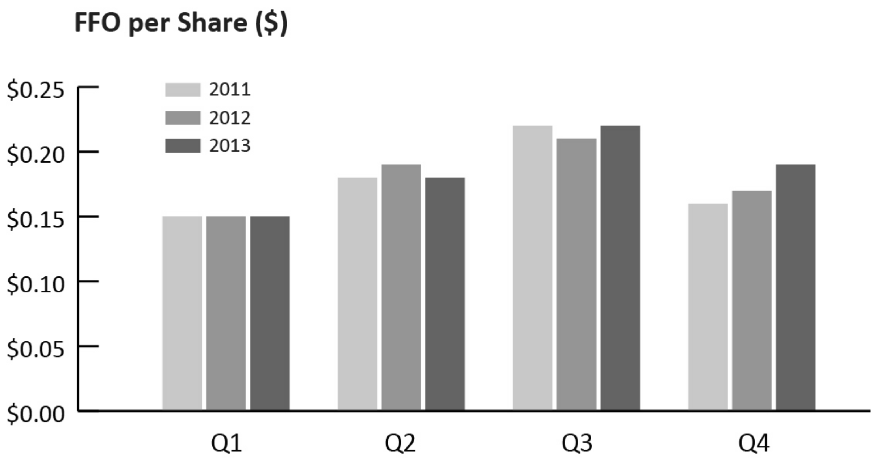
(1) The calculation of weighted average shares outstanding for diluted FFO and AFFO purposes excludes the convertible debentures as they are anti-dilutive.

Killam earned FFO of $38.8 million, or $0.72 per share, during 2013 compared to $36.1 million, or $0.72 per share, during 2012. Killam was able to increase FFO by 7.4% during 2013 due to new acquisitions and developments, interest expenses savings on refinancings, reduced administrative costs and interest savings from the repayment of the Company's $10 million subordinated debentures in January 2013.

These positives were offset by a 0.4% decrease in same store net operating income due to higher natural gas prices, the sale of two MHC portfolios over the last two years and a 7.8% increase in the shares outstanding following a $34.5 million equity raise in December 2012. Timing differences between the funds generated from the 2012 equity raise and MHC property sales and the deployment of funds for acquisitions had a short-term dilutive impact on FFO per share results. Timing of the lease-up of developments has also had a short-term dilutive impact in 2013.

FFO has been adjusted for tax planning costs incurred in 2013. As a corporation, Killam has engaged a third party to help evaluate the Company's tax planning options to ensure the most efficient tax structure for shareholders in the long-term. These costs are unique to Killam's current structure and have therefore been removed for FFO purposes.

Dollar amounts in thousands of Canadian Dollars (except as noted)



Adjusted Funds From Operations ("AFFO")

AFFO is a supplemental measure used by real estate analysts and some investors to represent FFO after taking into consideration the capital spend related to maintaining the earning capacity of a portfolio versus NOI enhancing capital investments. AFFO is a non-IFRS measure and Management believes that significant judgment is required to determine the annual capital expenditures that relate to maintaining earning capacity of an asset compared to the capital expenditures that will lead to higher rents or more efficient operations.

In order to provide investors with information to assist in assessing the Company's payout ratio, Management has calculated AFFO using the industry standard of $450 per apartment unit. The MHC industry does not have a standard amount for "maintenance" related capital expenditures. Management has assumed $100 per MHC site as a reasonable estimate of non-NOI enhancing capital expenditures per MHC site. The weighted average number of rental units owned during the year was used to determine the capital adjustment applied to FFO to calculate AFFO.

For the years ended December 31,

	2013	2012	% Change
Funds from operations	**$38,770**	$36,096	7.4%
Maintenance Capital Expenditures			
Apartments	**(5,342)**	(4,952)	7.9%
MHCs	**(685)**	(791)	(13.4)%
Adjusted funds from operations	**$32,743**	$30,353	7.9%
AFFO/ share - basic	**$0.60**	$0.60	-%
AFFO/ share - diluted	**$0.60**	$0.59	1.7%
AFFO payout ratio - basic(1)	**96%**	96%	-%

(1) Based on Killam's annualized dividend of $0.58. The dividend increase to $0.60 was not effective until the January 2014 dividend and therefore did not impact the 2013 payout ratio.

Dollar amounts in thousands of Canadian Dollars (except as noted)

PART VI

Investment Properties

As at December 31,

	2013	2012	% Change
(i) Investment properties	**$1,451,743**	$1,296,724	12.0%
(ii) IPUC	**24,373**	57,941	(57.9)%
	$1,476,116	$1,354,665	9.0%

Continuity of Investment Properties

The following table summarizes the changes in value of Killam's investment properties for the years ended December 31, 2013 and 2012.

As at and for the years ended December 31,

	2013	2012
Balance, beginning of the year	**$1,296,724**	$1,246,645
Acquisition of properties	**119,667**	58,821
Disposition of properties	**(69,680)**	(72,889)
Transfer from IPUC	**70,315**	-
Capital expenditures	**21,647**	22,467
Fair value adjustments	**13,070**	41,680
Balance, end of year	**$1,451,743**	$1,296,724

The key valuation assumption used to determine the fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at December 31, 2013 and 2012 as provided by Killam's External Valuator, are as follows:

Capitalization Rates

	December 31, 2013			December 31, 2012		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**4.50%**	**8.00%**	**5.88%**	4.50%	8.00%	6.02%
MHCs	**6.00%**	**8.25%**	**6.86%**	6.50%	8.50%	7.04%

As highlighted in the above chart, the effective weighted average cap-rate used to value the apartment properties decreased by 14 bps year-over-year, generating an increased valuation for some properties. This was partially offset by a rise in cap-rates in the Saint John market in late 2013 due to the softening economy. The effective weighted average cap-rate used to value the MHCs decreased 18 bps from December 31, 2012, reflecting increased valuations for most properties in the MHC portfolio.

Dollar amounts in thousands of Canadian Dollars (except as noted)

A sensitivity analysis of all significant assumptions is shown below:

Class of property	Capitalization rate		Vacancy rate[1]	Management fee rate[1]
	10 basis points increase	*10 basis points decrease*	*1% increase/ decrease in vacancy*	*1% increase/ decrease in management fee*
Apartments	$(22,408)	$22,947	$21,055	$22,206
MHCs	$(1,659)	$1,708	$1,483	$1,932

(1) If the 1% change is an increase in the noted vacancy or management fee, the impact would result in a decrease in value. Alternatively, a decrease in the vacancy or management fee would result in an increase in value.

2013 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Purchase Price[2]
Apartments					
1090 Kristin Way	Ottawa	25-Jan-13	1974	102	$10,350
200 Royale Blvd.	Halifax	4-Mar-13	2012	83	18,900
46 & 54 Strathmore Ave	Moncton	28-Mar-13	2001	40	3,150
777 Gauvin Road	Moncton	13-May-13	2013	48	8,060
36 Westridge Crescent[1]	Charlottetown	21-May-13	1985	8	256
280 Shakespeare Drive[1]	Stratford	21-May-13	2010	26	3,059
39-66 Ducks Landing[1]	Stratford	21-May-13	2005-2012	138	15,385
1033 Queen Street West[4]	Toronto	31-Jul-13	2012	179	40,000
50 Cameron Street	Moncton	5-Dec-13	1981	81	9,700
50 Roy Boates Avenue	Summerside	6-Dec-13	2006	38	3,946
				743	**$112,806**
MHC					
Shamrock Estates	Antigonish	20-Dec-13		65	**$1,350**
Land for developments					
Saginaw Parkway	Cambridge	16-Jan-13			$4,000
St. George Street	Moncton	15-Feb-13			1,100
1057 Barrington Street[3]	Halifax	13-Sept-13			1,810
					$6,910
Total Acquisitions					**$121,066**

(1) Acquired as a portfolio.
(2) Purchase price on acquisition does not include transaction-related costs.
(3) Killam entered into a 50/50 joint development agreement with another company for the purchase of this land. The $1.8 million purchase price represents Killam's interest in the land.
(4) Included in the acquisition is 21,242 square feet of commercial space.

In addition to apartment acquisitions during 2013, Killam purchased a MHC in Antigonish with 65 sites and three parcels of land for future development. The parcel of land located in Cambridge is 5.2 acres and is zoned for a maximum height of seven stories and a density of 180 units. The parcel of land in Moncton is 0.8 acres and the land located at 1057 Barrington Street in Halifax is 0.7 acres and was purchased under a joint development agreement for the purpose of developing a six storey mixed-use building.

Dollar amounts in thousands of Canadian Dollars (except as noted)

2013 Dispositions - Investment Properties

On November 30, 2013, Killam sold a portfolio of ten MHCs in New Brunswick. Killam had invested $44.2 million to acquire and enhance this portfolio over the last ten years. The sale price of $69.0 million resulted in net cash proceeds of $42.6 million. The sale allowed Killam to crystallize the increased value of its New Brunswick MHC portfolio at current attractive cap-rates and use the funds to continue to geographically diversify and accretively grow the apartment portfolio. In addition, the transaction will further enhance FFO accretion as apartments acquired are expected to qualify for CMHC insured debt, resulting in mortgage rates 120 - 180 bps lower than conventional mortgages on MHC properties. The properties that were sold of are as follows:

Property	Location	Disposal Date	Sites	Acres
MHCs				
Burton Estates	Burton, NB	29-Nov-13	91	32
Crown & Currie Estates	Fredericton, NB	29-Nov-13	176	140
Kent & Bayview	Bathurst & Beresford, NB	29-Nov-13	148	123
Milford Estates	Saint John, NB	29-Nov-13	152	22
Park P'Tiso Estates	Edmundston, NB	29-Nov-13	79	18
Pine Tree Village	Moncton, NB	29-Nov-13	828	260
Parkside Estates	Quispamis, NB	29-Nov-13	94	15
River East Estates	Moncton, NB	29-Nov-13	109	72
Tamarack Estates	Fredericton, NB	29-Nov-13	419	75
White Frost Estates	Moncton, NB	29-Nov-13	212	51

Investment Properties Under Construction

For the years ended December 31,

	2013	2012
Balance, beginning of year	**$57,941**	$11,574
Capital expenditures	**28,356**	47,284
Interest capitalized	**1,097**	1,063
Land acquisitions	**7,294**	-
Transfers to investment properties	**(70,315)**	-
Fair value gains (losses)	**-**	(1,980)
Balance, end of year	**$24,373**	$57,941

During 2013, Killam completed four development projects in the first half of the year; adding a total of 282 units to the Company's apartment portfolio in key operating markets in Atlantic Canada. Total development costs were $69.6 million and the properties generated $0.9 million in NOI during the year. Brighton House, located in Charlottetown, was completed in February 2013 and was fully leased by the end of the first quarter. Bennett House, located in St. John's, was completed in May 2013 and was fully leased within three months of opening. S2 located in Halifax and The Plaza located in Fredericton were both completed in May 2013 and are currently 62% and 61% leased. Management has developed specific advertising and marketing strategies for these two buildings and expects the buildings to be substantially leased by mid-2014. Management is anticipating a year-one stabilized all-cash yield of approximately 5% on these developments, and minimal capital requirements for the next 10 to 15 years.

Management believes that building and buying new apartments has the opportunity to generate more stable cash flows and improved returns on investments over time compared to buying older buildings. Management acknowledges that there was a dilutive impact on FFO per share growth during the period of construction but believes the short-term impact is more than offset by the 10-15 years of nominal maintenance costs provided by a newly built project. Older buildings typically require a much higher capital spend per year, estimated at least $1,200 per unit per year, versus an estimated $300 per unit for new construction. Assuming similar NOI growth between an old and new building, the lower capital spend on the new build is expected to result in a higher return on the total investment in the property in the first 10 – 15 years of ownership. Management expects to provide disclosure regarding capital spend associated with its new development projects over the next few years to provide support for this theory and show the Company's ability to grow the return on investments of the new developments over time.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Consistent with the Company's strategy to continue to add to its portfolio through developments, a second project in St. John's was started during the second half of 2013 within close proximity to Bennett House. The design and site planning for the 101-unit complex is completed and construction commenced at the end of the third quarter of 2013. In order to generate higher returns, the Company has approved a lower per unit development cost. The Company has spent $7.1 million on this project to date including the cost of land and has satisfied the equity component in order to obtain construction financing. Management expects an all cash yield of approximately 6% on this project.

Killam acquired land in Cambridge in early 2013, which consisted of a 5.2 acre site and developed a two-phase plan for development for 244 units. Phase one will include 122 units and construction commenced in the fourth quarter of 2013, with development expected to be completed in the spring of 2015. The Company has already contributed $6.0 million to phase one of the project, which represents approximately 82% of the required equity contribution and the expected yield on this project is approximately 6%.

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the year ended December 31, 2013, Killam invested a total of $21.6 million in its portfolio, compared to $22.5 million in 2012.

For the years ended December 31,

	2013	2012	% Change
Apartments	**$18,100**	$19,039	(4.9)%
MHCs	**3,505**	3,345	4.8%
Other	**42**	84	(50.0)%
	$21,647	$22,468	(3.7)%

Apartments - Capital Spend

A summary of the capital spend on the apartment segment is included below:

For the years ended December 31,

	2013	2012	% Change
Building improvements	**$8,545**	$9,353	(8.6)%
Suite renovations	**7,390**	4,945	49.4%
Land improvements	**53**	1,374	(96.1)%
Boilers and heating equipment	**371**	1,902	(80.5)%
Appliances	**1,188**	808	47.0%
Parking lots	**133**	211	(37.0)%
Equipment	**211**	237	(11.0)%
Other	**209**	209	-%
Total capital spend	**$18,100**	$19,039	(11.6)%
Average number of units outstanding	**12,210**	11,312	7.9%
Capital spend per unit	**$1,482**	$1,683	(11.9)%

Killam estimates that $450 per unit of the capital spending relates to maintenance capital, and the remainder relates to value enhancing upgrades. Maintenance capital varies with market conditions and relates to investments that are not expected to lead to an increase in NOI, or increased efficiency, of a building; however, it is expected to extend the life of a building. Examples of maintenance capital include roof and structural repairs and are in addition to regular repairs and maintenance costs that are expensed to NOI. Value enhancing upgrades are investments in the properties that are expected to result in higher rents and/or increased efficiencies. This includes unit and common area upgrades and energy investments, such as natural gas conversions.

Killam spent $1,482 per unit for the year ended December 31, 2013, compared to $1,683 per unit for the year ended December 31, 2012. Approximately 40% of the capital spend during the year was invested in suite renovations. The increase year-over-year was a result of unit upgrades to improve quality and increase occupancy, increase yields on properties identified for repositioning, and support the Company's commitment to increasing unit quality to maximize rental increases.

As an example, in 2013 the Company has been actively working to reposition Brentwood Apartments, a 45-year old, 240-unit, property located in Halifax, that was acquired in 2012. The Company identified that significant value could be created at this property by improving the quality of the units and generating increased NOI through higher rents. Unit upgrades have averaged $15,000 per unit and have consisted of new appliances, flooring and kitchen and bathroom upgrades. The Company has achieved a corresponding lift in rents of approximately 15% on the 53 units it has completed to date. Based on a 5-year project timeline, with 20% of the units renovated each year, the Company expects to see the return on the total investment improve 145 bps from 6.25% to 7.70%.

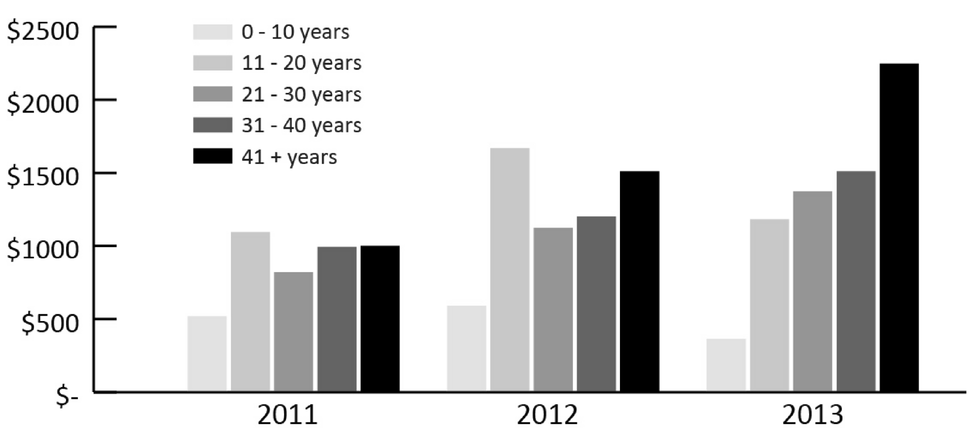
Killam has also invested in suite renovations to reposition an Ottawa portfolio acquired in 2012. Kitchen, bathroom, flooring and appliance upgrades have improved the quality of the Ottawa units, leading to a 1,100 bps increase in occupancy in the past 12 months. Excluding the repositioning of the Brentwood and the Ottawa portfolio in 2013, suite renovation costs would have been $6.0 million, or a 21% increase from 2012.

The Company has also identified additional properties in the Atlantic region as well as Ontario for repositioning and will continue to invest in upgrades where these higher yields can be achieved. One such property identified for 2014 is Shaunslieve, the 154-unit property adjacent to S2 in Halifax. Killam expects to recover the renovation costs through increased rental rates. Capital spend on appliances increased in 2013 as well, which was directly correlated to the increased suite renovation work.

Boiler and heating equipment costs have decreased significantly in 2013, as the Company converted twenty properties to natural gas in 2012, compared to one in 2013.

The majority of the remaining capital expenditures during 2013 related to exterior building repairs, including roofing and balcony upgrades, brick replacement and exterior facade upgrades. The timing of capital spending is influenced by tenant turnover, market conditions, and individual property requirements, causing variability. In addition, the length of time that Killam has owned a property and the age of the property also influences the capital requirements.

Average Capital Spend Per Unit by Building Age



As the above chart highlights, the capital spend per unit is less for newer properties, averaging $364 per unit in 2013, compared to $2,248 per unit for buildings over 40 years old. This analysis excludes capital spending on development and energy projects. Killam's continual focus on developing and acquiring new properties aids in maintaining lower capital requirements on a per unit basis. 20% of Killam's apartments as of December 31, 2013, have been built in the past ten years.

Killam expects to invest approximately $22 million to $24 million during 2014 on apartment portfolio capital investments.

Dollar amounts in thousands of Canadian Dollars (except as noted)

MHCs - Capital Spend

A summary of the capital spend on the MHC segment is included below:

For the years ended December 31,

	2013	2012	% Change
Water & sewer upgrades	**$2,212**	$1,812	22.1%
Roads and paving	**255**	421	(39.4)%
Equipment	**21**	36	(41.7)%
Other	**465**	527	(11.8)%
Site expansion and land improvements	**552**	549	0.5%
Total capital spend - MHCs	**$3,505**	$3,345	4.8%
Average number of units outstanding	**7,207**	8,251	(12.7)%
Capital spend per unit	**$486**	$405	20.0%

Management expects to spend between $300 and $400 in capital per MHC site on an annual basis. As with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is value enhancing. Management estimates that $100 per unit is maintenance capital, including costs to support the existing infrastructure, and the remaining amount increases the value of the properties, with improved roadways, ability to accommodate future expansion, and community enhancements, such as the addition of playgrounds. The cost of most capital projects will be recovered through above guideline increases in the provinces with rent control, leading to increased NOI for the investment.

For the year ended December 31, 2013, Killam spent $2.2 million on water and sewer upgrades, an increase of 22.1% over 2012 due to the installation of several new water systems and upgrades to existing water and sewer infrastructure. This capital work fluctuates from year-to-year with only $1.8 million invested in 2012 but $3.1 million in 2011. The high water upgrade costs in 2013 resulted in the per unit MHC spend being above Killam's expectation of $300 - $400 per year.

As with the apartment portfolio, the timing of capital spending changes based on requirements at each community. Killam expects to invest $1 million to $2 million during 2014 on capital improvements across the MHC portfolio.

Liquidity and Capital Resources

The Company’s sources of capital are cash generated from operating activities, credit facilities, mortgage financing and refinancing, and equity and debt issuances. The Company’s primary use of capital includes property acquisitions and developments, major property improvements, recurring property maintenance, debt principal and interest payments, and payment of dividends. The Company anticipates meeting all current and future obligations with current cash and cash equivalents, cash flow generated from operations and conventional mortgage refinancing and that the Company will be able to obtain financing on reasonable terms.

Killam’s ability to grow through acquisitions and development will be dependent on the ability to access mortgage debt, construction financing and to raise equity in the capital markets. Killam had cash on hand of $27.7 million at December 31, 2013, primarily as a result of the net proceeds of $42.6 million related to the sale of the ten MHC properties in the fourth quarter of 2013. Killam utilized part of the sale proceeds to retire a $10 million vendor take-back ("VTB") loan and acquire additional properties, and expects to redeploy the remaining funds during the first quarter of 2014. Based on 60% debt on acquisitions, the Company expects to complete an additional $60 million in accretive apartment acquisitions. The Company also has $139.3 million in debt maturing during 2014 and expects to generate approximately $50 million in surplus cash to be used for its 2014 capital program and to fund additional acquisitions throughout the year.

Dollar amounts in thousands of Canadian Dollars (except as noted)

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at December 31,

	2013	2012	% Change
Weighted average years to maturity of mortgage and vendor debt (years)	**3.9**	3.4	14.7%
Gross mortgage, loan and vendor debt as a percentage of total assets	**45.6%**	45.2%	40 bps
Total debt as a percentage of total assets	**52.9%**	51.6%	130 bps
Interest coverage ratio	**2.08x**	2.00x	4.0%
Debt service coverage ratio	**1.34x**	1.30x	3.1%
Weighted average interest rate of mortgage and vendor debt	**4.05%**	4.48%	(43) bps
Weighted average interest rate of total debt	**4.38%**	4.84%	(46) bps

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize VTB mortgages as part of an acquisition. Mortgages are secured by a first or second charge against the individual properties and the vendor financing is secured by a general corporate guarantee.

As at December 31, 2013, only the construction financing loan of $14.8 million and four demand loans, totaling $3.9 million, had floating interest rates. These demand loans carry an interest rate of prime plus 1.0% - 2.0%. The construction financing has a floating interest rate of prime plus 0.75%. The construction loan will be repaid in full and converted into a CMHC insured mortgage once rental targets are achieved.

Killam's December 31, 2013, weighted average interest rate on mortgages improved to 4.05% compared to 4.48% as at December 31, 2012, as a result of refinancings at lower interest rates during the year. Killam's weighted average interest rate is expected to continue to improve throughout the next twelve months when $139.3 million of current mortgage balances are expected to be refinanced at lower interest rates than their current weighted average rate of 4.61% (20% of the portfolio). In 2015 and 2016 a combined $219 million of mortgages will also mature; by December 31, 2016, 49% of Killam's current mortgages are expected to be refinanced and the weighted average years to maturity lengthened.

Total debt as a percentage of total assets has increased 130 bps to 52.9% from December 31, 2012. Management expects to maintain the percentage of debt to total assets between 55% and 65%. This ratio is sensitive to changes in the fair value of investment properties, in particular cap-rate changes. A 10 basis point increase in the weighted average cap-rate at December 31, 2013, would have increased the ratio of debt as a percentage of total assets by 80 bps.

2013 Refinancings

During the year ended December 31, 2013, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Avg. Term	Net Proceeds
Apartments	$66,741	4.58%	$96,725	3.03%	7.1 years	$29,984
MHCs	10,685	6.24%	13,875	4.34%	5.0 years	3,190
	$77,426	4.81%	$110,600	3.20%	6.9 years	$33,174

The Company also placed $76.0 million in new financing on unencumbered properties acquired and developments completed during the year ended December 31, 2013, at a weighted average interest rate of 3.44%.

Dollar amounts in thousands of Canadian Dollars (except as noted)

The following table sets out the maturity dates and average interest rates of mortgage and vendor debt, and percentage of apartment mortgages that are CMHC insured by year of maturity:

	Apartments			MHCs		**Total**	
Year of Maturity	Balance December 31, 2013	Weighted Avg Int Rate %	% CMHC Insured	Balance December 31, 2013	Weighted Avg Int Rate %	**Balance December 31, 2013**	**Weighted Avg Int. Rate %**
2014	127,719	4.50	56.4	13,666	5.63	141,385 (1)	4.61
2015	90,345	4.47	68.8	4,238	5.19	94,583	4.50
2016	108,072	4.28	50.7	3,286	5.09	111,358	4.30
2017	27,386	3.21	100.0	18,082	4.64	45,468	3.78
2018	83,158	3.66	47.7	13,462	4.34	96,620	3.76
2019	53,366	3.52	100.0	-	-	53,366	3.52
2020	19,871	4.09	100.0	-	-	19,871	4.09
2021	23,736	3.79	88.8	-	-	23,736	3.79
2022	24,529	3.16	100.0	-	-	24,529	3.16
Thereafter	95,364	3.48	100.0	-	-	95,364	3.48
	$ 653,546	3.98	72.0	$ 52,735	4.89	$706,281	4.05

(1) Includes $2.1 million related to a demand loan classified as current.

As at December 31, 2013, approximately 72% of the Company's apartment mortgages were CMHC insured (67% of all mortgages as MHC properties are not eligible for CMHC insurance) (December 31, 2012 – 61% and 53%). The weighted average interest rate on the CMHC insured mortgages was 3.67% as at December 31, 2013 (December 31, 2012– 3.98%).

Access to mortgage debt is essential in financing future acquisitions and in refinancing maturing debt. Management has intentionally diversified Killam's mortgages to avoid dependence on any one lending institution and has staggered the maturity dates of its mortgages to manage interest rate risk. Management anticipates continued access to mortgage debt for both new acquisitions and refinancings. Access to CMHC insured financing gives apartment owners an advantage over other asset classes as lenders are provided a government guarantee on the debt and therefore are able to lend at more favourable rates.

The following table presents the NOI of properties that are available to Killam to refinance at debt maturity for 2014 and for 2015. With $139.3 million in mortgages maturing in 2014, Management is evaluating opportunities to fix interest rates before maturity to lock in savings on refinancings. Killam's 2014 mortgage maturities are skewed toward the first half of the year and the Company has already completed refinancings or locked in interest rates for maturing mortgages representing $34.2 million of the maturing debt at a weighted average interest rate of 2.64%.

2014	**Number of Properties**	**NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing in 2014	41	$18,392	$125,976
MHCs with debt maturing in 2014	7	2,254	13,278
2014 debt maturities	48	$20,646	$139,254
2015			
Apartments with debt maturing in 2015	34	$12,779	$82,782
MHCs with debt maturing in 2015	4	792	4,652
2015 debt maturities	38	$13,571	$87,434

Dollar amounts in thousands of Canadian Dollars (except as noted)

Future Contractual Debt Obligations

At December 31, 2013, the timing of the Company's future contractual debt obligations are as follows:

Year	Mortgage and Loans Payable	Construction Financing	Convertible Debentures	December 31 Total
2014	$153,589	$14,775	$-	**$168,364**
2015	107,321	-	-	**107,321**
2016	111,803	-	-	**111,803**
2017	55,214	-	57,500	**112,714**
2018	71,132	-	46,000	**117,132**
Thereafter	210,302	-	-	**210,302**
	$709,361	**$14,775**	**$103,500**	**$827,636**

Debentures

The Company's $57.5 million convertible unsecured subordinated debentures mature November 30, 2017, bear interest at 5.65% and are convertible, at the holders' option, to common shares at a price of $13.40. The Debentures are redeemable at the option of the Company after November 30, 2013, and on or before November 30, 2015, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price. After November 30, 2015, the debentures are redeemable at face value. Upon maturity or redemption, the Company may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing).

The Company's $46.0 million convertible unsecured subordinated debentures mature June 30, 2018, bear interest at 5.45% and are convertible, at the holders' option, to common shares at a price of $14.60. The Debentures are redeemable at the option of the Company after June 30, 2014, and on or before June 30, 2016, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price. After June 30, 2016, the debentures are redeemable at face value. Upon maturity or redemption, the Company may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing).

The Company's $10.0 million of unsecured subordinated debentures expired, and were repaid, on January 4, 2013, and consisted of three tranches of $2.5 million, $2.5 million, and $5.0 million, bearing interest at 5.92%, 6.06% and 6.33%, respectively. Related warrants associated with the subordinated debentures also expired on January 4, 2013.

Construction Loans

At December 31, 2013, the Company had access to a floating rate non-revolving demand construction loan for the purpose of financing the development of The Plaza and payments are made monthly on an interest-only basis. The construction loan has an interest rate of prime plus 0.75%. The construction loan will be repaid in full and converted into a CMHC insured mortgage once rental targets have been achieved. As at December 31, 2013, $14.8 million was drawn at an interest rate of 3.75% (December 31, 2012 - $14.1 million).

Credit Facility

The Company has a credit facility with a major financial institution, which consists of a $2.0 million revolving demand facility that can be used for the Company's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 bps on prime rate advances or 225 bps over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. At December 31, 2013, the Company had assets with a fair value of $1.7 million pledged to the line and had a balance outstanding of $Nil (December 31, 2012 - $Nil).

Operating Facility

An operating facility which consists of a $1.0 million revolving demand facility for general business purposes, bearing interest at the lender's prime rate plus 1%. As at December 31, 2013, the Company had letters of credit totaling $0.5 million outstanding against this facility (December 31, 2012 - $0.3 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

Shareholders' Equity

For the year ended December 31, 2013, 144,349 stock options were exercised for common shares and cash proceeds to the Company of $1.0 million (December 31, 2012 - 471,953 and cash proceeds of $4.2 million). There were also 50,090 RSUs redeemed and 21,838 common shares issued related to the redemptions during 2013 (December 31, 2012 – Nil). The Company also issued 194,774 common shares related to property acquisitions for a total value of $2.4 million (2012 – Nil).

During 2013 Killam paid a dividend of $0.04833 per share per month ($0.58 per share annualized). The dividend was increased to $0.05 per share per month ($0.60 per share annualized) effective for the January 2014 dividend payment in February 2014. The Company's Dividend Reinvestment Plan ("DRIP") allows shareholders to elect to have all cash dividends from the Company reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to the ten-day volume weighted average price of the Company's common shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration. For the year ended December 31, 2013, the Company issued 296,004 common shares under the DRIP with a value of $3.3 million (December 31, 2012 – 347,473 common shares with a value of $4.4 million). For the year ended December 31, 2013, the average DRIP participation rate was 10% (2012 - 15%).

Part VII
Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

An eight quarter trend highlighting key operating results is shown below:

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Property revenue	$36,262	$37,095	$34,506	$33,249	$33,360	$33,894	$33,679	$32,631
Operating expenses	14,863	13,845	14,281	15,083	13,801	12,452	13,161	13,781
Net operating income	21,399	23,250	20,225	18,166	19,559	21,442	20,518	18,850
Operating margin %	59.0%	62.7%	58.6%	54.6%	58.6%	63.3%	60.9%	57.8%
Home sale income	66	44	154	59	101	93	231	44
Equity & other income (loss)	165	484	1,031	362	527	439	508	322
Net (loss) income applicable to common shareholders	(4,543)	12,117	23,238	8,967	10,425	12,662	18,558	10,082
Per share (basic)	(0.10)	0.22	0.43	0.17	0.20	0.26	0.37	0.20
FFO	9,812	11,668	9,478	7,812	8,732	10,721	9,179	7,463
FFO/share (basic)	0.18	0.22	0.18	0.15	0.17	0.21	0.19	0.15

Q4 - Consolidated Statements of Income
In thousands (except per share amounts)

For the three months ended December 31,

	2013	2012
Property revenue	**$ 36,262**	$ 33,360
Property operating expenses	**(14,863)**	(13,801)
Home sales	**66**	101
Equity income	**138**	240
Other income	**27**	287
	21,630	20,187
Financing costs	**(9,061)**	(8,315)
Depreciation	**(149)**	(199)
Amortization of deferred financing costs	**(431)**	(366)
Administration	**(2,185)**	(2,361)
	(11,826)	(11,241)
Income before fair value gains (losses), gain (loss) on disposition and income taxes	**9,804**	8,946
Fair value (losses) gains	**(13,827)**	10,057
(Loss) gain on disposition	**(1,572)**	24
Income before income tax expense	**(5,595)**	19,027
Income tax expense	**1,410**	(7,357)
Net (loss) income	**$ (4,185)**	$ 11,670
Net income attributable to:		
Common shareholders	**$ (4,543)**	$ 10,425
Non-controlling interest	**358**	1,245
	$ (4,185)	$ 11,670

Dollar amounts in thousands of Canadian Dollars (except as noted)

Q4 Same Store NOI

For the three months ended December 31,

	Total Portfolio			Apartments			MHCs		
	2013	2012	% Change	**2013**	2012	% Change	**2013**	2012	% Change
Property revenue	**$ 30,436**	$ 29,997	1.5%	**$27,409**	$27,111	1.1%	**$3,027**	$2,886	4.9%
Property expenses									
Operating expenses	**4,648**	4,770	(2.6)%	**3,912**	3,954	(1.1)%	**736**	816	(9.8)%
Utility and fuel expenses	**4,416**	3,843	14.9%	**4,145**	3,556	16.6%	**271**	287	(5.6)%
Property taxes	**3,505**	3,361	4.3%	**3,345**	3,230	3.6%	**160**	131	22.1%
Total property expenses	**12,569**	11,974	5.0%	**11,402**	10,740	6.2%	**1,167**	1,234	(5.4)%
NOI	**$ 17,867**	$ 18,023	(0.9)%	**$16,007**	$16,371	(2.2)%	**$1,860**	$1,652	12.6%
Operating margin	**58.7 %**	60.1 %	(2.3)%	**58.4%**	60.4%	(3.3)%	**61.4%**	57.2%	7.3%

Killam's same store apartment portfolio continued to generate quarter-over-quarter net revenue growth, as rental rates increased 1.3% from Q4 2012, offsetting higher vacancy and increasing net revenue 1.1% or $0.3 million quarter-over-quarter. As shown in the same store summary above, higher utility and fuel costs, up 16.6%, were the main driver of the 6.2% increase in total operating expenses. Increased water, electricity and natural gas costs in Nova Scotia (up 23% from Q4 2012) and New Brunswick (up 85% from Q4 2012) drove the increase in expense. The increase in natural gas costs was approximately $0.2 million more than Q4 2012 for the Nova Scotia properties due to a colder fall (17% colder than Q4 2013), increasing consumption by approximately the same percentage. As well, both October and November natural gas pricing was higher than the same months of 2012.

The MHC same store portfolio continued to generate strong revenue growth, up 4.9% from Q4 2012, driven by increased rental rates and stable occupancy year-over-year. As well, overall operating expenses decreased by 5.4% for the quarter due to lower costs associated with water and sewer repairs due to recent capital upgrades, and timing of both utility and property tax recoveries for the last quarter of the year.

Q4 FFO and AFFO

For the three months ended December 31,

	2013	2012	% Change
Net income	**$ (4,185)**	$ 11,670	
Fair value losses (gains)	**13,853**	(10,087)	
Non-controlling interest (before tax and gains)	**(277)**	(238)	
Depreciation on owner-occupied building	**36**	54	
Loss (gain) on disposition	**1,572**	(24)	
Tax planning costs	**223**	-	
Income tax expense	**(1,410)**	7,357	
FFO	**$ 9,812**	$ 8,732	12.4%
FFO/share - basic	**$ 0.18**	$ 0.17	5.9%
FFO/share - diluted	**$ 0.18**	$ 0.17	5.9%
AFFO/share - basic	**$ 0.15**	$ 0.14	7.1%
AFFO/share - diluted	**$ 0.15**	$ 0.14	7.1%
Weighted average shares - basic (000's)	**54,395**	51,528	5.6%
Weighted average shares - diluted (000's) (1)	**54,702**	51,914	5.4%

(1) The calculation of weighted average shares outstanding for diluted FFO purposes excludes the convertible debentures as they are anti-dilutive.

FFO was $9.8 million in the fourth quarter, up 12.4% from $8.7 million in the fourth quarter of 2012. FFO per share was $0.18, up from $0.17 earned in the same period in 2012. The increase was primarily attributable to acquisitions and developments, interest expense savings and administrative cost savings, which more than offset the 5.6% increase in shares outstanding and one month of lost MHC earnings related to the ten property portfolio sold on November 29, 2013. The short-term impact of carrying a high cash balance subsequent to the MHC sale was also slightly dilutive in the quarter.

PART VIII

Risk Management

Killam faces a variety of risks, the majority of which are common to real estate entities. Real estate investments are generally subject to varying degrees of risk, depending on the nature of the property. These risks include (i) changes in general economic conditions, (ii) changes in local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), (iii) changes to government regulations (such as new or revised residential tenant legislations), (iv) competition from others with available space, and (v) the ability of the landlord or owner to provide adequate maintenance economically.

Real estate is relatively illiquid. Such illiquidity will tend to limit Killam's ability to rebalance its portfolio promptly in response to changing economic or investment conditions. In addition, financial difficulties of other property owners, resulting in distress sales, may depress real estate values in the markets in which the Company operates.

Killam's exposure to general risks associated with real estate investments is mitigated with both its geographic diversification, and investments in both apartments and MHCs.

Killam is exposed to other risks, as outlined below:

Interest Rate Risk

Interest risk is the risk that the Company would experience lower returns as the result of its exposure to a higher interest rate environment. The Company is exposed to interest rate risk as a result of its mortgages and loans payable, however this risk is mitigated through the Company's strategy to have the majority of its mortgages payable in fixed-term arrangements. The Company also structures its financings so as to stagger the maturities of its debt, minimizing the Company's exposure to interest rates in any one year.

As at December 31, 2013, no mortgages or vendor debt had floating interest rates except for four demand loans totaling $3.9 million. These loans have an interest rate of prime plus 1.0% - 2.0% (December 31, 2012 - prime plus 1.0% - 1.5%). Killam also has one construction loan of $14.8 million with a floating interest rate of prime plus 0.75% and consequently, Killam is exposed to short-term interest rate risk on these loans.

Liquidity Risk

Liquidity risk is the risk that the Company may not have access to sufficient debt and equity capital to fund its growth program and/or refinance its debt obligations as they mature. Senior Management manages the Company's cash resources based on financial forecasts and anticipated cash flows. The maturities of the Company's long-term financial liabilities are set out in Notes 12 to 15 of the consolidated financial statements. The Company structures its financings so as to stagger the maturities of its debt, thereby minimizing the Company's exposure to liquidity risk in any one year. In addition, the Company's apartments qualify for CMHC insured debt, reducing the refinancing risk on mortgage maturities. The Company's MHCs do not qualify for CMHC insured debt, however, they continue to have access to mortgage debt.

Increased Supply Risk

Increased supply risk is the risk of loss from increased competition from the addition of new rental units in Killam’s core markets. Numerous other residential developers and apartment owners compete for potential tenants. Although it is Killam’s strategy to own multifamily residential properties in premier locations in each market in which it operates, some of the apartments or MHCs of Killam's competitors may be newer, better located or offer lower rents. An increase in alternative housing could have a material adverse effect on Killam’s ability to lease units and in the rents charged and could adversely affect Killam's revenues and ability to meet its obligations. To mitigate against this risk Killam has a geographically diverse asset base. Management is expanding this diversification by increasing Killam’s investment in apartment markets outside Atlantic Canada.

Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Company mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and the Company also obtains a security deposit to assist in potential recovery requirements. In addition, the receivable balances are monitored on an ongoing basis with the result that the Company’s exposure to bad debt is not significant. The Company’s bad debt expense experience has historically been less than 0.4% of revenues. None of Killam’s tenants account for more than 1% of tenant receivables.

Development Risk

Development risk is the risk that costs of developments will exceed original estimates, unforeseen delays occur and/or units will not be leased in the timeframe and/or at rents anticipated. Killam minimizes its exposure to development risk my limiting the amount of development underway at any one time. To reduce the Company’s exposure to price increases, Killam enters into fixed-rate contracts when possible. To reduce the lease-up risk, Killam does extensive market research in advance of each development to support expected rental rates, and pre-markets its properties early on in the process, to increase demand for the new developments.

Environmental Risk

As an owner of real estate, Killam is subject to federal, provincial and municipal environmental regulations. These regulations may require the Company to fund the costs of removal and remediation of certain hazardous substances on its properties or releases from its properties. The failure to remediate such properties, if any, could adversely affect the Company’s ability to borrow using the property as collateral or to sell the real estate. Killam is not aware of any material non-compliance with environmental laws at any of its properties. The Company has made, and will continue to make, the necessary capital expenditures to comply with environmental laws and regulations. Environmental laws and regulations can change rapidly, and the Company may be subject to more stringent environmental laws and regulations in the future. The Company mitigates its risk of losses associated with oil tank leaks by enforcing the requirement for appropriate insurance, performing regular oil tank inspections, and enforcing the removal of oil tanks when homes are sold.

General Uninsured Losses

Killam carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar companies. There are, however, certain types of risks (generally of a catastrophic nature) that are either uninsurable or would not be economically insurable.

Rent Control Risk

Rent control exists in some provinces in Canada, limiting the percentage of annual rental increases to existing tenants. Killam is exposed to the risk of the implementation of, or amendments to, existing legislative rent controls in the markets in which it operates, which may have an adverse impact on the Company’s operations. In the provinces that Killam currently operates, Prince Edward Island, and Ontario have rent controls. As well, Nova Scotia has rent control for MHCs.

Utility and Property Tax Risk

Killam is exposed to volatile utility costs and increasing property taxes. Utility expenses, mainly consisting of oil, natural gas, water and electricity charges, have been subject to considerable price fluctuations over the past several years. Killam has the ability to raise rents on the anniversary date of its leases, subject to the overall rental market conditions, to offset rising energy and utility costs, however rental increases may be limited by market conditions. Killam invests in energy efficiency initiatives to reduce its reliance on utility costs; however Killam remains exposed to price volatility. The Company has the ability to fix rates through the use of swap contracts for a portion of its oil and natural gas consumption to reduce the impact of fluctuations in commodity prices. To address the risk of property tax increases, Killam, along with the assistance of outside consultants, reviews property tax assessments and, where warranted, appeals them.

Taxes

Killam is currently not cash-tax taxable due to its ability to reduce taxable income through unclaimed CCA, and does not expect to be cash taxable for at least the next three to five years. A change in circumstances that could result in the Company paying cash taxes in advance of this estimate may have a negative impact on Killam's liquidity. To mitigate against this risk, Killam is working with tax advisors to identify those issues that may impact a change in the Company's tax situation.

Dividend Payments

Dividend payments may exceed actual cash available from time to time because of items such as mortgage principal repayments, capital requirements, and redemption of shares, if any. The Company may be required to use part of its debt capacity, raise additional equity, or reduce dividends in order to accommodate such items, and there can be no assurance that funds from such sources will be available on favourable terms, or at all.

Significant Accounting Judgments, Estimates and Assumptions

In the application of Killam's accounting policies, which are described in Note 2 of the consolidated financial statements, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The judgments, estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments Other Than Estimates

In the process of applying the Company's accounting policies, Management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Property Acquisitions

When investment properties are acquired, Management considers whether the acquisition represents the acquisition of an asset or a business. The Company accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, leasing operations, etc.).

Management believes that the majority of the Company's acquisitions will be classified as asset acquisitions. During the acquisition of most properties, Killam buys the asset itself and any short-term leases that are in place. Generally, Killam does not purchase any business systems or processes with a property. Management would consider an acquisition to be a business combination if all the following criteria were met:

- The acquisition includes a property portfolio (multiple buildings),
- A significant staff complement is included, including a maintenance team, leasing representatives and property management personnel, and
- Systems are acquired and continue to be incorporated into operations.

Investment Properties

The Company's accounting policies relating to investment properties are described in Note 2(F). In applying this policy, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under construction, identifying the point at which substantial completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. Judgment is also applied in determining the extent and frequency of independent appraisals.

Leases

The Company has entered into residential property leases on its investment property portfolio. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, that it has not transferred all the significant risks and rewards of ownership of these properties and accounts for the contracts with tenants as operating leases.

Financial Instruments

The Company's accounting policies relating to financial instruments are described in Note 2(K). The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments as fair value through profit and loss "FVTPL", and determining whether the Company has significant influence over investees with which it has contractual relationships in addition to the financial instrument it holds.

Taxes

The Company is subject to income and capital gains taxes in numerous jurisdictions. Significant judgment is required to determine the total provision for current and deferred taxes. There are many transactions and calculations for which the ultimate tax determination and timing of payment is uncertain. The Company recognizes liabilities for current taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income and deferred tax provisions in the period in which the determination is made. Deferred tax assets and liabilities are recognized on a net basis to the extent they are relating to the same fiscal entity and fall due in approximately the same period.

Consolidation and joint arrangements

The Company has determined that it controls and consolidates the subsidiaries where it owns a majority of the shares. The Company is part owner of one property in which it has a 47% interest. The Company has determined that it does control this property as it operates and manages the property, governs the financial and operating policies, and has the power to cast the majority of the votes at meetings of the board of directors given the widely held distribution of the remaining ownership percentage. This property is accounted for on a consolidated basis.

The Company is part owner of an investment in which it has a 25% ownership interest. The Company has determined that it does not have control as it holds less than a 50% ownership interest. This investment is a joint arrangement which is separately incorporated. It is deemed that the joint arrangement is separate from the Company, having no direct interest in the assets and obligation of the joint arrangement. The Company has (after considering the structure and form of the arrangement, the terms agreed by the parties in the contractual arrangement and the Company's rights and obligations arising from the arrangement) classified its interest as a joint venture under IFRS 11. As a consequence it accounts for its investment in the joint venture using the equity method.

Estimates

Valuation of Investment Properties

The fair value of investment properties is partially determined by independent real estate valuation experts (the "External Valuator") using recognized valuation techniques and partially by Management. The External Valuator uses the capitalization of net income method to determine the fair market values. In some cases, the fair values are corroborated by recent real estate transactions with similar characteristics and location to those of the Company's assets. Management's internal valuation model is also based on a capitalization of NOI by property, using property specific quarterly cap-rates, provided by an independent qualified valuation professional.

IPUC is also valued at fair value, except if such values cannot be reliably determined. In the case when a fair value cannot be reliably determined, such property is recorded at cost. The fair value of IPUC is determined using the capitalization of net income method.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets and cap-rates applicable to those assets. In addition, development risks (such as construction and leasing risks) are also taken into consideration when determining the fair value of IPUC. These estimates are based on local market conditions existing at the reporting date. In arriving at their estimates of market values, the external valuator uses their market knowledge and professional judgment and does not rely solely on historical transaction comparables. The critical estimates and assumptions underlying the valuation of investment properties and developments are set out in Note 5.

Fair Value of Financial Instruments

Where the fair value of financial assets and financial liabilities recorded in the Notes to the Consolidated Financial Statements cannot be derived from active markets, they are determined using valuation techniques, including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Changes in Accounting Policies

The accounting policies applied during the year ended December 31, 2013, are consistent with those used in the audited consolidated financial statements for the year ended December 31, 2012, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations which were effective for periods beginning on or after July 1, 2012, and January 1, 2013:

IAS 1 - Financial Statement Presentation ("IAS 1") — Presentation of Items of Other Comprehensive Income ("OCI")

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The adoption of this standard did not have an impact on the Company's financial position or performance.

IFRS 10 - Consolidated Financial Statements ("IFRS 10")

IFRS 10 replaces the portion of IAS 27 - Consolidated and Separate Financial Statements ("IAS 27") that addresses the accounting for consolidated financial statements. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 require Management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The adoption of this standard did not have an impact on the Company's financial position or performance.

IFRS 11 - Joint Arrangements ("IFRS 11")

IFRS 11 replaces IAS 31 - Interests in Joint Ventures and SIC 13 - Jointly controlled Entities — Non monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, joint arrangements that meet the definition of a joint venture must be accounted for using the equity method. Otherwise joint arrangements are classified as joint operations and are accounted for by recognizing the Company’s share of the arrangement's assets and liabilities. The adoption of this standard did not have an impact on the Company's accounting treatment of its joint arrangements as they meet the definition of joint ventures and were previously accounted for using the equity method.

IFRS 12 - Disclosure of Interest in Other Entities ("IFRS 12")

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, including:

- A requirement to disclose judgments made in determining if the Company controls, has joint control, or significant influence over an entity; and
- A requirement to disclose judgments made in determining the type of joint arrangement in which the Company has an interest.

The Company adopted this standard and included the required disclosures related to the Company's interest in subsidiaries, joint arrangements and associates in the notes of these consolidated financial statements.

IFRS 13 - Fair Value Measurement ("IFRS 13")

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Company adopted the standard and concluded that the definition of fair value applied in IFRS 13 does not differ materially from the Company's current definition and therefore there was no impact on the Company's financial position. However, IFRS 13 does expand the disclosure requirements in respect of fair value measurement, and these additional disclosures are included in Note 5 of these consolidated financial statements.

Future Accounting Policy Changes

IFRS 9 - Financial Instruments (“IFRS 9”)

IFRS 9, as issued in 2010, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013. In November 2013, Chapter 6 of IFRS 9 on hedge accounting was published. At the same time, Chapter 7, containing the effective date and transition provisions, was amended to remove the mandatory effective date of IFRS 9. This was intended to provide sufficient time for preparers to make the transition to the new requirements. The Company may still choose to apply IFRS immediately, but is not required to do so.

In subsequent phases, the IASB is addressing impairment of financial assets. The adoption of the first phase of IFRS will have an effect on the classification and measurement of the Company's financial assets, but will not have an impact on the classification measurements of financial liabilities. The Company is in the process of assessing the impact IFRS 9 may have on future financial statements.

IFRIC Interpretation 21 - Levies (“IFRIC 21”)

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014. The Company is in the process of assessing the impact IFRIC 21 may have on future financial statements.

Disclosure Controls and Procedures and Internal Controls

The Company’s management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company’s Disclosure Controls and Procedures and Internal Controls will prevent or detect all error and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected.

Disclosure Controls and Procedures
As of December 31, 2013, the Company’s management evaluated the effectiveness of the operation of its disclosure controls and procedures (“Disclosure Controls”), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer.

Disclosure controls and procedures are designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company’s management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation of Disclosure Controls, the Chief Executive Officer and the Chief Financial Officer have concluded that, subject to the inherent limitations noted above, the Company’s Disclosure Controls are effective in ensuring that material information relating to the Company and its consolidated subsidiaries is made known to the Company's management on a timely basis by others within those entities, and is included as appropriate in this MD&A.

Internal Controls over Financial Reporting
Internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of the Company’s financial reporting and its preparation of financial statements for external purposes in accordance with IFRS. Management’s documentation and assessment of the effectiveness of the Company’s ICFR continues as of the date of this MD&A with the focus on processes and controls in areas identified as being “key risks”.

As of the financial year ended December 31, 2013, the certifying Officers have evaluated the design and effectiveness of such ICFR, or caused them to be designed and evaluated under their supervision. The certifying Officers have concluded that the design and effectiveness of ICFR were operating effectively as at December 31, 2013, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The certifying Officers have evaluated whether there were any changes to the Company’s ICFR during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

Subsequent Events

On January 20, 2014, and February 18, 2014, the Company announced dividends of $0.05 per share, payable on February 17, 2014, and March 17, 2014, to shareholders of record on January 31, 2014, and February 28, 2014.