Condensed Consolidated Financial Statements

For the three months ended March 31, 2014 and 2013

Condensed Consolidated Statements of Financial Position

In thousands of Canadian dollars,
(Unaudited)

As at	**Note**	**March 31, 2014**	December 31, 2013
ASSETS			
Non-current assets			
Investment properties	[3]	**$1,505,274**	$1,476,116
Investments in joint venture	[4]	**11,523**	11,469
Property and equipment	[5]	**4,756**	4,527
Other non-current assets		**7**	17
		1,521,560	1,492,129
Current assets			
Cash		**11,637**	27,678
Rent and other receivables		**3,388**	2,751
Inventory		**403**	570
Other current assets		**13,965**	9,303
		29,393	40,302
TOTAL ASSETS		**$1,550,953**	$1,532,431
EQUITY AND LIABILITIES			
Shareholders' equity		**$589,735**	$590,724
Accumulated other comprehensive loss ("AOCL")		**(62)**	-
Non-controlling interest		**13,283**	13,336
Total Equity		**602,956**	604,060
Non-current liabilities			
Mortgages and loans payable	[6]	**562,353**	545,541
Convertible debentures	[8]	**96,797**	96,419
Other liabilities		**2,107**	2,171
Deferred tax		**95,280**	93,221
		756,537	737,352
Current liabilities			
Mortgages and loans payable	[6]	**145,346**	153,589
Construction loans	[7]	**15,667**	14,775
Accounts payable and accrued liabilities		**30,447**	22,655
		191,460	191,019
Total Liabilities		**947,997**	928,371
TOTAL EQUITY AND LIABILITIES		**$1,550,953**	$1,532,431

See accompanying notes to the condensed consolidated financial statements.

Approved on Behalf of the Board

(signed) "G. Wayne Watson"
Director

(signed) "Philip D. Fraser"
Director

Condensed Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars (except per share amounts), (Unaudited)

	Note	**Three months ended March 31, 2014**	Three months ended March 31, 2013
Property revenue		**$35,065**	$33,249
Property operating expenses		**(17,445)**	(15,083)
Net operating income		**17,620**	18,166
Other income			
Equity income	[4]	**168**	128
Home sales	[11]	**10**	59
Corporate income		**178**	234
		356	421
Other expenses			
Financing costs	[12]	**(8,610)**	(8,352)
Depreciation		**(145)**	(139)
Amortization of deferred financing costs		**(412)**	(387)
Administration		**(1,763)**	(1,693)
		(10,930)	(10,571)
Income before fair value gains, gain on disposition and income taxes		**7,046**	8,016
Fair value gains	[3]	**-**	4,291
Gain on disposition		**94**	-
Income before income taxes		**7,140**	12,307
Deferred tax expense		**(2,085)**	(2,926)
Net income		**$5,055**	$9,381
Other comprehensive loss			
Item that may be reclassified subsequently to net income			
Unrealized loss on forward interest rate hedge (net of tax - $26)	[16]	**(62)**	-
Comprehensive income		**$4,993**	$9,381
Net income attributable to:			
Common shareholders		**4,869**	8,967
Non-controlling interest		**186**	414
		$5,055	$9,381
Comprehensive income attributable to:			
Common shareholders		**4,807**	8,967
Non-controlling interest		**186**	414
		$4,993	$9,381
Net income per share attributable to common shareholders:			
-basic		**$0.09**	$0.17
-diluted		**$0.09**	$0.16

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Changes in Equity

In thousands of Canadian dollars,
(Unaudited)

Three months ended March 31, 2014

	Share Capital	**Contributed Surplus**	**Other Paid-in Capital**	**Retained Earnings**	**AOCL**	**Non-Controlling Interest**	**Total Equity**
At January 1, 2014	**$398,181**	**$2,302**	**$5,681**	**$184,560**	**$ -**	**$13,336**	**$604,060**
Net income	**-**	**-**	**-**	**4,869**	**-**	**186**	**5,055**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(62)**	**-**	**(62)**
Dividends	**-**	**-**	**-**	**(8,216)**	**-**	**-**	**(8,216)**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(239)**	**(239)**
Dividend reinvestment plan	**671**	**-**	**-**	**-**	**-**	**-**	**671**
Stock options exercised	**561**	**(67)**	**-**	**-**	**-**	**-**	**494**
Share-based compensation	**-**	**393**	**-**	**-**	**-**	**-**	**393**
Issuance of shares for acquisitions	**800**	**-**	**-**	**-**	**-**	**-**	**800**
Restricted share units redeemed	**32**	**(32)**	**-**	**-**	**-**	**-**	**-**
At March 31, 2014	**$400,245**	**$2,596**	**$5,681**	**$181,213**	**$(62)**	**$13,283**	**$602,956**

Three months ended March 31, 2013

	Share Capital	Contributed Surplus	Other Paid-in Capital	Retained Earnings	Non-Controlling Interest	Total Equity
At January 1, 2013	$391,120	$2,241	$5,681	$176,293	$13,101	$588,436
Net income	-	-	-	8,967	414	9,381
Dividends	-	-	-	(7,842)	-	(7,842)
Distributions to non-controlling interest	-	-	-	-	(278)	(278)
Dividend reinvestment plan	939	-	-	-	-	939
Stock options exercised	331	(36)	-	-	-	295
Share-based compensation	-	277	-	-	-	277
At March 31, 2013	$392,390	$2,482	$5,681	$177,418	$13,237	$591,208

See accompanying notes to the condensed consolidated financial statements.

Condensed Consolidated Statements of Cash Flows

In thousands of Canadian dollars,
(Unaudited)

		Three months ended March 31, 2014	Three months ended March 31, 2013
OPERATING ACTIVITIES			
Net income		**$5,055**	$9,381
Add (deduct) items not affecting cash			
Fair value gains	[3]	**-**	(4,291)
Depreciation and amortization		**557**	526
Non-cash compensation expense		**21**	277
Equity income		**(168)**	(128)
Deferred income taxes		**2,085**	2,926
Gain on disposition		**(94)**	-
Financing costs	[12]	**8,610**	8,352
Interest paid	[15]	**(7,114)**	(7,040)
Net change in non-cash operating activities	[15]	**2,318**	(605)
Cash provided by operating activities		**$11,270**	$9,398
FINANCING ACTIVITIES			
Increase in deferred financing		**(1,928)**	(1,173)
Proceeds on issuance of common shares		**583**	294
Repayment of subordinated debentures		**-**	(10,000)
Mortgage financing		**52,894**	46,468
Mortgages repaid on maturity		**(36,757)**	(18,589)
Mortgage principal repayments		**(5,781)**	(4,803)
Proceeds from construction loans		**892**	6,236
Distributions paid to non-controlling interest		**(239)**	(278)
Dividends		**(7,439)**	(6,889)
Cash provided by financing activities		**$2,225**	$11,266
INVESTING ACTIVITIES			
Increase in restricted cash		**(1,015)**	(1)
Investments in joint venture		**114**	184
Net proceeds on sale of land		**134**	-
Acquisition and development of investment properties, net of debt assumed		**(24,237)**	(47,422)
Capital expenditures		**(4,532)**	(3,657)
Cash used in investing activities		**$(29,536)**	$(50,896)
Net decrease in cash		**(16,041)**	(30,232)
Cash, beginning of the period		**27,678**	56,726
Cash, end of period		**$11,637**	$26,494

See accompanying notes to the condensed consolidated financial statements.

1. Corporate Information

Killam Properties Inc. ("Killam" or the "Company") is a real estate company specializing in the acquisition, management and development of multi-residential apartment buildings and manufactured home communities ("MHCs") in Canada. Killam is incorporated under the Canada Business Corporations Act. Killam's common shares are publicly traded and listed on the Toronto Stock Exchange under the symbol "KMP". The condensed consolidated financial statements comprise the financial statements of Killam and its subsidiaries as at March 31, 2014**.** The Company's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the Company's registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

The condensed consolidated financial statements of the Company for the period ended March 31, 2014, were authorized for issue in accordance with a resolution of the Board of Directors on May 6, 2014.

2. Significant Accounting Policies

(A) Statement of Compliance

These condensed consolidated financial statements have been prepared in accordance with *IAS 34 Interim Financial Reporting* (IAS 34) as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB, have been omitted or condensed.

(B) Basis of Presentation

The condensed consolidated financial statements of the Company have been prepared on a historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The condensed consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is Killam's functional currency, and all values are rounded to the nearest thousand ($000), except share and per share amounts.

The condensed consolidated financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies were presented as Note 2 to the consolidated financial statements for the fiscal year ended December 31, 2013, and, after the changes in accounting policies described in note 2(d), have been consistently applied in the preparation of these condensed consolidated financial statements.

The operating results for the three months ended March 31, 2014, are not necessarily indicative of results that may be expected for the full year ended December 31, 2014, due to seasonal variations in property expenses and other factors.

During the quarter, the Company entered into a forward interest rate hedge with a major Canadian financial institution. This transaction was accounted for in accordance with the following policies:

(C) Derivative Financial Instruments and Hedge Accounting - Initial Recognition and Subsequent Measurement

The Company uses interest rate swaps to hedge its risks associated with interest rates. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Company will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

2. Significant Accounting Policies (continued)

Cash flow hedges

For the purpose of cash flow hedge accounting, hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

The effective portion of the gain or loss on the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the consolidated statement of income. Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the consolidated statement of income. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

When a derivative is held as an economic hedge for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item. A derivative instrument that is designated as an effective hedging instrument is classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if: 1) a reliable allocation can be made; and 2) it is applied to all designated and effective hedging instruments.

(D) Changes in Accounting Policies

The accounting policies applied during the period are consistent with those used in the audited consolidated financial statements for the year ended December 31, 2013, except for Note 2(c) above and the following International Financial Reporting Interpretations Committee ("IFRIC") interpretation effective for periods beginning on or after January 1, 2014:

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 adoption of this standard did not have an impact on the Company's financial position or performance.

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

3. Investment Properties

The Company has used the following hierarchy for determining the fair value measurement of its investment properties and investment properties under construction ("IPUC"):

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: Techniques which use inputs that have significant effect on the recorded fair value that are not based on observable market data.

As at and for the period ended March 31, 2014

Segment	Apartments	MHCs	Other	IPUC	Total
Level	**3**	**3**	**3**	**3**	
Balance, beginning of period	**$1,334,153**	**$115,414**	**$2,176**	**$24,373**	**$1,476,116**
Fair value gains included in net income					
Fair value gains on investment property	**-**	**-**	**-**	**-**	**-**
Acquisitions and dispositions					
Acquisitions	**19,983**	**-**	**-**	**-**	**19,983**
Dispositions	**-**	**(40)**	**-**	**-**	**(40)**
Other movements					
Capital expenditure on investment property	**3,934**	**223**	**4**	**-**	**4,161**
Capital expenditure on IPUC	**-**	**-**	**-**	**4,887**	**4,887**
Interest capitalized on IPUC	**-**	**-**	**-**	**167**	**167**
Balance, end of period	**$1,358,070**	**$115,597**	**$2,180**	**$29,427**	**$1,505,274**

As at and for the year ended December 31, 2013

Segment	Apartments	MHCs	Other	IPUC	Total
Level	3	3	3	3	
Balance, beginning of year	$1,126,189	$168,401	$2,134	$57,941	$1,354,665
Fair value gains included in net income					
Fair value gains on investment property	1,272	11,798	-	-	13,070
Acquisitions and dispositions					
Acquisitions	118,277	1,390	-	7,294	126,961
Dispositions	-	(69,680)	-	-	(69,680)
Other movements					
Transfer from IPUC	70,315	-	-	(70,315)	-
Capital expenditure on investment property	18,100	3,505	42	-	21,647
Capital expenditure on IPUC	-	-	-	28,356	28,356
Interest capitalized on IPUC	-	-	-	1,097	1,097
Balance, end of year	$1,334,153	$115,414	$2,176	$24,373	$1,476,116

During the three months ended March 31, 2014, the Company capitalized salaries of $0.7 million (three months ended March 31, 2013 - $0.5 million), as part of its project improvement, suite renovation and development programs.

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

3. Investment Properties (continued)

For the three months ended March 31, 2014, interest costs associated with the general corporate borrowings used to fund development have been capitalized to the respective development using the Company's weighted average borrowing rate of 4.27% (December 31, 2013 - 4.38%). Interest costs associated with construction loans are capitalized to the respective development using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $1,415,555 at March 31, 2014, (December 31, 2013 - $1,432,731) are pledged as collateral against the Company's mortgages payable.

The following table presents the following for each class of investment property:

- the level of the fair value hierarchy;
- the carrying amount or fair value of the investment property;
- a description of the valuation technique; and
- for Level 3 fair value measurements, quantitative information about significant unobservable inputs.

Class of property	Fair value at March 31, 2014	Fair value at December 31, 2013	Valuation technique	Unobservable inputs	2014 Inputs	2013 Inputs
Apartments			Income	- Capitalization rate (weighted average)	**5.86%**	5.88%
-Level 3	**$1,358,070**	$1,334,153	capitalization	- Vacancy rate (weighted average)	**3.50%**	3.50%
			approach	- Management fee rate	**3.50%**	3.50%
MHCs			Income	- Capitalization rate (weighted average)	**6.86%**	6.86%
-Level 3	**$115,597**	$115,414	capitalization	- Vacancy rate	**1.70%**	1.70%
			approach	- Management fee rate	**3.00%**	3.00%

The investment property segment defined as Other consists of one commercial property of which the Company has a 50% ownership. The property has a fair value of $2.2 million (December 31, 2013 - $2.2 million).

IPUC includes land held for future development, which is recorded at a fair value of $2.8 million (December 31, 2013 - $2.8 million) and properties under construction of $26.6 million (December 31, 2013 - $21.6 million). Fair value cannot be reliably determined for properties under construction as the projects are in the early stages of development and therefore IPUC is recorded at cost.

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

3. Investment Properties (continued)

Sensitivity Analysis

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy include capitalization rates ("cap-rates"), vacancy rates and management fee rates. Investment property valuations are most sensitive to changes in the cap-rate. The cap-rate assumptions for the investment properties are included in the following table:

	March 31, 2014			December 31, 2013		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments			**5.86%**			**5.88%**
Halifax	5.15%	7.00%	5.86%	5.15%	7.00%	5.87%
Moncton	5.15%	8.00%	5.91%	5.56%	8.00%	5.94%
Fredericton	5.15%	6.25%	5.93%	5.15%	6.25%	5.93%
Saint John	6.25%	6.75%	6.61%	6.25%	6.75%	6.63%
St. John's	5.15%	6.25%	5.94%	5.15%	6.25%	5.94%
Charlottetown	5.65%	6.00%	5.88%	5.65%	6.00%	5.88%
Ontario	4.50%	5.25%	5.24%	4.50%	5.25%	5.26%
Other Atlantic	5.75%	7.00%	6.68%	6.00%	7.00%	6.76%
MHCs			**6.86%**			**6.86%**
Ontario	7.00%	8.00%	7.09%	7.00%	8.00%	7.09%
Nova Scotia	6.00%	7.50%	6.61%	6.00%	7.50%	6.61%
New Brunswick	8.25%	8.25%	8.25%	8.25%	8.25%	8.25%
Newfoundland and Labrador	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

The quantitative sensitivity analysis shown below illustrates the value increase or decrease in the Company's portfolio of properties given the change in the noted input.

Class of property	**Capitalization rate**		**Vacancy rate**	**Management fee rate**
	10 basis points increase	*10 basis points decrease*	*1% increase/ decrease in vacancy*	*1% increase/ decrease in management fees*
Apartments	$(22,918)	$23,346	$19,422	$22,200
MHCs	$(1,660)	$1,709	$1,483	$1,932

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

4. Investments in Joint Venture

The Company has the following significant interest in a joint venture, which is measured using the equity method. Through this joint venture, Killam owns:

a) 25% share in a 127-unit property located in London, Ontario;
b) 25% share in a 140-unit property located in Ottawa, Ontario; and,
c) 25% share in a 199-unit property located in Mississauga, Ontario.

For the periods ended,	March 31, 2014	December 31, 2013
Balance, beginning of year	**$11,469**	$10,289
Additions	**-**	97
Share of net income	**168**	1,296
Distributions	**(114)**	(213)
Balance, end of period	**$11,523**	$11,469

As at	March 31, 2014	December 31, 2013
Current assets	**$4,969**	$5,920
Long-term assets	**115,362**	115,425
Current liabilities	**(5,306)**	(4,979)
Long-term liabilities	**(68,933)**	(70,492)
Net assets	**46,092**	45,874
Company's share of net assets of associate	**$11,523**	$11,469

For the three months ended March 31,	2014	2013
Property revenue	**$3,083**	$2,849
Property operating expenses	**(1,768)**	(1,540)
Net operating income	**1,315**	1,309
Interest and deferred financing expense	**(674)**	(795)
Net income and comprehensive income	**641**	514
Company's share of net income and comprehensive income	**$168**	$128

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

5. Property and Equipment

As at	March 31, 2014		December 31, 2013	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$270**	**$ -**	$270	$ -
Building	**1,824**	**118**	1,824	106
Heavy equipment	**198**	**74**	198	71
Vehicles	**1,191**	**330**	1,191	308
Furniture, fixtures and equipment	**3,803**	**2,548**	3,588	2,451
Leaseholds	**589**	**49**	428	36
	7,875	**3,119**	7,499	2,972
Less: accumulated depreciation	**(3,119)**		(2,972)	
	$4,756		$4,527	

Land and building represents the Company's ownership of a 50% interest in the land and building that its head office occupies. Under IFRS, owner-occupied property is required to be accounted for as property and equipment and not investment property. Property with a fair value of $4.2 million (December 31, 2013 - $4.2 million) is pledged as collateral against the Company's mortgages payable.

6. Mortgages and Loans Payable

As at	March 31, 2014		December 31, 2013	
	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**3.93%**	**$703,460**	4.05%	$694,789
Variable rate	**4.18%**	**3,836**	4.18%	3,853
Vendor financing	**7.12%**	**403**	7.10%	488
Total		**$707,699**		$699,130
Current		**145,346**		153,589
Non-current		**562,353**		545,541
		$707,699		$699,130

Mortgages are collateralized by a first charge on the properties of the Company and vendor mortgages are collateralized by either a second charge on the property and/or a general corporate guarantee.

As of March 31, 2014, unamortized deferred financing costs of $13.6 million (December 31, 2013 - $11.9 million) and mark-to-market premiums on mortgages assumed on acquisition of $1.6 million (December 31, 2013 – $1.7 million) are netted against mortgages and loans payable.

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

6. Mortgages and Loans Payable (continued)

Estimated future principal payments required to meet mortgage obligations as at March 31, 2014, are as follows:

	Principal repayments by 12 month periods ended March 31,
2015	$145,346
2016	106,204
2017	107,658
2018	67,080
2019	111,120
Subsequent	182,310
	719,718
Unamortized deferred financing costs	(13,597)
Unamortized mark-to-market adjustments	1,578
	$707,699

The Company has credit facilities set out as follows:

I. 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 for general business purposes. The interest rate on the debt is prime plus 125 basis points ("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. As at March 31, 2014, the Company had assets with a fair value of $1.7 million pledged as collateral to the line and had a balance outstanding of $Nil (December 31, 2013 - $Nil).

II. 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 March 31, 2014, the Company had letters of credit totaling $0.5 million outstanding against this facility (December 31, 2013 - $0.5 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

7. Construction Loans

As at March 31, 2014, the Company had access to two floating rate non-revolving demand construction loans totaling $30.0 million for the purpose of financing the development of IPUC. Payments are made monthly on an interest-only basis. The construction loans have interest rates ranging from prime to prime plus 1%. Once construction has been completed and rental targets achieved, the construction loans will be repaid in full and converted into conventional mortgages. As at March 31, 2014, $15.7 million (December 31, 2013 - $14.8 million) was drawn at a weighted average interest rate of 3.76% (December 31, 2013 - 3.75%).

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

8. Convertible Debentures

Face Interest Rate %	Effective Interest Rate %	Conversion Price	Face Amount	Maturity	**March 31, 2014**	December 31, 2013
5.65%	7.30%	$13.40	$57,500	November 30, 2017	**$54,570**	$54,395
5.45%	6.30%	$14.60	$46,000	June 30, 2018	**44,645**	44,576
					99,215	98,971
Less: Deferred financing charges					**(2,418)**	(2,552)
					$96,797	$96,419

Killam's $57.5 million convertible subordinated debentures are redeemable at the option of Killam 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, Killam 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). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $52.5 million and the fair value of the holders' conversion option was $5.0 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component, which is paid semiannually, is calculated at 7.3%.

Killam's $46.0 million convertible subordinated debentures are redeemable at the option of Killam 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, Killam 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). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $43.9 million and the fair value of the holders' conversion option was $2.1 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component, which is paid semiannually, is calculated at 6.3%.

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

9. Capital Stock and Contributed Surplus

Capital Stock

Authorized:
Unlimited number of common shares, with no par value
Unlimited number of preferred shares, issuable in series, with no par value

Issued:
The following table summarizes the changes in issued common shares of the Company:

For the three months ended March 31,	2014		2013	
	Number of Shares	Value	Number of Shares	Value
Balance, beginning of period	**54,458,774**	**$398,181**	53,801,809	$391,120
Dividend reinvestment plan	**64,575**	**671**	74,715	940
Stock options exercised	**102,500**	**561**	40,083	330
Stock issued for acquisitions	**75,330**	**800**	-	-
Restricted share units redeemed	**2,733**	**32**	-	-
Balance, end of period	**54,703,912**	**$400,245**	53,916,607	$392,390

Contributed Surplus

For the three months ended March 31,	2014	2013
Balance, beginning of period	**$2,302**	$2,241
Stock options expensed	**3**	17
Stock options exercised	**(67)**	(36)
Restricted share units issued	**390**	260
Restricted share units redeemed	**(32)**	-
Balance, end of period	**$2,596**	$2,482

10. Share-Based Compensation

For the three months ended March 31,	2014	2013
Stock option plan	**$3**	$17
Restricted share unit plan	**109**	100
Total share based compensation expense	**$112**	$117

Options exercised during the three months ended March 31 are as follows:

	2014		2013	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	**550,407**	**$7.66**	694,756	$7.40
Exercised	**(102,500)**	**5.71**	(40,083)	7.36
Outstanding, end of period	**447,907**	**$8.10**	654,673	$7.40

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

10. Share-Based Compensation (continued)

The following table summarizes the stock options outstanding:

As at	March 31, 2014			December 31, 2013		
Exercise Price	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$5.32	**9,000**	**0.10 years**	**9,000**	97,500	0.35 years	97,500
$8.16	**438,907**	**1.15 years**	**419,991**	452,907	1.4 years	399,783
	447,907		**428,991**	550,407		497,283

The exercisable options had a weighted average exercise price of $8.10 at March 31, 2014 (December 31, 2013 - $7.60).

The details of the restricted share units ("RSU") issued under the RSU plan are shown below:

For the three months ended March 31,	2014		2013	
	Number of Shares	**Weighted Average Issue Price**	Number of Shares	Weighted Average Issue Price
Outstanding, beginning of period	**94,345**	**$12.34**	100,209	$11.89
Granted	**62,672**	**10.37**	31,265	12.65
Redeemed	**(2,847)**	**12.14**	-	-
Additional restricted share distributions	**1,428**	**12.25**	1,206	11.94
Outstanding, end of period	**155,598**	**$11.55**	132,680	$12.07

11. Home Sales

For the three months ended March 31,	2014	2013
Home sales revenues	**$446**	$420
Cost of home sales	**(420)**	(344)
Operating expenses	**(16)**	(17)
Income from home sales	**$10**	$59

12. Financing Costs

For the three months ended March 31,	2014	2013
Mortgage, loan and construction loan interest	**$7,221**	$7,262
Amortization of fair value adjustments on assumed debt	**(127)**	(96)
Convertible debenture interest	**1,683**	1,660
Capitalized interest	**(167)**	(474)
	$8,610	$8,352

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

13. Per Share Information

The following is the weighted average number of shares outstanding for the three months ended March 31, 2014 and 2013. The fully diluted amounts shown below exclude stock options whose exercise price exceeded the average market price for the year and are considered anti-dilutive.

For the three months ended March 31,	2014	2013
Weighted average shares outstanding - basic	**54,605,780**	53,874,166
Unexercised dilutive options	**173,367**	277,213
Restricted share units	**116,367**	109,303
Convertible debentures	**10,147,059**	7,411,730
Weighted average shares outstanding - diluted	**65,042,573**	61,672,412

The following is the adjustment to net income applicable to common shareholders used in the diluted earnings per share calculation.

For the three months ended March 31,	2014	2013
Net income applicable to common shareholders	**$4,869**	$8,967
Adjustment for dilutive effect of convertible debentures	**1,178**	1,156
Adjusted net income for diluted per share amounts	**$6,047**	$10,123

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

14. Segmented Information

The Company operates in two rental segments of the multi-family residential industry: apartments and MHCs, all located in Canada. The accounting policies of these segments are the same as those described in the summary of significant accounting policies. The segments are analyzed based on net operating income before interest, amortization and administration costs. The operating results, assets and liabilities, and capital expenditures of the segments are as follows:

As at and for the three months ended March 31, 2014	Apartments	MHCs	Other	Total
Property revenue	**$32,020**	**$2,898**	**$147**	**$35,065**
Property operating expenses	**(16,177)**	**(1,179)**	**(89)**	**(17,445)**
Net rental income	**$15,843**	**$1,719**	**$58**	**$17,620**
Home sales, equity income & corporate income	-	-	**356**	**356**
Financing costs	**(6,364)**	**(650)**	**(1,596)**	**(8,610)**
Depreciation and amortization	**(249)**	**(52)**	**(256)**	**(557)**
Administration	**(309)**	**(77)**	**(1,407)**	**(1,793)**
Income before fair value gains, gain on disposition and income taxes	**$8,921**	**$940**	**$(2,845)**	**$7,016**
Total assets	**$1,402,493**	**$136,176**	**$12,284**	**$1,550,953**
Total liabilities	**$692,499**	**$53,415**	**$202,083**	**$947,997**
Capital expenditures	**$3,934**	**$223**	**$4**	**$4,161**

As at and for the three month ended March 31, 2013	Apartments	MHCs	Other	Total
Property revenue	$28,806	$4,282	$161	$33,249
Property operating expenses	(13,248)	(1,762)	(73)	(15,083)
Net rental income	$15,558	$2,520	$88	$18,166
Home sales, equity income & corporate income	-	-	421	421
Financing costs	(5,780)	(1,153)	(1,419)	(8,352)
Depreciation and amortization	(221)	(61)	(244)	(526)
Administration	(306)	(91)	(1,296)	(1,693)
Income before fair value gains, and income taxes	$9,251	$1,215	$(2,450)	$8,016
Total assets	$1,270,207	$190,872	$8,325	$1,469,404
Total liabilities	$608,571	$79,892	$189,733	$878,196
Capital expenditures	$2,630	$713	$314	$3,657

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

14. Segmented Information (continued)

The apartment segment is further analyzed on property revenue, property operating expenses and fair value of investment property by region:

As at and for the three months ended March 31, 2014	**Property Revenue**	**Property Operating Expenses**	**Net Operating Income**	**Fair Value of Investment Properties**
Halifax, NS	$13,521	$(6,194)	$7,327	$599,459
Moncton, NB	3,886	(2,191)	1,695	137,595
Fredericton, NB	3,394	(1,929)	1,465	142,896
Saint John, NB	2,445	(1,909)	536	70,444
St. John's, NL	2,055	(728)	1,327	103,418
Charlottetown, PE	2,286	(1,193)	1,093	91,997
Ontario	3,294	(1,443)	1,851	171,776
Other Atlantic	1,139	(590)	549	40,485
	$32,020	**$(16,177)**	**$15,843**	**$1,358,070**

As at and for the three months ended March 31, 2013	Property Revenue	Property Operating Expenses	Net Operating Income	Fair Value of Investment Properties
Halifax, NS	$13,174	$(5,579)	$7,595	$577,995
Moncton, NB	3,350	(1,810)	1,540	118,332
Fredericton, NB	3,200	(1,547)	1,653	101,206
Saint John, NB	2,384	(1,476)	908	69,976
St. John's, NL	1,731	(623)	1,108	85,665
Charlottetown, PE	1,684	(887)	797	75,811
Ontario	2,257	(823)	1,434	119,567
Other Atlantic	1,026	(503)	523	25,238
	$28,806	$(13,248)	$15,558	$1,173,790

There are no transactions with a single tenant that account for 10% or more of the Company's total revenues.

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

15. Supplemental Cash Flow Information

For the three months ended March 31,	2014	2013
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$7,114**	$7,032
Interest paid on subordinated debentures	**-**	8
	$7,114	$7,040
Changes in non-cash operating assets and liabilities		
Rent and other receivables	**$(637)**	$795
Inventory	**166**	(25)
Other current assets	**(3,647)**	(2,105)
Accounts payable and other liabilities	**6,436**	730
	$2,318	$(605)

16. Financial Instruments

During the quarter, the Company entered into a fixed forward interest rate swap contract to partially hedge the exposure to changes in future borrowing rates related to two anticipated mortgage refinancings. The interest rate swap contract was designated as a cash flow hedge on March 7, 2014. The effective date of the hedge is October 1, 2014, and the agreement will continue to be designated as such until October 1, 2019. The fixed interest rate on the 5-year forward swap is 2.36%, while the total notional amount of the mortgage debt subject to the interest rate hedge is $15.0 million. Any gain or loss on the settled hedge will be amortized into net income through financing costs over the term of the hedged item.

The Company has designated this derivative as a cash flow hedge for accounting purposes in accordance with IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”) and has determined that the derivative is highly effective in offsetting expected changes in cash flows related to mortgage refinancings. The effectiveness of the hedging relationship was assessed at the inception of the contract and will be reviewed on a quarterly basis and measured at fair value. The fair value of the derivative instrument is determined by reference to both observable and unobservable inputs. The Company has recorded the effective portion of changes in fair value of the derivative in other comprehensive loss ("OCL"). There was no ineffective proportion of the change in fair value of the derivative recorded in net income during the period.

As at March 31, 2014, the forward interest rate swap agreement was reassessed as an effective hedge. For the three months ended March 31, 2014, a net unrealized loss of $62 thousand was recognized in OCL for the fair value change of the derivative. The liability is recorded in accounts payable and accrued liabilities on the balance sheet.

17. Financial Risk Management Objectives and Policies

The Company's principal financial liabilities are comprised of mortgages, construction loans, debentures and trade payables. The main purpose of these financial liabilities is to finance the Company's investment properties and operations. The Company has various financial assets such as trade receivables and cash, which arise directly from its operations.

The Company may also enter into derivative transactions, primarily interest rate swap contracts to manage interest rate risk arising from fluctuations in the bond yield, as well as natural gas and oil swap contracts to manage price risk arising from fluctuations in these commodities. The Company entered into one derivative contract during Q1-2014 and did not enter into any derivative transactions in 2013. It is, and has been, the Company's policy that no speculative trading in derivatives shall be undertaken.

The main risks arising from the Company's financial instruments are interest rate risk, credit risk, and liquidity risk. These risks are managed as follows:

(i) Interest rate risk

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, as well as entering into cash flow hedges. The Company also structures its financings so as to stagger the maturities of its debt, minimizing the Company's exposure to interest rate volatility in any one year.

As at March 31, 2014, no mortgages or vendor debt had floating interest rates except for four demand loans totaling $3.8 million. These loans have an interest rate of prime plus 1.0% - 2.0% (December 31, 2013 - prime plus 1.0% - 2.0%). Killam also has two construction loans totalling $15.7 million with a floating interest rate ranging from prime to prime plus 1.0% and consequently, Killam is exposed to short-term interest rate risk on these loans.

An annualized 100 basis point change in the interest rate on Killam's entire mortgage and vendor debt at March 31, 2014, would affect financing costs by approximately $7.2 million per year. However, only $142.3 million of Killam's fixed mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, except at a 100 basis point increase in interest rates, financing costs would increase by $1.3 million per year.

A 25 basis point change in the fixed forward interest rate hedge related to two of Killam's mortgages at March 31, 2014, would affect OCL by $0.1 million.

(ii) 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 the tenant receivables as at each of the period-ends presented in these financial statements. The maximum exposure to credit risk is the carrying amount of each class of financial assets as disclosed in this note.

(iii) Liquidity risk

Management manages the Company's cash resources based on financial forecasts and anticipated cash flows. 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, thereby 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. Management does not anticipate liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector.

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

17. Financial Risk Management Objectives and Policies (continued)

During the three months ended March 31, 2014, the Company refinanced $36.8 million of maturing apartment mortgages with new mortgages totaling $52.9 million for net proceeds of $16.1 million. There were no maturing MHC mortgages during the three months ended March 31, 2014.

The following table presents the contractual maturities of the Company's liabilities over the next five years:

For the twelve months ended March 31,	Mortgage and loans payable	Construction loans	Convertible debentures	**Total**
2015	$145,346	$15,667	$ -	**$161,013**
2016	106,204	-	-	**106,204**
2017	107,658	-	-	**107,658**
2018	67,080	-	57,500	**124,580**
2019	111,120	-	46,000	**157,120**
Thereafter	182,310	-	-	**182,310**
	$719,718	$15,667	$103,500	**$838,885**

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, issue new shares, issue debt securities or adjust mortgage financing on properties.

The Company monitors capital using a total debt to total assets ratio. The Company's strategy is to maintain its total debt to total assets ratio between 55-65%. The calculation of the total debt to total assets is summarized as follows:

As at	**March 31, 2014**	December 31, 2013
Mortgages, loans payables and construction loans	**$723,366**	$713,905
Convertible debentures	**96,797**	96,419
Total debt	**$820,163**	$810,324
Total assets	**$1,550,953**	$1,532,431
Total debt as a percentage of total assets	**52.9%**	52.9%

The above calculation 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 as at March 31, 2014, would increase the debt as a percentage of assets by 90 bps.

Dollar amounts in thousands of Canadian dollars (except share, per share or as noted amounts)

17. Financial Risk Management Objectives and Policies (continued)

Fair Value Measurement

Financial instruments are defined as a contractual right or obligation to receive or deliver cash or another financial asset. The following table presents the classification, subsequent measurement, carrying values and fair values of the Company's financial assets and liabilities:

		March 31, 2014		December 31, 2013	
Classification	Subsequent Measurement	Carrying Value	Fair Value	Carrying Value	Fair Value
Other Financial Liabilities:					
Mortgages (b)	Amortized cost	$707,699	$751,465	$699,130	$748,806
Convertible debentures (a)	Amortized cost	$96,797	$104,676	$96,419	$100,461
Derivative Liability:					
Forward interest rate hedge (c)	Fair value	$88	$88	$ -	$ -

The fair value of cash and cash equivalents, as well as the Company's short-term financial instruments, comprising accounts receivable, restricted cash, accounts payable and accrued liabilities, security deposits, loans and construction loans approximated the carrying value due to their short-term nature or because they are based on current market rates.

(a) The fair value of the convertible debentures are based on a quoted market price as at the reporting date (level 1).

(b) The fair value of mortgages are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions (level 2).

The interest rates used to discount the estimated cash flows, when applicable, are based on the 5-year government yield curve at the reporting date, plus an adequate credit spread, and were as follows:

As at	**March 31, 2014**	December 31, 2013
Mortgages - Apartments	**2.38%**	2.60%
Mortgages - MHCs	**4.18%**	4.45%

(c) The valuation of the forward interest rate hedge is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. The fair value is determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The Company considers the impact of credit valuation adjustments to reflect both its risk and the counterparty's risk in the fair value measurement of the forward interest rate hedge agreement (level 2).

As at March 31, 2014, the Company did not have any financial assets or liabilities measured at fair value, except for the forward interest rate hedge, on the condensed consolidated statements of financial position.

18. Related Party Transactions

Killam has contracted APM Construction Services Inc. ("APM") to act as Project Manager on the new construction project in St. John's, NL. APM was previously the Project Manager on The Plaza, which was completed in May 2013. APM is an entity controlled by a director of Killam. APM will be paid an industry standard management fee of approximately 4% of the construction costs. For the three months ended March 31, 2014, Killam paid APM $0.1 million for construction management services (March 31, 2013 - $0.1 million).

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a Company controlled by an executive and director of Killam. In addition, the property manager for the commercial complex is controlled by the executive and director and is paid an industry standard property management fee.

19. Subsequent Events

On April 17, 2014, the Company announced a dividend of $0.05 per share, payable on May 15, 2014, to shareholders of record on April 30, 2014.

On April 15, 2014, Killam acquired an 83-unit apartment building in Halifax, NS. The purchase price of $18.6 million was funded with a new ten-year CMHC insured mortgage of $13.0 million carrying interest of 3.5%, and the balance with cash.