Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2015 and 2014

(Unaudited)

Condensed Consolidated Interim Statements of Financial Position

In thousands of Canadian dollars,
(Unaudited)

	Note	March 31, 2015	December 31, 2014
ASSETS			
Non-current assets			
Investment properties	[3]	**$1,778,324**	$1,733,895
Property and equipment	[5]	**4,978**	4,854
Loan receivable		**4,000**	4,000
Other non-current assets		**4**	6
		1,787,306	1,742,755
Current assets			
Cash		**19,890**	18,847
Rent and other receivables		**2,238**	1,954
Inventory		**147**	139
Other current assets		**17,909**	11,539
		40,184	32,479
TOTAL ASSETS		**$1,827,490**	$1,775,234
EQUITY AND LIABILITIES			
Shareholders' equity		**$661,002**	$648,029
Accumulated other comprehensive loss ("AOCL")	[17]	**(188)**	(198)
Non-controlling interest		**14,879**	14,852
Total Equity		**675,693**	662,683
Non-current liabilities			
Mortgages and loans payable	[7]	**756,965**	729,474
Convertible debentures	[9]	**98,372**	97,967
Other liabilities		**5,285**	1,916
Deferred tax		**108,710**	105,958
		969,332	935,315
Current liabilities			
Mortgages and loans payable	[7]	**124,334**	115,248
Construction loans	[8]	**27,354**	31,944
Accounts payable and accrued liabilities		**30,777**	30,044
		182,465	177,236
Total Liabilities		**1,151,797**	1,112,551
TOTAL EQUITY AND LIABILITIES		**$1,827,490**	$1,775,234

See accompanying notes to the condensed consolidated interim financial statements.

Approved on Behalf of the Board

____________________________ Director

____________________________ Director

Condensed Consolidated Interim Statements of Income and Comprehensive Income

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

(Unaudited)

	Note	**Three months ended March 31, 2015**	Three months ended March 31, 2014
Property revenue		**$39,536**	$35,065
Property operating expenses		**(18,881)**	(17,445)
Net operating income		**20,655**	17,620
Other income			
Equity income	[6]	**-**	168
Home sales	[12]	**4**	10
Corporate income		**374**	178
		378	356
Other expenses			
Financing costs	[13]	**(9,113)**	(8,610)
Depreciation		**(180)**	(145)
Amortization of deferred financing costs		**(463)**	(412)
Administration		**(2,155)**	(1,763)
		(11,911)	(10,930)
Income before fair value gains, gain on disposition and income taxes		**9,122**	7,046
Fair value gains	[3]	**793**	-
Gain on disposition		**-**	94
Income before income taxes		**9,915**	7,140
Deferred tax expense		**(2,747)**	(2,085)
Net income		**$7,168**	$5,055
Other comprehensive loss			
Item that may be reclassified subsequently to net income			
Amortization of loss in AOCL to finance costs (net of tax $4)	[17]	**10**	-
Unrealized loss on forward interest rate hedge (net of tax $26)	[17]	**-**	(62)
Comprehensive income		**$7,178**	$4,993
Net income attributable to:			
Common shareholders		**6,922**	4,869
Non-controlling interest		**246**	186
		$7,168	$5,055
Comprehensive income attributable to:			
Common shareholders		**6,932**	4,807
Non-controlling interest		**246**	186
		$7,178	$4,993
Net income per share attributable to common shareholders:			
-basic		**$0.11**	$0.09
-diluted		**$0.11**	$0.09

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

In thousands of Canadian dollars,
(Unaudited)
Three months ended March 31, 2015

	Share Capital	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non-Controlling Interest	Total Equity
At January 1, 2015	**$459,138**	**$2,417**	**$5,681**	**$180,793**	**$ (198)**	**$14,852**	**$662,683**
Net income	**-**	**-**	**-**	**6,922**	**-**	**246**	**7,168**
Amortization of loss on forward interest rate hedge	**-**	**-**	**-**	**-**	**10**	**-**	**10**
Dividends	**-**	**-**	**-**	**(9,203)**	**-**	**-**	**(9,203)**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(219)**	**(219)**
Dividend reinvestment plan	**1,010**	**-**	**-**	**-**	**-**	**-**	**1,010**
Stock options exercised	**2,191**	**(274)**	**-**	**-**	**-**	**-**	**1,917**
Share-based compensation	**-**	**409**	**-**	**-**	**-**	**-**	**409**
Issuance of shares for acquisitions	**12,000**	**-**	**-**	**-**	**-**	**-**	**12,000**
Restricted share units redeemed	**147**	**(229)**	**-**	**-**	**-**	**-**	**(82)**
At March 31, 2015	**$474,486**	**$2,323**	**$5,681**	**$178,512**	**$(188)**	**$14,879**	**$675,693**

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

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

In thousands of Canadian dollars,
(Unaudited)

		Three months ended March 31, 2015	Three months ended March 31, 2014
OPERATING ACTIVITIES			
Net income		**$7,168**	$5,055
Add (deduct) items not affecting cash			
Fair value gains	[3]	**(793)**	-
Depreciation and amortization		**643**	557
Non-cash compensation expense		**13**	21
Equity income		**-**	(168)
Deferred income taxes		**2,747**	2,085
Gain on disposition		**-**	(94)
Financing costs	[13]	**9,113**	8,610
Interest paid	[16]	**(7,770)**	(7,114)
Net change in non-cash operating activities	[16]	**(5,751)**	2,318
Cash provided by operating activities		**$5,370**	$11,270
FINANCING ACTIVITIES			
Increase in deferred financing		**(1,292)**	(1,928)
Proceeds on issuance of common shares		**1,863**	583
Mortgage financing		**47,033**	52,894
Mortgages repaid on maturity		**(18,661)**	(36,757)
Mortgage principal repayments		**(6,513)**	(5,781)
Proceeds from construction loans		**5,410**	892
Construction loans repaid on maturity		**(10,000)**	-
Distributions paid to non-controlling interest		**(219)**	(239)
Dividends		**(8,083)**	(7,439)
Cash provided by financing activities		**$9,538**	$2,225
INVESTING ACTIVITIES			
Increase in restricted cash		**(1,562)**	(1,015)
Increase in investment in joint venture, net of distributions		**-**	114
Net proceeds on sale of land		**-**	134
Acquisition and development of investment properties, net of debt assumed		**(7,464)**	(24,237)
Capital expenditures		**(4,839)**	(4,532)
Cash used in investing activities		**$(13,865)**	$(29,536)
Net increase (decrease) in cash		**1,043**	(16,041)
Cash, beginning of the period		**18,847**	27,678
Cash, end of period		**$19,890**	$11,637

See accompanying notes to the condensed consolidated interim 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 interim financial statements comprise the financial statements of Killam and its subsidiaries as at March 31, 2015**.** 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 interim financial statements of the Company for the period ended March 31, 2015, were authorized for issue in accordance with a resolution of the Board of Directors on May 5, 2015.

2. Significant Accounting Policies

(A) Statement of Compliance

These condensed consolidated interim 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 interim 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 interim 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, per share or as noted amounts.

The condensed consolidated interim 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 in Note 2 to the consolidated financial statements for the year ended December 31, 2014, and, after the changes described in Note 2(c), have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The operating results for the three months ended March 31, 2015, are not necessarily indicative of results that may be expected for the full year ended December 31, 2015, due to seasonal variations in property expenses and other factors.

(C) Basis of Consolidation

On March 31, 2015, the Company acquired 50% of the shares of a Corporation, which owns vacant land for future development. The Company has determined that it controls the Corporation, and therefore consolidates the Corporation's assets, liabilities and the results of its operations. As the Company will purchase the remaining 50% of the shares in the Corporation upon completion of the development, the non-controlling interest is recorded as a liability, and is included in other non-current long-term liabilities.

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

3. Investment Properties

As at and for the period ended March 31, 2015

Segment	Apartments	MHCs	Other	IPUC	Total
Level	3	3	3	3	
Balance, beginning of period	**$1,568,203**	**$122,629**	**$2,223**	**$40,840**	**$1,733,895**
Fair value gains included in net income					
Fair value gains on investment property	-	-	-	**793**	**793**
Acquisitions					
Acquisitions	-	-	**22,315**	**10,701**	**33,016**
Other movements					
Transfer from IPUC	**9,199**	-	-	**(9,199)**	-
Transfer to IPUC	**(2,300)**	-	-	**2,300**	-
Capital expenditure on investment property	**4,108**	**422**	**5**	-	**4,535**
Capital expenditure on IPUC	-	-	-	**5,658**	**5,658**
Interest capitalized on IPUC	-	-	-	**427**	**427**
Balance, end of period	**$1,579,210**	**$123,051**	**$24,543**	**$51,520**	**$1,778,324**

As at and for the year ended December 31, 2014

Segment	Apartments	MHCs	Other	IPUC	Total
Level	3	3	3	3	
Balance, beginning of year	$1,334,153	$115,414	$2,176	$24,373	$1,476,116
Fair value (losses) gains included in net income					
Fair value (losses) gains on investment property	(298)	4,730	-	336	4,768
Acquisitions and dispositions					
Acquisitions	231,618	-	-	-	231,618
Dispositions	(41,464)	(40)	-	-	(41,504)
Other movements					
Transfer from IPUC	14,098	-	-	(14,098)	-
Capital expenditure on investment property	30,096	2,525	47	-	32,668
Capital expenditure on IPUC	-	-	-	29,013	29,013
Interest capitalized on IPUC	-	-	-	1,216	1,216
Balance, end of year	$1,568,203	$122,629	$2,223	$40,840	$1,733,895

During the three months ended March 31, 2015, the Company capitalized salaries of $0.7 million (three months ended March 31, 2014 - $0.7 million), as part of its project improvement, suite renovation and development programs.

For the three months ended March 31, 2015, 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 3.83% (December 31, 2014 - 3.93%). Interest costs associated with construction loans are capitalized to the respective development using the actual borrowing rate associated with the loan.

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

3. Investment Properties (continued)

Investment properties with a fair value of $1,689.0 million at March 31, 2015, (December 31, 2014 - $1,683.4 million) 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 and quantitative information about significant unobservable inputs;
- the carrying amount or fair value of the investment property; and
- a description of the valuation technique.

Class of property	Fair value at March 31, 2015	Fair value at December 31, 2014	Valuation technique	Unobservable inputs	2015 Inputs	2014 Inputs
Apartments			Capitalization of	- Capitalization rate (weighted average)	**5.63%**	5.63%
-Level 3	**$1,579,210**	$1,568,203	net income	- Vacancy rate (weighted average)	**3.60%**	3.60%
			approach	- Management fee rate	**3.50%**	3.50%
MHCs			Capitalization of	- Capitalization rate (weighted average)	**6.69%**	6.69%
-Level 3	**$123,051**	$122,629	net income	- Vacancy rate	**1.70%**	1.70%
			approach	- Management fee rate	**3.00%**	3.00%

The investment property segment defined as Other consists of two commercial properties.

IPUC includes properties under construction, recorded at fair value of $46.2 million (December 31, 2014 - $37.8 million), and land held for future development, which is recorded at a fair value of $5.4 million (December 31, 2014 - $3.0 million).

Sensitivity Analysis

The significant unobservable inputs used in the fair value measurements categorized within Level 3 of the fair value hierarchy include 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, 2015			December 31, 2014		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments			**5.63%**			5.63%
Halifax	5.00%	7.00%	5.60%	5.00%	7.00%	5.60%
Moncton	5.15%	8.00%	5.94%	5.15%	8.00%	5.95%
Fredericton	5.15%	6.25%	5.89%	5.15%	6.25%	5.89%
Saint John	6.25%	6.75%	6.53%	6.25%	6.75%	6.53%
St. John's	5.15%	6.00%	5.86%	5.15%	6.00%	5.83%
Charlottetown	5.50%	6.20%	5.89%	5.50%	6.20%	5.89%
Ontario	4.50%	5.10%	4.95%	4.50%	5.10%	4.96%
Alberta	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Other Atlantic	5.75%	7.00%	6.79%	5.75%	7.00%	6.83%
MHCs			**6.69%**			6.69%
Ontario	7.00%	8.00%	7.25%	7.00%	8.00%	7.25%
Nova Scotia	5.75%	7.50%	6.24%	5.75%	7.50%	6.25%
New Brunswick	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Newfoundland	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

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

3. Investment Properties (continued)

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	$(27,584)	$28,582	$22,615	$25,893
MHCs	$(1,808)	$1,863	$1,594	$2,072

4. Joint Operations

The Company's interests in the following properties are subject to joint control and are joint operations. Accordingly, the Company's condensed consolidated interim statements of financial position and condensed consolidated interim statements of income and comprehensive income includes the Company's rights to and obligations for the related assets, liabilities, revenue and expenses of the properties listed below:

			Ownership as at	
Investment property/IPUC	**Acquisition Date**	**Location**	**March 31, 2015**	December 31, 2014
Silver Spear	December 9, 2014	Mississauga, ON	**50%**	50%
Kanata Lakes I	December 9, 2014	Ottawa, ON	**50%**	50%
Kanata Lakes II	September 24, 2014	Ottawa, ON	**50%**	50%
Grid 5	December 9, 2014	Calgary, AB	**50%**	50%

5. Property and Equipment

	March 31, 2015		December 31, 2014	
As at	**Cost**	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$270**	**$ -**	$270	$ -
Building	**1,824**	**168**	1,824	156
Heavy equipment	**222**	**84**	222	81
Vehicles	**1,353**	**421**	1,271	399
Furniture, fixtures and equipment	**4,302**	**3,010**	4,080	2,885
Leaseholds	**803**	**113**	803	95
	8,774	**3,796**	8,470	3,616
Less: accumulated depreciation	**(3,796)**		(3,616)	
	$4,978		$4,854	

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 carrying value of $2.0 million (December 31, 2014 - $2.0 million) is pledged as collateral against the Company's mortgages payable.

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

6. Investments in Joint Venture

The joint venture was dissolved on December 9, 2014, and Killam purchased the remaining 75% ownership interest in the properties. Subsequent to the purchase, Killam sold a 50% interest in two of the properties to a third-party and these properties are now accounted for as joint operations.

7. Mortgages and Loans Payable

As at	**March 31, 2015**		December 31, 2014	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**3.50%**	**$867,516**	3.60%	$839,813
Variable rate	**4.26%**	**8,576**	4.14%	4,760
Vendor financing	**3.08%**	**5,207**	6.81%	149
Total		**$881,299**		$844,722
Current		**124,334**		115,248
Non-current		**756,965**		729,474
		$881,299		$844,722

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, 2015, unamortized deferred financing costs of $18.2 million (December 31, 2014 - $17.2 million) and mark-to-market premiums on mortgages assumed on acquisitions of $1.2 million (December 31, 2014 – $1.2 million) are netted against mortgages and loans payable.

Estimated future principal payments required to meet mortgage obligations as at March 31, 2015, are as follows:

	Principal repayments by 12 month periods ended March 31,
2016	$124,334
2017	128,479
2018	117,236
2019	118,975
2020	175,417
Subsequent	233,854
	898,295
Unamortized deferred financing costs	(18,204)
Unamortized mark-to-market adjustments	1,208
	$881,299

7. Mortgages and Loans Payable (continued)

The Company has two credit facilities with major financial institutions, which are set out as follows:

I. 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 March 31, 2015, the Company had assets with a carrying value of $1.9 million pledged to the line and a balance outstanding of $Nil (December 31, 2014 - $Nil). The agreement includes certain covenants and undertakings of which the Company is in compliance.

II. A $1.5 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 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at March 31, 2015, the Company had assets with a carrying value of $1.1 million pledged as collateral and letters of credit totaling $1.5 million outstanding against the facility (December 31, 2014 - $1.5 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

8. Construction Loans

At March 31, 2015, the Company had access to two floating rate non-revolving demand construction loans totaling $33.2 million for the purpose of financing the development projects. 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, 2015, $27.4 million (December 31, 2014 - $31.9 million) was drawn at a weighted average interest rate of 3.80% (December 31, 2014 3.84%).

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

9. Convertible Debentures

Face Interest Rate %	Effective Interest Rate %	Conversion Price	Face Amount	Maturity	**March 31, 2015**	December 31, 2014
5.65%	7.30%	$13.40	$57,500	November 30, 2017	**$55,295**	$55,108
5.45%	6.30%	$14.60	$46,000	June 30, 2018	**44,933**	44,859
					100,228	99,967
Less: Deferred financing charges					**(1,856)**	(2,000)
					$98,372	$97,967

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)

10. 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,	**2015**		2014	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of period	**60,475,978**	**$459,138**	54,458,774	$398,181
Dividend reinvestment plan (i)	**96,438**	**1,010**	64,575	671
Stock options exercised	**234,917**	**2,191**	102,500	561
Stock issued for acquisitions	**1,092,548**	**12,000**	75,330	800
Restricted share units redeemed	**12,566**	**147**	2,733	32
Balance, end of period	**61,912,447**	**$474,486**	54,703,912	$400,245

(i) Net of issue costs of $28 (2014 - $2).

Contributed Surplus

For the three months ended March 31,	**2015**	2014
Balance, beginning of period	**$2,417**	$2,302
Stock options expensed	**-**	3
Stock options exercised	**(274)**	(67)
Restricted share units issued	**409**	390
Restricted share units redeemed	**(229)**	(32)
Balance, end of period	**$2,323**	$2,596

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

11. Share-Based Compensation

For the three months ended March 31,	**2015**	2014
Stock option plan	**$-**	$3
Restricted share unit plan	**108**	109
Total share-based compensation expense	**$108**	$112

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

	2015		2014	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of period	**367,907**	**$8.16**	550,407	$7.66
Exercised	**(234,917)**	**8.16**	(102,500)	5.71
Outstanding, end of period	**132,990**	**$8.16**	447,907	$8.10

The following table summarizes the stock options outstanding:

As at	**March 31, 2015**			December 31, 2014		
Exercise Price	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$8.16	**132,990**	**0.15 years**	**132,990**	367,907	0.40 years	367,907
	132,990		**132,990**	367,907		367,907

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

For the three months ended March 31,		**2015**		2014
	Number of Shares	**Weighted Average Issue Price**	Number of Shares	Weighted Average Issue Price
Outstanding, beginning of period	**140,513**	**$11.01**	94,345	$12.34
Granted	**61,228**	**10.87**	62,672	10.37
Redeemed	**(20,420)**	**12.64**	(2,847)	12.14
Additional restricted share distributions	**1,937**	**10.74**	1,428	10.42
Outstanding, end of period	**183,258**	**$10.78**	155,598	$11.53

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

12. Home Sales

For the three months ended March 31,	**2015**	2014
Home sales revenues	**$121**	$446
Cost of home sales	**(105)**	(420)
Operating expenses	**(12)**	(16)
Income from home sales	**$4**	$10

13. Financing Costs

For the three months ended March 31,	**2015**	2014
Mortgage, loan and construction loan interest	**$7,940**	$7,221
Amortization of fair value adjustments on assumed debt	**(122)**	(127)
Amortization of loss on interest rate hedge	**10**	-
Convertible debenture interest	**1,712**	1,683
Capitalized interest	**(427)**	(167)
	$9,113	$8,610

14. Per Share Information

The following is the weighted average number of shares outstanding for the three months ended March 31, 2015, and 2014.

For the three months ended March 31,	**2015**	2014
Weighted average shares outstanding - basic	**60,668,064**	54,605,780
Unexercised dilutive options	**214,330**	173,367
Restricted share units	**152,662**	116,367
Convertible debentures	**-**	10,147,059
Weighted average shares outstanding - diluted	**61,035,056**	65,042,573

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,	**2015**	2014
Net income applicable to common shareholders	**$6,922**	$4,869
Adjustment for dilutive effect of convertible debentures	**-**	1,178
Adjusted net income for diluted per share amounts	**$6,922**	$6,047

For the three months ended March 31, 2015, the convertible debentures were excluded from the diluted earnings per share calculation as they were anti-dilutive.

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

15. 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 Note 2. 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:

For the three months ended March 31, 2015	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$36,624**	**$2,780**	**$132**	**$39,536**
Property operating expenses	**(17,531)**	**(1,247)**	**(103)**	**(18,881)**
Net operating income	**$19,093**	**$1,533**	**$29**	**$20,655**
Home sales, equity income & corporate income	-	-	**378**	**378**
Financing costs	**(6,984)**	**(623)**	**(1,506)**	**(9,113)**
Depreciation and amortization	**(305)**	**(48)**	**(290)**	**(643)**
Administration	**(373)**	**(83)**	**(1,699)**	**(2,155)**
Income before fair value gains and income taxes	**$11,431**	**$779**	**$(3,088)**	**$9,122**
Total assets	**$1,597,382**	**$149,540**	**$80,568**	**$1,827,490**
Total liabilities	**$864,662**	**$57,816**	**$229,319**	**$1,151,797**
Capital expenditures on investment properties	**$4,108**	**$422**	**$5**	**$4,535**

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 operating 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 on investment properties	$3,934	$223	$4	$4,161

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)

16. Supplemental Cash Flow Information

For the three months ended March 31,	**2015**	2014
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$7,770**	$7,114
Changes in non-cash operating assets and liabilities		
Rent and other receivables	**$(285)**	$(637)
Inventory	**(8)**	166
Other current assets	**(4,809)**	(3,647)
Accounts payable and other liabilities	**(649)**	6,436
	$(5,751)	$2,318

17. Accumulated Other Comprehensive Loss

For the three months ended March 31,	**2015**	2014
Balance, beginning of the period	**$(198)**	$-
Amortization of loss in AOCL to finance costs (net of tax $4)(1)	**$10**	$-
Unrealized loss of forward interest rate hedge (net of tax $26)	**-**	(62)
Balance, end of the period	**$(188)**	$(62)

(1) The cumulative aggregate loss of $188 thousand on the forward interest rate hedge will be amortized into net income as financing costs over the mortgage term, which ends in September 2020.

18. 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 bond yields, 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 2014 and has not entered into any derivative transactions in 2015. 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, at times, 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, 2015, no mortgages or vendor debt had floating interest rates except for six demand loans totaling $8.6 million. These loans have an interest rate of prime plus 1.0% - 2.0% (December 31, 2014 - prime plus 1.0% - 2.0%). Killam also has two construction loans totaling $27.4 million with floating interest rates ranging from prime to prime plus 1.0% and consequently, Killam is exposed to short-term interest rate risk on these loans.

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

18. Financial Risk Management Objectives and Policies (continued)

An annualized 100 basis point change in the interest rate on Killam's entire mortgage and vendor debt at March 31, 2015, would affect financing costs by approximately $8.9 million per year. However, only $91.5 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 $0.9 million per year.

(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.

During the three months ended March 31, 2015, the Company refinanced $18.7 million of maturing apartment mortgages with new mortgages totaling $31.5 million for net proceeds of $12.8 million.

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
2016	$124,334	$27,354	$ -	**$151,688**
2017	128,479	-	-	**128,479**
2018	117,236	-	57,500	**174,736**
2019	118,975	-	46,000	**164,975**
2020	175,417	-	-	**175,417**
Thereafter	233,854	-	-	**233,854**
	$898,295	$27,354	$103,500	**$1,029,149**

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

18. Financial Risk Management Objectives and Policies (continued)

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, 2015**	December 31, 2014
Mortgages, loans payables and construction loans	**$908,653**	$876,666
Convertible debentures	**98,372**	97,967
Total debt	**$1,007,025**	$974,633
Total assets	**$1,827,490**	$1,775,234
Total debt as a percentage of total assets	**55.1%**	54.9%

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, 2015, would increase the debt as a percentage of assets by 90 bps.

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, 2015		December 31, 2014	
Classification	Subsequent Measurement	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Loan receivable (a)	Amortized cost	**$4,000**	**$4,025**	$ 4,000	$ 4,027
Financial Liabilities:					
Mortgages (b)	Amortized cost	**$881,299**	**$946,158**	$844,722	$941,158
Convertible debentures (c)	Amortized cost	**$98,372**	**$104,820**	$97,967	$103,996

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, which approximate carrying value due to their short-term nature or because they are based on current market rates.

(a) The fair value of the loan receivable is 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 receive or pay in actual market transactions (level 2).

(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).

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

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

18. Financial Risk Management Objectives and Policies (continued)

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, 2015**	December 31, 2014
Mortgages - Apartments	**1.55%**	2.11%
Mortgages - MHCs	**3.35%**	3.91%

As at March 31, 2015, and December 31, 2014, the Company did not have any financial assets or liabilities measured at fair value on the consolidated statements of financial position.

19. Related Party Transactions

Killam contracted APM Construction Services Inc. (“APM”) to act as Project Manager on a development project in St. John's, NL, which was completed in March 2015. APM is an entity controlled by a director of Killam. APM was paid an industry standard management fee of approximately 4% of the construction costs. For the three months ended March 31, 2015, Killam paid APM $24 thousand for construction management services (March 31, 2014 - $0.1 million). As of March 31, 2015, Killam does not have any construction projects on-going with APM.

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. Occasionally, Killam will also pay market leasing placement fees, to the company controlled by an executive and director of Killam, for placement of a commercial tenant in a property owned by Killam.

On March 31, 2015, Killam acquired the Brewery Market, located in Halifax, NS, from Halkirk Properties Limited, for $22.3 million, which is partially owned by a director of Killam. Killam also acquired a 50% interest in a Corporation, which owns vacant land adjacent the Brewery Market for future development. The remaining 50% is also owned by Halkirk Properties Limited.

20. Subsequent Events

On April 17, 2015, the Company announced a dividend of $0.05 per share, payable on May 15, 2015, to shareholders of record on April 30, 2015.