2014 Management's Discussion & Analysis

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

TABLE OF CONTENTS

2014 Management's Discussion & Analysis

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

PART I

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 2014, and 2013. The consolidated financial statements for the years ended December 31, 2014, and 2013, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These documents, along with the Company's 2013 Annual Information Form, are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at February 17, 2015.

Forward-looking Statements

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

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

Non-IFRS Measures

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

- Net operating income ("NOI") is calculated by the Company as income from property operations. The use of NOI when referring to a particular segment is calculated as property revenue less property operating costs for that segment.
- Funds from operations ("FFO") are calculated by the Company as net income plus deferred tax expense, depreciation on owner-occupied property, loss on disposition, fair value losses and tax planning costs relating to the Company's potential REIT conversion, less fair value gains and non-controlling interest. Killam's definition of FFO is calculated in accordance with the REALpac definition except for the add back of REIT tax planning costs as noted above as REALpac does not address this specific type of adjustment.
- Adjusted funds from operations ("AFFO") are calculated by the Company as FFO less the industry standard of $450 per apartment unit for "maintenance" versus "NOI enhancing" related capital costs and $100 per Manufactured Home Community ("MHC") site, although the MHC industry does not have a standard amount for "maintenance" related capital costs.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2014 and 2013 (90% of the portfolio based on the December 31, 2014, unit count).
- Capitalization Rate ("cap-rate") is the rate calculated by dividing the forecasted NOI from a property by the property's purchase price.
- Interest coverage is calculated by dividing the earnings before interest, tax, depreciation, and fair value adjustments by interest expense.
- Debt service coverage is calculated by dividing the earnings before interest, tax, depreciation, and fair value adjustments by interest expense and principal mortgage repayments.

2014 Management's Discussion & Analysis

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

PART II

Business Overview

Killam Properties Inc., based in Halifax, Nova Scotia ("NS"), is one of Canada's largest residential landlords, owning, operating, managing and developing multi-family residential and MHC properties. Killam's 171 apartment properties are located in Atlantic Canada's six largest urban centres and in Ontario ("ON") and Calgary, Alberta ("AB"). The Company's 35 MHCs are located in Ontario and Atlantic Canada. The value of Killam's real estate assets at December 31, 2014, was $1.7 billion. Killam is focused on increasing FFO per share, growing its portfolio and maximizing the value of its properties.

Killam was founded in 2000, based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and MHCs across Canada. Killam's first apartment was purchased in 2002 and its first MHC was purchased in 2003. From 2002 to 2009, Killam's apartment portfolio grew through the acquisition of properties in Atlantic Canada's six largest cities, namely Halifax, Moncton, Saint John, Fredericton, St. John's and Charlottetown. Killam is now Atlantic Canada's largest residential landlord, with a 13.8% market share of the multi-family rental units in these core markets.

Killam entered the Ontario apartment market in 2010, and today has investments in fifteen properties in the province, including assets in Toronto, Ottawa, London and Cambridge. In 2014, Killam acquired its first apartment property in Calgary. Killam plans to expand its presence in Ontario and Western Canada with additional acquisitions and developments.

Since 2010, Killam has complemented its acquisition program with the construction of apartment buildings, completing five projects to-date. Currently, the Company has three projects under construction totaling 294 units expected to be completed in 2015 and 2016. The apartment business is Killam's largest business segment, accounting for 90% of the Company's NOI from property operations and equity income for the year ended December 31, 2014. At December 31, 2014, Killam's apartment portfolio consisted of 13,427 units.

In addition, the Company owns MHCs, also known as land-lease communities or trailer parks. Killam owns the land and infrastructure supporting each community and leases the lots to tenants, who own their own homes and pay Killam a monthly site rent. Killam owns 35 communities (5,165 sites) which accounted for 10% of Killam's NOI for the year ended December 31, 2014.

Key Performance Indicators ("KPIs")

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

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

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

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

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

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

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

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

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

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

2014 Management's Discussion & Analysis

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

Financial and Operational Highlights

The following table presents a summary of Killam's financial and operating performance for the years ended December 31, 2014, and 2013:

Results of Operations

	2014	2013	Change
Property revenue	**$147,507**	$141,112	4.5%
NOI	**$84,601**	$83,040	1.9%
Income before fair value gains, loss on disposition and income taxes	**$41,177**	$40,064	2.8%
Fair value gains	**$4,768**	$13,070	(63.5)%
Net income attributable to common shareholders	**$29,772**	$39,779	(25.2)%
Earnings per share (basic)	**$0.54**	$0.74	(27.0)%
FFO	**$40,162**	$38,770	3.6%
FFO per share (basic)	**$0.73**	$0.72	1.4%
FFO per share (diluted)	**$0.72**	$0.71	1.4%
AFFO per share (basic)	**$0.61**	$0.60	1.7%
AFFO per share (diluted)	**$0.61**	$0.60	1.7%
Weighted average shares outstanding (basic) (000's)	**55,394**	54,143	2.3%

Same Store Results

	2014	2013	Change
Same store revenue	**$129,419**	$127,256	1.7%
Same store expenses	**(55,967)**	(53,171)	5.3%
Same store NOI	**$73,452**	$74,085	(0.9)%

Balance Sheet

	2014	2013	Change
Investment properties	**$1,733,895**	$1,476,116	17.5%
Total assets	**$1,775,234**	$1,532,431	15.8%
Total liabilities	**$1,112,551**	$928,371	19.8%
Total equity	**$662,683**	$604,060	9.7%

Ratios

	2014	2013	Change
Total debt to total assets	**54.9%**	52.9%	200 bps
Weighted average mortgage interest rate	**3.60%**	4.05%	(45) bps
Weighted average years to debt maturity	**4.4**	3.9	0.5 years
Interest coverage	**2.18x**	2.11x	3.3%
Debt service coverage	**1.32x**	1.36x	(2.9)%

Summary of 2014 Results and Operations

Acquisitions and Developments Drive Revenue Growth of 4.5% and Increased Geographic Diversification

Killam generated revenue growth of 4.5% in 2014 from its existing portfolio, $160.2 million in property acquisitions and $13.9 million in developments. $97.1 million, or 61% of the total acquisition activity, took place in December 2014, providing significant revenue growth opportunity for 2015. $114.4 million of acquisitions and $69.6 million of development projects completed throughout 2013 also contributed to revenue growth in the year.

Of the acquisitions completed in 2014, $134.0 million (84%) related to the acquisitions of properties outside of Atlantic Canada, increasing the Company's geographic diversification. This included the Company's first apartment acquisition in Calgary, a 50% interest in a 307-unit, $100 million asset. With the completion of these acquisitions, Killam's future NOI generated from its portfolio outside of Atlantic Canada is expected to increase to 22% from 13% in 2014.

Consolidated Same Store Revenue Growth of 1.7%

Killam's same store revenue grew by 1.7% compared to 2013, including 1.6% from the apartment portfolio and 2.9% from the MHC portfolio. Same store revenue growth was achieved through a 1.3% and 2.9% increase in rental rates related to the apartment and MHC portfolios. The apartment portfolio also improved same store annualized occupancy by 50 basis points ("bps"), resulting in $0.5 million of additional revenue. These gains were partially offset by higher rental incentives due to increased competition in certain of the Company's core markets in Atlantic Canada as a result of increased supply.

All regions contributed positively to revenue growth with the largest gains observed in Saint John (4.5%), Charlottetown (3.2%) and Ontario (2.8%). The Halifax market, which comprises approximately 45% of the Company's same store apartment NOI, also contributed to rental growth, posting a 0.6% increase in revenues, and achieving a 1.8% increase in residential rents despite higher than normal levels of supply being introduced into the market over the last two years. The improved top-line growth in all regions reflects the Company's continued focus on marketing and leasing, as well as the quality and location of the Company's assets.

13% Increase in Same Store Utility & Energy Costs Resulted in a 0.9% Decline in Same Store NOI

During 2014, the Company continued to experience volatility in natural gas pricing in Atlantic Canada compared to other regions in Canada as a result of pipeline capacity constraints and increased natural gas demand in New England. The Company experienced record high natural gas pricing in the first quarter of 2014, as well as higher than market pricing during off-peak months as the Company's Nova Scotia distributor had price-fixed the rate for a large portion of its consumption for the year. This translated into an increase of 25%, or $1.2 million, in same store natural gas costs year-over-year. The Company also absorbed significant water rate increases introduced in Halifax in April 2014, resulting in an increase of 11% in same store water costs. These increases were partially offset by savings in oil costs as a result of lower pricing in the fourth quarter of 2014.

Killam managed controllable costs, limiting same store operating expenses to an increase of 1.8% by a continued focus on efficiencies and a reduction of discretionary spending. As well, Killam realized only a 1.4% increase in property taxes as a result of successful assessment appeals. Overall, same store expense increases of 5.3% resulted in a 0.9% decline in same store NOI in 2014.

Interest Cost Savings on Refinancings

Killam successfully refinanced $121.0 million of maturing apartment mortgages at a weighted average interest rate of 2.72%, 220 bps lower than the weighted average interest rate prior to refinancing. The Company also refinanced $13.5 million of MHC mortgages at a weighted average interest rate of 3.78%, 215 bps lower than the weighted average interest rate prior to refinancing. This resulted in decreased interest expense, even with a $58.4 million increase in mortgage balances from refinancing.

1.4% Increase in FFO

Killam increased FFO per share (diluted) to $0.72 during 2014 from $0.71 in 2013, an increase of 1.4%. Earnings associated with new acquisitions and developments, and interest cost savings on refinancings were partially offset by increased utility and energy costs, a reduction in NOI related to the disposition of ten MHCs in November 2013, higher administration expenses and an 2.3% increase in the weighted average number of shares outstanding.

2014 Management's Discussion & Analysis

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

Performance Compared to 2014 Key Objectives

Consolidation of Multi-family Residential Real Estate Market and Increase Investment in New Properties	
2014 Target	Complete a minimum of $75 million in acquisitions and continue to develop two current development projects on schedule and within 5% of budget.
2014 Performance	Killam completed $160.2 million in acquisitions in 2014, which exceeded the minimum target set for the year. $156.6 million represents the acquisition of four apartment buildings, a 50% interest in a property in Calgary, a 50% interest in a property in Ottawa and additional ownership interests in three properties located in Ontario previously held as part of a joint venture. In addition, Killam acquired a four-unit property in Halifax with land for future development for $1.5 million, acquired the leasehold interest in land under an existing Killam apartment for $1.6 million and acquired an additional 1.7% interest in Garden Park Apartments located in Halifax for $0.5 million. Killam's two developments, Chelsea Place (St. John's, NL) and Saginaw Gardens (Cambridge, ON), have remained on budget. Their scheduled completion has been extended by approximately three months from their originally expected completion date. Killam completed the first phase of the two-phase development in St. John's in December 2014. The first phase of this project was completed on budget and represents the addition of 63 units to the portfolio. This building is currently 84% leased and is expected to be fully occupied by mid-2015. The second phase is expected to be completed by the end of the first quarter in 2015 and is 62% pre-leased. The development in Cambridge is currently on budget, expected to be finished construction in the second quarter of 2015 and fully leased within 12-18 months.

Geographic Diversification	
2014 Target	Killam's goal is to invest more than 50% of its 2014 acquisition program outside Atlantic Canada, with a focus on Ontario.
2014 Performance	During 2014 Killam completed $84.0 million of acquisitions in Ontario and a $50 million acquisition in Calgary. This represents 83.7% of the total acquisitions completed in 2014 and exceeds the geographic diversification target set for 2014. These acquisitions increased the percentage of Killam's apartment NOI and equity income generated outside of Atlantic Canada to 13.5% in 2014 from 10.4% in 2013. The Company expects this percentage to increase to 22% during 2015 based on the portfolio at December 31, 2014. The Company continues to seek opportunities to acquire multi-family residential apartments outside of Atlantic Canada.

Growth in Same Store Net Operating Income	
2014 Target	Same Store NOI growth of 0% to 2% (reduced to negative 1% to 0% in Q2-2014).
2014 Performance	Killam posted consolidated same store revenue growth of 1.7% during 2014 from increased rental rates and increased occupancy despite competitive leasing markets related to increased apartment supply in a number of key cities in Atlantic Canada. These gains were offset by a 13.0% increase in same store utility and energy costs due to higher natural gas pricing, resulting in a decrease in same store NOI of 0.9% for the year.

2014 Management's Discussion & Analysis

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

2015 Targets

Growth through Acquisitions and Development	Complete a minimum of $75 million in acquisitions and complete two development projects within 5% of budget.
Geographic Diversification	Killam's 2015 acquisition program is to include over 50% of acquisitions outside of Atlantic Canada, with a focus on Ontario and Alberta.
Growth in Same Store Net Operating Income	Same Store NOI growth of 0% to 2%.

2015 Outlook

Developments to Contribute to FFO

Development projects are expected to contribute positively to FFO per share growth in 2015. The second phase of Chelsea Place, representing 39 of the 102-unit development in St. John's, will be completed in the first quarter of 2015 and Saginaw Gardens, the 122-unit building in Cambridge, is expected to be completed during the second quarter. Both projects are expected to contribute positively to FFO during the year. The first phase of Chelsea Place, representing 63 units, was completed in December 2014 and is expected to be fully leased by mid-2015. In addition, two of Killam's developments completed in 2013, The Plaza and S2, completed their lease-up during the second half of 2014 and will generate a full year of stabilized earnings in 2015, also contributing to FFO growth.

NOI growth for Same Store Properties

Management expects to generate positive same store NOI growth in 2015 driven by revenue growth and moderate expense increases. Economic growth in Atlantic Canada and an anticipated decrease in the number of Atlantic Canadians moving west given lower oil prices are expected to contribute to stable occupancy levels in 2015. Coupled with expected average rental rate increases of between 1.0% to 2.0% in the year, Management expects to see top line growth. As well, expense growth is expected to be moderate in 2015, benefiting from savings in oil costs, less volatile natural gas costs and energy efficiencies.

Natural Gas Pricing to Remain Uncertain in Near-Term

Constrained natural gas pipeline and storage capacity in New England and Atlantic Canada, coupled with increased demand from utilities in New England and colder than normal weather in the winter of 2014, resulted in volatile natural gas prices over the last two years. Management is encouraged by the fact the Northeastern US is also exposed to these gas supply constraints and resulting price volatility, so there is strong motivation to find a permanent solution. Projects are already underway to address the pricing issue, including the construction of a natural gas storage facility in Nova Scotia by AltaGas and proposed pipeline expansions in New England.

Drilling of three natural gas storage wells, located 60 kilometers from Halifax, began in August 2014 and may be ready for gas storage starting in the spring of 2017. The initial capacity of the storage facility will be 4.5 billion cubic feet (Bcf), with the potential to expand to 10 Bcf. Heritage Gas ('Heritage"), Killam's natural gas distributor in Nova Scotia and a subsidiary of AltaGas, is expected to complete a 20-year storage agreement for 4.0 Bcf, subject to regulatory approval. The project will allow Heritage to purchase and store natural gas at low summer rates and access the gas during periods of higher pricing during cold weather, resulting in more affordable natural gas prices in Nova Scotia during the winter months.

Capacity solutions are also underway in New England. Spectra Energy has proposed three pipeline expansion projects which are expected to lead to more stable and affordable gas prices in New England in the future. These projects include the Algonquin Incremental Market (AIM) Project, the Atlantic Bridge Project and the New England Energy Reliability Solution. Timing for the three projects varies, but could result in more moderate pricing starting as early as 2016. All three projects are projected to be completed by 2018.

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

To mitigate natural gas price volatility, Killam's NS gas distributor has supply contracts in place for approximately 60% of its winter gas requirement, reducing Killam's exposure to the volatile Algonquin Citygate day markets. Management estimates that approximately 40% of its natural gas exposure is fixed through Heritage's supply contracts, leaving an estimated 60% of costs floating. Management expects its natural gas prices to fluctuate during the winter months until longer term infrastructure solutions are completed; however price increases to the levels experienced in 2013 and 2014 are not anticipated.

Interest Savings on Refinancings

Killam has approximately $89.5 million of mortgage debt maturing in 2015 with a weighted average interest rate of 4.50%. Based on current bond yields for 5-year and 10-year debt, and an expectation for yields to stay low in the short-term, Management expects to refinance its maturing mortgages at lower interest rates, creating interest expense savings.

Management expects to upfinance $30 - $35 million from maturing mortgages using a combination of 5-year and 10-year debt in 2015. Assuming an average interest rate of 3.0% on refinancings, Killam could generate annualized interest savings of approximately $0.4 million. The Company has refinanced three maturing mortgages representing $13.0 million of maturing debt at a weighted average interest rate of 2.81%, 303 bps lower than the weighted average interest rate prior to refinancing.

Large Economic Projects in Atlantic Canada

Large economic projects are expected to drive economic and population growth in Atlantic Canada in 2015, especially in Nova Scotia. With the completion of the modernization of its Halifax shipyard, Irving Shipbuilding Inc. expects to begin construction of the first phase of its $25 billion shipbuilding contract starting in September 2015. This project is expected to generate jobs in Halifax, and contribute positively to the economy. In New Brunswick, Irving's $450 million investment in its Mill Upgrade is contributing positively to the Saint John economy. A summary of large economic projects, either proposed or underway, include:

Province	Project(1)	Commitment/ Size ($)	Term	Estimated # of Jobs	Comments
Nova Scotia	Irving Shipbuilding Contract	$25 billion	25-year contract	1,000-1,500 direct up to 11,500 indirect	Irving is finishing a $350 million modernization of the Halifax Shipyard and expects to begin cutting steel in September 2015.
	Energy Exploration off NS Coast	$2.1 billion (British Petroleum and Shell Canada)	6 years (exploration phase)	Not available	This offshore oil activity has the potential for long-term investment and employment opportunities in the region.
	Various Halifax Construction Projects	$1-2 billion	3-4 years	Not available	Investment made in a new convention centre, two new military facilities and various real estate projects.
New Brunswick	Energy East Pipeline	$12 billion (proposed total project cost)	6 years (development phase)	3,700 during development; 385 during 40-year operating phrase	Application to National Energy Board in October 2014. An estimated $2.8 billion GDP contribution for NB during this project.
	Saint John Mill Upgrade	$450 million	4-5 years	600 direct	Two phase upgrade began in 2014, corresponding with a 20% increase in the NB softwood that will be made available to the forestry industry.
Newfoundland and Labrador	Muskrat Falls Hydro Project	$7.8 billion	5 years	1,500 direct with peak of 3,100	Construction of the 824 megawatt hydroelectric dam is underway.
	Maritime Link	$1.5 billion	4 years	300 direct	Subsea cable designed to transport electricity from NL to NS. Construction began in 2014. The first power is planned for delivery in 2017.
	Hebron Oil Project	$14 billion	10 years	3,000 - 3,500 direct	Suncor has reconfirmed its commitment to Hebron (Jan 13, 2015) and expects it to come online in 2017.

(1) Project details including commitment, size, term and job growth are taken from various sources, such as company press releases, economic studies and related websites.

Business Strategy

Maximize NOI from Existing Portfolio

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

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

Growth through Acquisitions

Killam is expanding its portfolio by acquiring centrally located buildings in urban markets and is focused on expanding its ownership interest in Ontario and Alberta, as well as adding to its established portfolio in Atlantic Canada. During 2014 Killam completed $160.2 million in acquisitions, including acquisitions in Calgary, Ottawa, Halifax, Moncton, Mississauga and London Ontario.

Growth through Development

Killam enhances its growth opportunities with development. Killam started apartment developments in 2010 and has completed five properties, including four in 2013. Two additional developments will be completed in the first half of 2015. Killam's construction of new properties directly allows Killam to control the quality and features of the buildings and generate higher returns than through acquisitions. Management expects to build to a 75-125 basis point cap-rate premium over the cost to purchase a comparable asset. As well, Management expects to limit development costs to approximately 5% of the balance sheet on an annual basis.

Investment in New Properties

In addition to developing new properties, Killam also acquires newly constructed assets. Management believes that increasing Killam's ownership in new, high-quality buildings will result in above-market and long-term demand for the Company's assets from an aging population, reduce annual capital requirements for deferred maintenance, and transform Killam's portfolio, over time, into one of the highest quality portfolios in Canada. The new properties added to Killam's portfolio are condominium quality, providing tenants with features and amenities traditionally associated with ownership. The Company believes that demand for this type of rental accommodation will grow given an increasing number of homeowners reaching retirement age and looking for alternatives to home ownership. Killam is also attracted to the low capital spend requirements from new assets compared to older buildings, which often include significant capital investment to address deferred maintenance. Generally, the amount of annual capital to maintain a property increases as the building ages. In addition, with energy efficient features, the NOI margins are generally higher in newer buildings. With strong demand for the acquisition of apartments in recent years, cap-rates have declined and the pricing differential between older and newer buildings has reduced. This enables Killam to increase the amount of newer apartments in its portfolio without paying a significant premium for quality assets.

Geographic Diversification

Geographic diversification in the apartment segment is a priority for Killam. With a 13.8% market share in its core markets in Atlantic Canada, Killam is the region's largest residential landlord. The maximum market share Management foresees Killam reaching in Atlantic Canada is between 15%-18%. With Atlantic Canada representing only 5.0% of the Canadian rental market, Killam's growth opportunities increase significantly when considering assets outside Atlantic Canada.

With its strong operating platform, Killam can support a larger and more geographically diverse portfolio. The Company is actively building a portfolio in targeted markets outside of Atlantic Canada, including Ottawa, the Greater Toronto Area, Southwestern Ontario and in Alberta. An increased investment in Ontario and Western Canada will increase the Company's diversification and exposure in higher growth centres in Canada.

Based on the Company's portfolio at year-end, 22% of Killam's 2015 NOI will be generated in Ontario and Alberta. Management has set a long-term target of growing the amount of NOI generated outside of Atlantic Canada to 50%.

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

Portfolio Summary

Apartment Properties

The following table summarizes Killam's apartment portfolio by market as at and for the year ended December 31, 2014:

	Units(1)	Number of Properties	% of Apartment NOI plus Equity Income
Nova Scotia			
Halifax(2)	5,056	55	44.1%
Sydney	139	2	1.2%
	5,195	57	45.3%
New Brunswick			
Moncton	1,629	31	10.1%
Fredericton	1,394	20	9.2%
Saint John	1,143	13	5.2%
Miramichi	96	1	0.7%
	4,262	65	25.2%
Ontario(3)			
Ottawa	780	9	3.3%
London	264	2	3.1%
Cambridge	225	2	3.3%
Toronto	378	2	3.6%
	1,647	15	13.3%
Newfoundland and Labrador			
St. John's(4)	876	12	7.5%
Grand Falls	148	2	0.9%
	1,024	14	8.4%
Prince Edward Island			
Charlottetown	906	17	7.0%
Summerside	86	2	0.6%
	992	19	7.6%
Alberta(3)			
Calgary	307	1	0.2%
Total	**13,427**	**171**	**100.0%**

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

(2) Killam owns a 49% interest in and manages Garden Park Apartments, a 246-unit building located in Halifax, NS. Killam's 49% ownership interest represents 120 of the 246 units related to this property.

(3) Killam owns and manages three buildings located in Ontario and one building in Alberta through a joint arrangement, with Killam having a 50% ownership interest in all four properties. Killam's ownership interest represents 402 of the 804 units related to these properties.

(4) Unit count includes the first building of a two phase development, Chelsea Place, which opened in December 2014. This represents 63 of the 102 units under development.

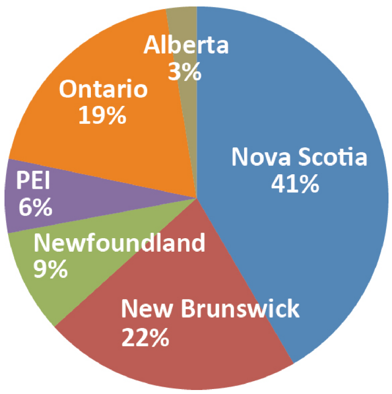
Manufactured Home Communities Portfolio

The following table summarizes Killam's MHC investment by province as at and for the year ended December 31, 2014:

	Sites	Number of Communities	% of MHC NOI
Nova Scotia	2,626	16	52.4%
Ontario	2,145	16	42.4%
New Brunswick	224	1	1.9%
Newfoundland and Labrador	170	2	3.3%
Total	**5,165**	**35**	**100.0%**

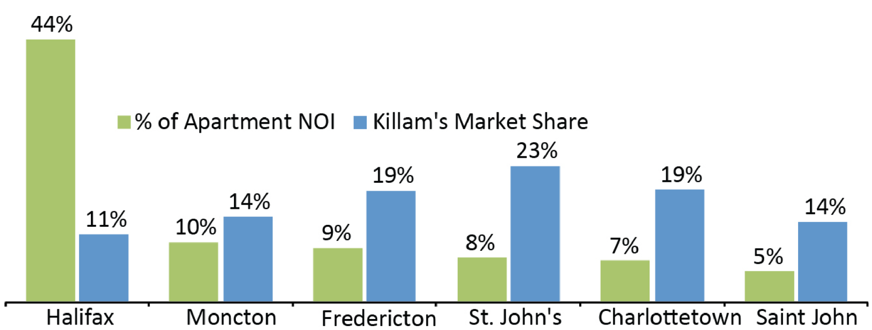
Killam's NOI by Province

Combining apartment and MHC's, the following chart highlights the percentage of Killam's forward looking NOI by province based on ownership interest at December 31, 2014:



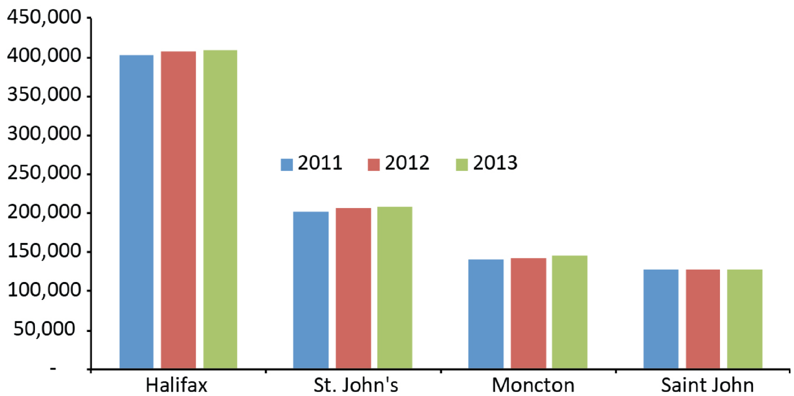
The Multi-family Market Leader in Atlantic Canada

Per Statistics Canada, Atlantic Canada is home to 2.3 million people, approximately 43% of whom live in the six largest cities, representing Killam's core markets in the region. Killam has a 13.8% market share of apartment units in these six largest centres. The chart below highlights the apartment NOI generated from each of the key urban markets in Atlantic Canada in 2014, and Killam's market share in each.



Urbanization Leading to Population Growth in Killam's Core Markets

The urbanization trend is strong across Atlantic Canada, driving population growth in each of the region's cities. The net change in population in four of Killam's core markets in Atlantic Canada is reported annually by Statistics Canada. The following graph highlights recent population growth in each of Halifax, St. John's and Moncton, with a large part of the growth related to people moving to the cities from rural areas. Immigration has also contributed to population growth in the urban centres. Population has decreased slightly in Saint John in recent years due to a decline in economic activity following the completion of several large energy projects that were underway during the 2000s. The Saint John market has the potential to return to population growth with large economic projects underway and proposed in the city, including a $450 mill upgrade and the Energy East Pipeline proposal.



44% of Killam's Apartment NOI Generated in Halifax

44.1% of Killam's 2014 apartment NOI was earned in Halifax. Killam's investment in Halifax reflects the city's rental unit base as a percentage of the rental units in Atlantic Canada, with Halifax rental units accounting for 46.7% of the total rental universe in Atlantic Canada as measured by CMHC.

Halifax is the largest city in the region and home to 17% of Atlantic Canadians. It is the economic hub, producing 55% of Nova Scotia's total GDP, and 20% of Atlantic Canada's GDP. The city attracts a diverse population base, both from rural areas of Nova Scotia, other regions in Atlantic Canada, and internationally. With six degree-granting universities and three large community college campuses, Halifax is home to approximately 35,000 students per year, including 4,000 international students.

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

Management expects population growth in Halifax to exceed recent growth levels due to large-scale projects taking place in the region. Irving Shipyard's award of the $25 billion, 25-year shipbuilding contract is the most significant project and is expected to have positive long-term implications for Halifax and Atlantic Canada. The contract is expected to generate an average of 1,000 - 1,500 direct jobs, and up to 11,500 direct and indirect jobs during its peak year in 2020. The shipyard is scheduled to begin to cut steel in September 2015. Currently, Irving is finishing a $350 million in infrastructure upgrades to facilitate the work.

Investment in offshore energy in Nova Scotia also has the potential to contribute to future growth for both Halifax and Nova Scotia with $2 billion in exploration commitments awarded in recent years.

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

Investment in the Urban Centres of New Brunswick, Newfoundland and PEI

25% of Killam's apartment NOI is currently generated in New Brunswick, split between the province's three major urban centres, Fredericton, Moncton and Saint John. Fredericton and Moncton both experienced high population growth over the last number of years, posting 9.3% and 8.7% growth, respectively, between the 2006 and 2011 Census periods. Fredericton is the provincial capital and home to the province's largest university. Moncton is the largest city and is a transportation and distribution hub for Atlantic Canada. Recent population growth in Moncton has been driven by urbanization from French communities in Northern New Brunswick. The Saint John market, representing 5.2% of Killam's apartment NOI, is focused on industry and energy. After strong energy investments in the city in the mid-2000s, the city had seen a reduction in economic projects over the last four years, however new investments have started in the forestry sector, and the Energy East Pipeline proposal to bring oil from Western Canada to refineries in Quebec and New Brunswick, has potential for strong economic growth for the city and the province.

Killam has increased its investment in St. John's, NL in recent years with the development of two new apartment buildings, increasing its ownership interest to total a 23% market share of the city's rental units. St. John's has undergone a transformation over the last ten years following significant offshore investments, resulting in a strong population growth and decreasing home affordability. Both these factors have contributed to strong demand for rental units in St. John's. The Company's highest rental growth has been earned in St. John's over the last number of years.

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

Expanding Ownership in Ontario and Western Canada

Killam's apartment portfolio includes 1,647 apartment units in Ontario, up from 225 units in 2010 when Killam entered the Ontario apartment market, and includes properties in Ottawa, Toronto, London and Cambridge. In addition to apartments, 42% of Killam's MHC sites are located in Ontario. Killam acquired its first apartment property in Alberta in 2014, a 50% interest in a 307-unit building in downtown Calgary. Killam's focus on geographic expansion has increased the Company's investment outside Atlantic Canada. Currently, Killam's Ontario properties represent 19% of the Company's forward looking NOI, while Alberta represents 3%. Killam is focused on increasing its geographic diversification by acquiring and developing more properties in its core markets in Ontario and Alberta.

A Diversified Portfolio of Apartment Properties

Killam's apartment portfolio includes a variety of property types, including high-rise (33% of NOI generated from high-rise units), mid-rise with elevators (35%), walk-ups (30%) and a small number of townhouses (2%). The portfolio includes rents ranging from affordable to high-end Class A properties. The average rent for Killam's apartment units at the end of 2014 was $949. The average age of Killam's apartment portfolio is 28 years. With a focus on both developing and acquiring newer properties, 33% of Killam's apartment NOI is from apartments considered new (built after 2000). A high percentage of newer assets should result in lower capital and maintenance costs for the foreseeable future, well below the industry average.

MHCs Compliment Killam's Apartment Portfolio

With MHCs, Killam owns the land and infrastructure supporting each community and leases the sites to the tenants, who own their own homes and pay Killam a monthly site rent. In addition to site rent, the tenant may have a mortgage payment to a financial institution for their home. The average site rent in Killam's MHC portfolio is $228 per month, which offers value and affordability to tenants. The homeowner is responsible for realty taxes based on the assessed value of their home and Killam is responsible for the realty tax on the land.

MHCs require less recurring capital investment and deliver a more predictable and stable cash flow than apartments. MHC home owners are responsible for the repair, maintenance and operating costs of their homes, which removes significant variable costs that are typically borne by Killam for apartments. The operating profit margin in Killam's MHC business averaged 62.2% over the last two years, compared to 57.7% for apartments.

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

Limited Exposure to Rent Control

The majority of Killam's portfolio does not fall under rent control, allowing Killam to move rents to market on an annual basis. PEI is the one province in Atlantic Canada with rent control for apartments, and this represents only 7.4% of Killam's apartment units.

Ontario has rent control; however the legislation excludes properties built after 1991. Seven of Killam's fifteen properties in Ontario (966 units) are newer properties (built after 2004) and therefore do not fall under the rent control guideline. The balance of Killam's Ontario properties can move rents to market on a unit-by-unit basis as they become vacant.

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

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

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

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

Canadian apartment owners can apply for CMHC mortgage loan insurance. The mortgage insurance guarantees the repayment of the loan to the lender, eliminating default risk to the lender which results in lower interest rates for the borrower than with conventional mortgages. Killam uses CMHC insurance and has 75% of its apartments financed with CMHC insured debt. As mortgages are renewed or new properties are financed, Killam expects to use CMHC insurance and increase the percentage of insured debt. CMHC insurance is not available for the owners of MHCs, however, it is available for the individual homeowners.

PART III
2014 Financial Overview
Consolidated Results

For the years ended December 31,

	Total Portfolio			Same Store			Non-Same Store		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Property revenue	**$147,507**	$141,112	4.5%	**$129,419**	$127,256	1.7%	**$18,088**	$13,856	30.5%
Property expenses									
Operating expenses	**(24,775)**	(23,611)	4.9%	**(22,007)**	(21,620)	1.8%	**(2,768)**	(1,991)	39.0%
Utility and fuel expenses	**(20,906)**	(18,403)	13.6%	**(19,173)**	(16,973)	13.0%	**(1,733)**	(1,430)	21.2%
Property taxes	**(17,225)**	(16,058)	7.3%	**(14,787)**	(14,578)	1.4%	**(2,438)**	(1,480)	64.7%
Total property expenses	**(62,906)**	(58,072)	8.3%	**(55,967)**	(53,171)	5.3%	**(6,939)**	(4,901)	41.6%
NOI	**$84,601**	$83,040	1.9%	**$73,452**	$74,085	(0.9)%	**$11,149**	$8,955	24.5%
Operating margin	**57.4%**	58.8%	(140) bps	**56.8%**	58.2%	(140) bps	**61.6%**	64.6%	(300) bps

Total property revenue for the year ended December 31, 2014, excluding the 25% ownership interest in three properties that were held through one of the Company's joint ventures for eleven months of the year, was $147.5 million, a 4.5% increase in revenue over 2013. The growth was generated through revenue from acquisitions and developments, increased rental rates and lower vacancy, partially offset by increased rental incentives and lost revenues from MHC dispositions in 2013.

Killam's total property expenses increased 8.3% for 2014 compared to 2013, decreasing the operating margins by 140 bps. The majority of the increase in property operating expenses can be attributed to higher utility costs, which increased 13.6% year-over-year This increase relates to higher natural gas cost as well as significant water rate increases in the Halifax market.

Same store property NOI reflects the 183 stabilized properties that Killam has owned for equivalent periods in 2014 and 2013. The same store analysis includes a combined total of 16,725 units and sites, or 90% of Killam's portfolio. Home sales are excluded from this analysis. Same store properties realized net revenue growth of 1.7% in 2014 but this growth was offset by a 5.3% increase in same store expenses. Despite growth in Killam's same store properties in the past three consecutive quarters of 2014, overall the Company realized a 0.9% decrease in same store NOI for the year due to the increased utility costs concentrated mostly in the first quarter of 2014. These variances are discussed in more detail in the Apartment and MHC sections of the MD&A.

Non-same store property NOI consists of properties acquired in both 2013 and 2014, MHC properties sold in Q4-2013, development projects completed in 2013 and 2014, other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items. Details of properties acquired in 2014 are found on page 28.

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

Apartment Results

For the years ended December 31,

	Total Portfolio			Same Store			Non-Same Store		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Property revenue	**$132,950**	$121,306	9.6%	**$115,773**	$113,978	1.6%	**$17,177**	$7,328	134.4%
Property expenses									
Operating expenses	**(21,333)**	(19,144)	11.4%	**(18,769)**	(18,263)	2.8%	**(2,564)**	(881)	191.0%
Utility and fuel expenses	**(19,430)**	(16,321)	19.0%	**(17,742)**	(15,681)	13.1%	**(1,688)**	(640)	163.8%
Property taxes	**(16,531)**	(14,970)	10.4%	**(14,225)**	(14,019)	1.5%	**(2,306)**	(951)	142.5%
Total property expenses	**(57,294)**	(50,435)	13.6%	**(50,736)**	(47,963)	5.8%	**(6,558)**	(2,472)	165.3%
NOI	**$75,656**	$70,871	6.8%	**$65,037**	$66,015	(1.5)%	**$10,619**	$4,856	118.7%
Operating margin	**56.9%**	58.4%	(150) bps	**56.2%**	57.9%	(170) bps	**61.8%**	66.3%	(450) bps

Apartment Revenue

Total apartment revenue for the year ended December 31, 2014, was $133.0 million, a 9.6% increase over 2013. This growth was attributable to acquisitions, the completion of four development projects during 2013, phase one of a two-phase development in 2014 and same store revenue growth.

Same store apartment property revenue increased 1.6% for the year ended December 31, 2014, following a 1.2% increase in rental rates. As well, Killam successfully achieved higher occupancy throughout each quarter of 2014 compared to 2013, with an average 94.9% occupancy for the year, a 50 bps improvement over 2013.

Based on current rents, an annualized 100 bps change in the apartment vacancy rate would impact the annualized rental revenue by $1.4 million.

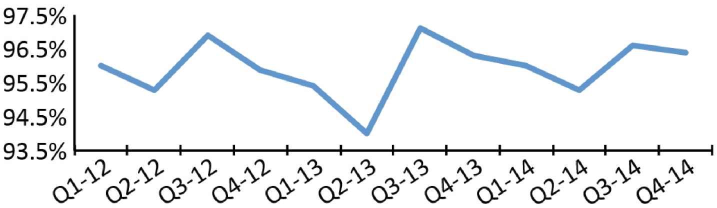
Apartment Occupancy and Average Rent Analysis by Core Market

As at December 31,

	2014			2013				
	Units	**Occupancy[1]**	**Average Rent**	Units	Occupancy[1]	Average Rent	Change Occ. (bps)	% Change Avg Rent
Halifax, NS	5,056	96.2%	$948	4,970	96.0%	$923	20 bps	2.7%
Moncton, NB	1,629	95.9%	832	1,593	97.1%	831	(120) bps	0.1%
Fredericton, NB	1,394	96.6%	895	1,394	96.3%	896	30 bps	(0.1)%
Saint John, NB	1,143	94.6%	749	1,143	94.4%	746	20 bps	0.4%
St. John's, NL	876	97.3%	913	813	97.0%	849	30 bps	7.5%
Charlottetown, PE	906	97.5%	886	906	95.6%	878	190 bps	0.9%
Ontario	1,647	97.2%	1,266	1,359	98.6%	1,254	(140) bps	1.0%
Alberta	307	98.4%	1,359	N/A	N/A	N/A	N/A	N/A
Other Atlantic	469	96.6%	819	469	95.3%	798	130 bps	2.6%
Total Apartments (weighted average)	**13,427**	**96.4%**	**$949**	12,647	96.3%	$915	10 bps	3.7%

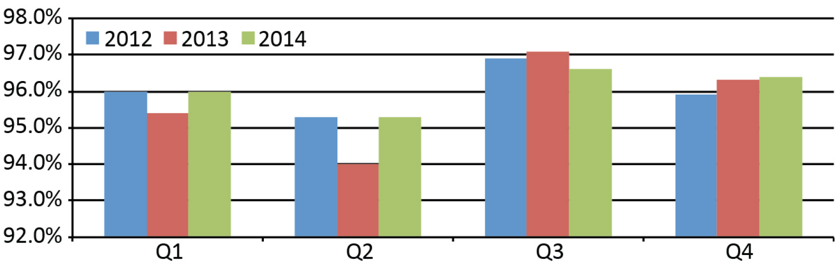
(1) Includes all stabilized properties.

Killam's Historic Apartment Occupancy - 2012-2014 By Quarter-End



Killam experienced improved occupancy levels for its apartment portfolio in 2014 compared to 2013 and ended the year at 96.4% occupancy. Killam's marketing and leasing initiatives have been a priority for the last two years, including increasing the number of leasing agents, investment in marketing promotions and expanding incentive offerings at specific properties. Management has been pleased with the improvements realized during 2014. Killam's expanded leasing process and well-maintained, quality asset base have enabled Killam to outperform CMHC's comparable averages in the majority of Killam's core markets in Atlantic Canada. As well, Killam's increased investment in Ontario has been beneficial in 2014, with improved occupancy levels for its same store portfolio.

Killam's Historic Apartment Occupancy - By Quarter, at quarter-end



Halifax is Killam's largest rental market, representing 44.1% of the Company's apartment NOI and equity income in 2014. Occupancy levels were down modestly in Killam's Halifax portfolio for the first nine months, but experienced a year-over-year increase in the fourth quarter of 2014. Killam ended the year with 96.2% occupancy in Halifax, compared to 96.0% at December 31, 2013. In October 2014 CMHC reported vacancy of 3.8% in Halifax in its Fall 2014 Rental Market Report, compared to Killam's vacancy of 3.2% in October 2014. The Halifax rental market has become more competitive over the last two years with an increase in the amount of new rental units being introduced into the market. From 1999 to 2010, new apartment starts in Halifax averaged approximately 650 units per year (on a base of approximately 40,000 units). From 2011-2013, the number of annual starts averaged 1,400 units. During 2014, CMHC reported a decline in apartment starts in the city (854 apartment unit starts in 2014 compared to 1,402 in 2013). There remains 1,687 apartment units under construction in the city as at December 31, 2014, which now has 43,985 apartment units, as reported by CMHC.

The increase in new developments has been fuelled by low interest rates and an expectation of increasing demand for apartments from an aging and growing population base. The Irving Shipbuilding contract is the largest project expected to contribute to economic and population growth in the city. In addition, Halifax's demographics include large groups of empty nesters and seniors who are beginning to transition from home ownership into apartment-style living. The majority of the new supply introduced into the market in the last two years caters to this demographic, with spacious units of 1,100 square feet or more, and monthly rents of $1,300 and greater. It typically takes approximately two years for developments to be completed, with 2013 being the first year that a sizeable increase in new units came to the market. CMHC reported that in 2013, 1,681 new rental apartment units were completed, representing a 4.1% increase in the amount of apartment units in the city, almost doubled the 876 units completed in 2012. CMHC's new housing construction activity statistics reports 958 new rental apartment units were completed in Halifax in 2014, 57% the amount completed in 2013.

The increased product has resulted in a more competitive rental environment in certain Halifax submarkets. Killam has responded with focused marketing and leasing programs and Killam generated increased rental rates, which more than offset vacancy pressure in the year. Despite increased competition, Killam's Halifax apartment rental rates were up 1.8% during the year, and same store revenues increased by 56 bps.

Killam's three core markets in NB represent 25% of the Company's apartment NOI and equity income. Saint John has been Killam's strongest year-over-year performing market in NB, achieving a 450 bps improvement in same store revenue growth. The year-over-year improvement is attributable to an expanded leasing team, incentive offerings and an increase in economic investment in the city. Saint John was the Company's softest market in 2012 and the first half of 2013, however there are encouraging signs of economic growth in the city, including a $450 million upgrade to the local saw mill and potential for the $12 billion Energy East Pipeline. CMHC also reported decreased year-over-year vacancy in Saint John in their Fall 2014 Rental Market Report, citing employment for young people trending higher and a minimal amount of new construction in the market.

Occupancy levels overall were higher in Killam's Moncton portfolio in 2014, with positive improvements in the first half of the year offsetting a slight decrease in overall occupancy in the second half of the year. Moncton ended the year at 95.9% occupancy, compared to 97.1% at December 31, 2013. Moncton, like Halifax, has experienced higher than normal levels of apartment construction in recent years, leading to more supply and higher vacancy levels than the average over the last ten years. CMHC reported Moncton's vacancy rate as 8.7% in October 2014, improved from 9.1% a year earlier. Killam has been successful at outperforming the market by using increased marketing programs, including incentive offerings in response to market trends, and successfully increased same store revenue by 166 bps in the city in 2014.

Killam's Fredericton portfolio was 96.9% occupied at the end of 2014, up 30 bps from 96.6% at the end of 2013. Vacancy levels overall in this market were consistent with the levels experienced in 2013. Rental rates increased modestly in the year, and contributed to revenue growth of 100 bps for Killam's Fredericton same store portfolio. CMHC's Fall 2014 Rental Market Report highlights Fredericton as having the lowest vacancy rate of the three core markets in New Brunswick, reporting 5.8% in October 2014, down from 6.2% in October 2013.

Killam's St. John's portfolio, which has been a leader of Killam's revenue growth for the last three years, was 97.3% occupied at the end of 2014, up from 97.0% at the end of 2013. Year-over-year occupancy levels overall were softer in St. John's, partially attributable to a new 500-bed residence at Memorial University completed in early 2014. Despite the increased vacancy, Killam's St. John's portfolio achieved a 156 bps increase in revenue in 2014 compared to 2013, attributable to increased rental rates, up 2.6% over the last year and amongst the highest in Killam's portfolio. The St. John's market has outperformed due to the positive spin-offs associated with offshore energy investment. Killam has not seen a significant change in vacancy in response to lower oil prices but does anticipate more moderate rental growth in 2015 than the levels experienced over the last five years.

The Company's Charlottetown portfolio has had a positive occupancy trend since a change to the province's immigration program resulted in an initial occupancy drop in Q4-2012. At December 31, 2014, the Charlottetown portfolio was 97.5% occupied, up 190 bps from December 31, 2013. Occupancy improvement lead Killam's PEI portfolio to achieve a 320 bps improvement in rental revenue in the year.

Killam's small portfolio of assets held outside its core markets in Atlantic Canada also experienced occupancy gains during 2014, primarily attributable to the Company's Sydney, NS, properties that are now both fully leased.

The Ontario portfolio represented 13.3% of Killam's apartment NOI and equity earnings in 2014. Killam has achieved improvement in occupancy levels in its Ontario portfolio during the year, and achieved same store revenue growth of 2.8%. At year-end Killam's Ontario portfolio was 97.2% occupied, compared to 98.6% at the end of 2013 primarily due to its Ottawa portfolio, including the lease-up of the Kanata assets and the stabilization of the two assets acquired in March 2014.

Killam expanded its apartment portfolio into Alberta in 2014 with a 50% interest in Grid 5 apartments, a 307-unit property in Calgary, in December. This building was 98.4% occupied at December 31, 2014.

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

Apartment Expenses

Total same store property expenses increased 5.8% for the year ended December 31, 2014, due primarily to increased utility and fuel expenses as a result of higher natural gas prices in Atlantic Canada. Total same store utility and fuel expense was up $2.1 million, or 13.1% in 2014, representing the majority of increase in same store property expenses (74% of the $2.8 million increase). Modest property tax expense growth of 1.5% related to successful property tax appeals, and only a 2.8% increase in other operating expenses were in line with the Company's expectations.

Utility and Fuel Expense - Same Store

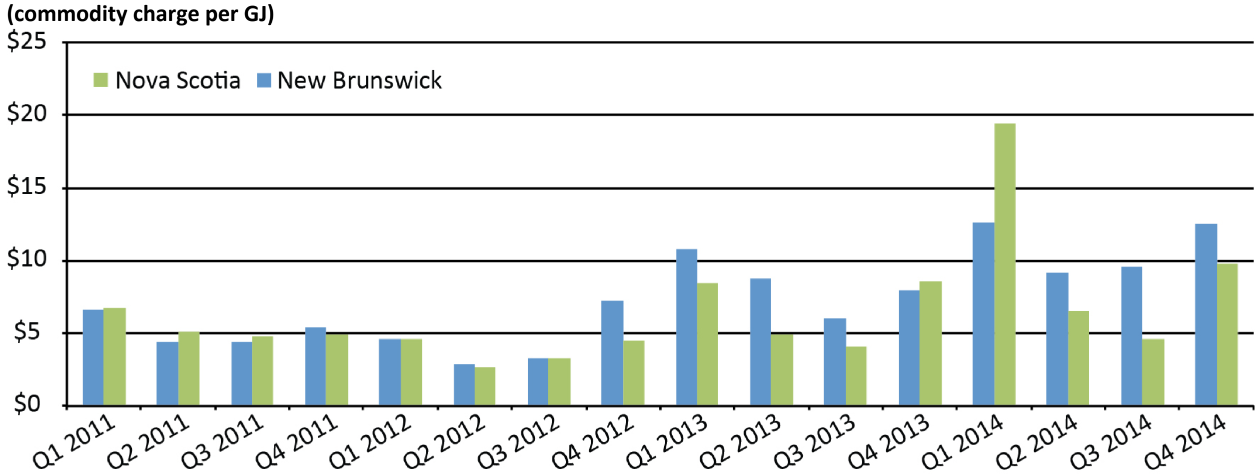
For the years ended December 31,

	2014	2013	% Change
Natural gas	**$6,149**	$4,925	24.9%
Electricity	**5,973**	5,455	9.5%
Water	**4,176**	3,749	11.4%
Oil	**1,414**	1,523	(7.2)%
Other	**30**	30	- %
Total utility and fuel expenses	**$17,742**	$15,682	13.1%

Utility and fuel expenses accounted for 35.0% of Killam’s total apartment operating expenses in 2014. Killam’s apartment properties are heated with a combination of natural gas (56%), electricity (35%), oil (8%) and other (1%). Electricity costs at the unit level are typically paid directly by tenants, reducing Killam’s exposure to the majority of the 4,600 units heated with electricity. Killam is primarily exposed to the electricity costs associated with common areas. Fuel costs associated with natural gas or oil-fired heating plants are paid by Killam.

Killam’s same store natural gas costs increased year-over-year by $1.2 million, or 24.9%, during 2014. The increase was primarily attributable to higher commodity charges in both NS and NB. Killam’s weighted average natural gas cost per gigajoule ("GJ") was up approximately 19% in Nova Scotia in 2014 and up approximately 37% in New Brunswick. The lower cost increase in Nova Scotia was attributable to the province’s gas distributor's annualized fixed-rate contracts put in place in 2013. These contracts resulted in below market pricing in Q1-2014 and less volatility throughout the year, but a higher cost of natural gas in spring and summer months compared to market rates.

Cost of Natural Gas in Nova Scotia and New Brunswick
(commodity charge per GJ)



The quarterly commodity charge, excluding delivery costs, for Nova Scotia and New Brunswick is included in the preceding graph. As noted in Killam's quarterly reports in 2014, natural gas costs in New Brunswick and Nova Scotia have been volatile over the last two years due to pipeline capacity constraints and increased natural gas demand in New England driving up pricing at the Algonquin Citygate natural gas hub during periods of cold weather. These factors, augmented by the extremely cold weather in the winter of 2014, drove up market pricing in Q1-2014. As well, rates to forward fix for the winter of 2015 have been impacted.

Management expects natural gas pricing in Atlantic Canada (and New England) to remain volatile during the winter months until as late as 2018, when long-term solutions to the pipeline capacity issue are expected to be completed, as discussed in the Outlook section on page 7. Year-to-date in 2015 the daily market for Algonquin Citygate has not experienced the same level of volatility as in 2014 due to more moderate winter temperatures and lower oil prices providing utilities with an affordable alternative fuel source, however market prices have continued to spike during very cold days. Management does not expect to see similar year-over-year price increases for natural gas in 2015. Approximately 40% of Killam's total natural gas is price-fixed for the winter of 2015 through price contracts entered into by its Nova Scotia gas distributor.

Electricity costs for Killam's same store properties were up 9.5% in 2014 compared to 2013, representing common area electricity, including heating expenses for electric buildings, and a portfolio of electrically-heated units with heat included as part of the rental agreement. The increased cost in 2014 is attributable to a combination of higher electricity rates, an increase in the number of units with electricity included, and colder weather in the first half of 2014. Killam has increased the number of units with electricity included at certain NB properties to compete with current market incentives. Killam prefers not to include electricity in rental rates and rents are typically increased to offset this additional expense; however, tenants are attracted to fixing the cost of electricity in their monthly rental payment.

Water expense for same store properties increased 11.4% year-over-year. This increase was most prominent in Halifax, where water expense increased $0.3 million, or 19.5%, in 2014 as the second of two significant water rate increases came into effect in April 2014. Prior to the April increase, another water rate increase became effective July 2013, also reflected in the year-over-year price increase. Killam will continue to invest in water-saving initiatives to mitigate its exposure to these increased costs. Management does not expect similar rate increases in 2015.

Heating oil costs decreased by 7.2% from 2013 due to fewer buildings using oil as a heat source in 2014 because of conversions to natural gas and decreasing oil costs during the second half of the year. Oil savings were most prominent in Q4-2014 with Killam's oil expense down 33% due to falling oil prices. Oil savings are expected to continue in 2015 due to lower market prices.

Same store property taxes realized a modest increase of 1.5% in 2014 due to the positive impact of successful tax appeals. Killam expects future realty tax increases to be moderate given that Killam's portfolio generally has up-to-date market assessments.

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

Apartment Same Store NOI by City

Net revenue growth of 1.6%, offset by a 5.8% increase in property operating expenses, has resulted in a decrease in same store apartment NOI of 1.5% during 2014. Same store NOI results by city, as shown in the chart below, are largely influenced by the higher heating costs experienced in most regions during 2014 and varying changes in occupancy levels in each market.

Same Store NOI Results by City
For the years ended December 31,

	2014	2013	$ Change	% Change
Halifax	**$31,286**	$32,250	$(964)	(3.0)%
Moncton	**6,526**	6,631	(105)	(1.6)%
Fredericton	**6,667**	6,978	(311)	(4.5)%
Ontario	**5,463**	5,371	92	1.7%
St. John's	**4,784**	4,706	78	1.7%
Saint John	**3,995**	3,998	(3)	(0.1)%
Charlottetown	**3,858**	3,722	136	3.7%
Other Atlantic locations	**2,458**	2,359	99	4.2%
	$65,037	$66,015	$(978)	(1.5)%

Overall, occupancy gains, along with positive rental rate increases in all regions, led to NOI growth in the second, third and fourth quarters of 2014. The severe winter in Atlantic Canada, combined with a dramatic rise in natural gas prices, resulted in a decline in the first quarter NOI, impacting the results for the year ended December 31, 2014. Killam's core markets that are not exposed to the high natural gas costs generated positive NOI growth in the year.

Halifax's same store NOI declined 3.0% for the year ended December 31, 2014. Despite rental rate growth of 1.8%, increased vacancy resulted in an overall net revenue gain of 0.6% during 2014. This improvement in net revenues was offset by higher water and natural gas costs, and additional leasing initiatives to target increased supply in the market.

Moncton's same store NOI declined 1.6% for the year ended December 31, 2014. Rental rate growth of 0.4% and improved occupancy in 2014 was partially offset by increased incentive offerings, resulting in a 1.7% increase in net revenues for the year. Property expenses increased 4.8% in 2014, driven by higher utility costs associated with the inclusion of unit electricity in rents as a rental incentive, as well as higher natural gas and water costs.

Fredericton's same store NOI declined 4.5% for the year ended December 31, 2014. Rental rate growth of 0.4% along with reduced incentive offerings in this market resulted in a 1.0% increase in net revenues for 2014. Property expenses increased 7.6%, driven by higher utility costs, repairs and maintenance, and property tax costs.

Saint John's same store NOI declined slightly, by 0.1%, for the year ended December 31, 2014. Rental rate growth of 0.4% along with a 480 bps increase in occupancy for the year resulted in net revenue growth of 4.5%. This was offset by higher utility costs associated with the inclusion of unit electricity in rents as a rental incentive and higher natural gas costs.

St. John's realized positive same store NOI growth of 1.7% for the year ended December 31, 2014, due to an increase in same store rental rates of 2.6%. This was partially offset by increased vacancy and modest growth in property expenses.

Ontario, Charlottetown and other Atlantic locations recorded positive same store NOI growth of 1.7%, 3.7% and 4.2%, respectively, for the year ended December 31, 2014. This growth was attributed to both increased rental rates and occupancy improvements in these regions when compared to 2013, with modest growth in property operating expenses.

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

MHC Results

For the years ended December 31,

	Total Portfolio			Same Store			Non-Same Store		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Property revenue	**$13,980**	$19,253	(27.4)%	**$13,647**	$13,278	2.8%	**$333**	$5,975	(94.4)%
Property expenses									
Operating expenses	**(3,250)**	(4,308)	(24.6)%	**(3,237)**	(3,357)	(3.6)%	**(13)**	(951)	(98.6)%
Utility and fuel expenses	**(1,439)**	(2,048)	(29.7)%	**(1,431)**	(1,292)	10.8%	**(8)**	(756)	(98.9)%
Property taxes	**(566)**	(980)	(42.2)%	**(562)**	(559)	0.5%	**(4)**	(421)	(99.0)%
Total property expenses	**(5,255)**	(7,336)	(28.4)%	**(5,230)**	(5,208)	0.4%	**(25)**	(2,128)	(98.8)%
NOI	**$8,725**	$11,917	(26.8)%	**$8,417**	$8,070	4.3%	**$308**	$3,847	(92.0)%
Operating margin	**62.4%**	61.9%	50 bps	**61.7%**	60.8%	90 bps	**92.5%**	64.4%	2,810 bps

Killam's MHC business accounted for 10% of NOI from property operations during the year ended December 31, 2014, compared to 14% for the same period in 2013. Property revenue from the MHCs decreased $5.3 million, or 27.4%, in 2014 compared to 2013 due to the sale of ten New Brunswick MHC properties in November 2013. The impact of the sale was partially offset by increased revenue from same store properties. Occupancy remains strong for the Company's MHC business, ending the year with 98.4% occupancy compared to 98.1% at the end of 2013. MHC rents increased an average of 3.2% during the year.

Same store MHC property revenue increased 2.8% for the year ended December 31, 2014, compared to 2013. This was a result of a 3.3% increase in weighted average rent per unit to $228, up from $221 in 2013. As well, Killam's seasonal MHCs contributed to this revenue growth with both higher occupancy and increased rental rates during the 2014 summer operating season. Total same store property expenses increased 0.4% from 2013 due to higher water and utility costs, along with slight increases in property taxes. Operating costs declined as a result of lower water testing and repair costs following recent capital upgrades, savings in discretionary spending and operational efficiencies.

Same store revenue growth, combined with efforts to minimize operating expenses, increased MHC same store NOI by 4.3% for the year ended December 31, 2014. As a result, operating margins for 2014 have also increased by 90 bps from 2013.

Non-same store revenues and expenses were related to the NB MHC properties sold in November 2013 and a new Nova Scotia MHC purchased in December 2013, along with non-recurring revenue items.

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

PART IV

Other Income

Home Sales

For the years ended December 31,

	2014	2013	% Change
Home sale revenue	**$1,299**	$2,598	(50.0)%
Cost of home sales	**(1,174)**	(2,226)	(47.3)%
New home placement fees	**-**	17	- %
Operating expenses	**(64)**	(66)	(3.0)%
	$61	$323	(81.1)%

Killam completed thirteen homes sales during 2014, compared to twenty-seven home sales and one home sale placement in 2013. In 2013, Killam had two active MHC developments for home sales compared to one in 2014, as one property was included in the MHC sale in November 2013.

The profit margins are lower in 2014 compared to 2013 due to the geographic mix of the MHC homes sold, as well as the decision to sell a longstanding, inventoried stock home at below cost in NS in Q1-2014. This allowed for the recovery of over $80,000 in inventory costs and the elimination of utility costs for this stock home during the winter months. The Company does not anticipate selling any other homes below cost. However, local market conditions and age of inventoried stock homes will always play a factor in the pricing, and thus margin, of Killam's home sales.

The Company projects 10-15 home sales for 2015, which will include a mix of newly developed sites and sales on vacant lots throughout the MHC portfolio.

Equity Income

For the years ended December 31,

	2014	2013	% Change
	$829	$1,296	(36.0)%

Equity income represented Killam's 25% interest in the net income of the joint venture that owned three apartments, all located in Ontario. The joint venture was dissolved on December 9th, 2014 and Killam purchased the remaining ownership of the assets. Killam subsequently sold 50% of its ownership in two of the properties through its joint operation with affiliates of KingSett Capital Inc. ("KingSett") and Alberta Investment Management Corporation ("AIMCo").

Equity income decreased year-over-year due to higher fair value gains recognized in 2013, mainly due to cap-rate compression in the Ottawa market. Excluding these non-cash increases in fair values, equity income was $601 thousand in 2014, a 5.0% decline from $633 thousand in 2013. This decrease was mainly due to the dissolution of the joint venture and therefore only eleven months of equity income in 2014.

Corporate Income

For the years ended December 31,

	2014	2013	% Change
	$1,175	$746	57.5%

Corporate income includes property management fees, interest on bank accounts and interest on the loan receivable. The 57.5% increase year-over-year relates to the interest earned on a $4.0 million mezzanine loan that was issued on May 23, 2014, bearing interest at prime plus 7.0% or a maximum of 10.0%, as discussed on page 32.

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

Fair Value Gains

For the years ended December 31,

	2014	2013	% Change
Apartments	**$ (298)**	$1,272	(123.4)%
MHCs	**4,730**	11,798	(59.9)%
IPUC	**336**	-	N/A
	$ 4,768	$13,070	(63.5)%

Killam recorded $4.8 million in fair value gains in 2014, a decrease compared to $13.1 million in fair value gains recorded in 2015. A 25 bps decrease in year-over-year capitalization rate compression was offset by an increase in capital reserves, a decline in NOI assumptions at certain properties reflecting higher utility and energy costs and a 10 basis point increase in vacancy and an increase in the Company's capital spend in the year.

The effective weighted average cap-rate used to value the MHCs decreased 17 bps to 6.69% from December 31, 2013, resulting in a $4.7 million fair value gain for the year ended December 31, 2014.

See further discussion on cap-rates in the "Investment Properties" section of the MD&A.

Other Expenses

Financing Costs

For the years ended December 31,

	2014	2013	% Change
Mortgage, loan, and construction loan interest	**$29,572**	$30,090	(1.7)%
Amortization of fair value adjustments on assumed debt	**(499)**	(459)	8.7%
Convertible debenture interest	**6,752**	6,687	1.0%
Subordinated debenture interest	**-**	10	- %
Capitalized interest	**(1,216)**	(1,097)	10.8%
	$34,609	$35,231	(1.8)%

Financing costs decreased $0.6 million, or 1.8%, in 2014 compared to 2013 due primarily to refinancings completed at lower interest rates and higher capitalized interest associated with the timing of two ongoing development projects as these projects were in their early stages in 2013. Interest costs associated with development projects are capitalized to the respective development property until substantial completion is achieved.

Mortgage, loan and construction loan interest expense, as a percentage of NOI, has decreased year-over-year as the Company refinanced and acquired new debt at lower interest rates. In 2014, Killam placed $74.6 million of new debt on acquisitions, including 5-year and 10-year term mortgages at an average interest rate of 3.44%. During 2014, the average interest rate on refinanced debt related to the Company's existing properties decreased from 4.47% to 2.72% for apartments and 5.93% to 3.78% for MHCs.

Killam manages interest rate risk by entering into fixed rate mortgages and staggering the maturity dates, and may at times enter into forward interest rate hedges. An annualized 100 basis point change in the interest rate on Killam's entire mortgage and vendor debt at December 31, 2014, would affect financing costs by approximately $8.6 million per year. However, only $91.1 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. The Company's credit facilities are discussed on page 32 of the MD&A.

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

Depreciation Expense

For the years ended December 31,

	2014	2013	% Change
	$644	$589	9.3%

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

Amortization of Deferred Financing Costs

For the years ended December 31,

	2014	2013	% Change
	$1,711	$1,643	4.1%

Deferred financing amortization increased 4.1% as a result of refinancings and new debt placed on acquired properties and completed developments. This was partially offset by the reduction in deferred financing costs related to ten NB MHC properties that were sold in November 2013.

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

Administration Expenses

For the years ended December 31,

	2014	2013	% Change
	$8,525	$7,878	8.2%
As a percentage of total revenues	**5.8%**	5.6%	

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

Administrative expenses as a percentage of revenues were higher year-over-year as a result of increased incentive payouts, an increase in head office salaries with additional staff hired and an increase in marketing costs which aided in Killam's success in reducing vacancy in most regions.

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

Loss on Disposition

For the years ended December 31,

	2014	2013	% Change
	$1,257	$1,401	(10.3)%

During the fourth quarter of 2014, the Company dissolved its joint venture which held its 25% ownership interest in 180 Mill Street, Kanata Lakes I and Silver Spear Apartments and purchased the remaining 75% interest. Killam subsequently sold 50% of its ownership in Kanata Lakes I and Silver Spear Apartments through its joint operation with affiliates of KingSett and AIMCo. The loss on disposition for the year ended December 31, 2014, represents the difference between the cost of the investments and the purchase price plus directly attributable costs for the remaining 75% interest in the three properties.

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

The loss on disposition of the ten MHC properties for the year ended December 31, 2013, represents the difference between the proceeds from disposition compared to the fair value of the properties less the carrying costs of the related mortgages, as well as deferred financing fees, professional fees and any other directly attributable costs.

Income Tax Expense

During 2014 the Company undertook tax planning within the consolidated group of entities, which comprise Killam Properties Inc., to allow for a recovery of the $1.1 million of current tax expense incurred in 2013 related to the disposition of the 10 MHC properties. The remainder of the recovery, $0.3 million, relates to prior year tax reassessments.

The Company has booked future income tax expense for years ended December 31, 2014, and 2013. Killam is not currently cash taxable and does not expect to pay significant cash taxes in the near future as the Company has the ability to claim CCA deductions to reduce taxable income. Based on the assumption that the Company does not add to its asset base, Management estimates that it would become cash taxable in three to five years.

PART V

Funds from Operations

FFO is recognized as an industry-wide standard measure for real estate entities' operating performance, and Management considers FFO per share to be a key measure of operating performance. The calculation of FFO includes adjustments specific to the real estate industry applied against net income to calculate a supplementary measure of performance that can be compared with other real estate companies and real estate investment trusts. REALpac, Canada's senior national industry association for owners and managers of investment real estate, has recommended guidelines for a standard industry calculation of FFO based on IFRS. FFO does not have a standardized meaning under IFRS and therefore may not be comparable to similarly titled measures presented by other public companies. Killam calculates FFO in accordance with the REALpac definition with the exception of the add back of REIT tax planning costs as REALpac does not address this specific type of adjustment. FFO for the years ended December 31, 2014, and 2013, is determined as follows:

For the years ended December 31,

	2014	2013	% Change
Net income	**$32,667**	$40,932	(20.2)%
Fair value gains	**(4,768)**	(13,070)	(63.5)%
Fair value gains included in equity income	**(229)**	(664)	(65.5)%
Non-controlling interest (before fair value gains)	**(1,042)**	(998)	4.4%
Deferred tax expense	**13,472**	9,350	44%
Current tax (recovery) expense	**(1,451)**	1,451	(200)%
Depreciation on owner-occupied building	**167**	145	15.2%
Loss on disposition	**1,257**	1,401	(10.3)%
Tax planning costs	**89**	223	(60.1)%
FFO	**$40,162**	$38,770	3.6%
FFO/share - basic	**$0.73**	$0.72	1.4%
FFO/share - diluted	**$0.72**	$0.71	1.4%
Weighted average shares- basic (000's)	**55,394**	54,143	2.3%
Weighted average shares - diluted (000's) (1)	**55,664**	54,502	2.1%

(1) The calculation of weighted average shares outstanding for diluted FFO purposes excludes the convertible debentures for years ended December 31, 2014 and 2013 as they are anti-dilutive. For FFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.

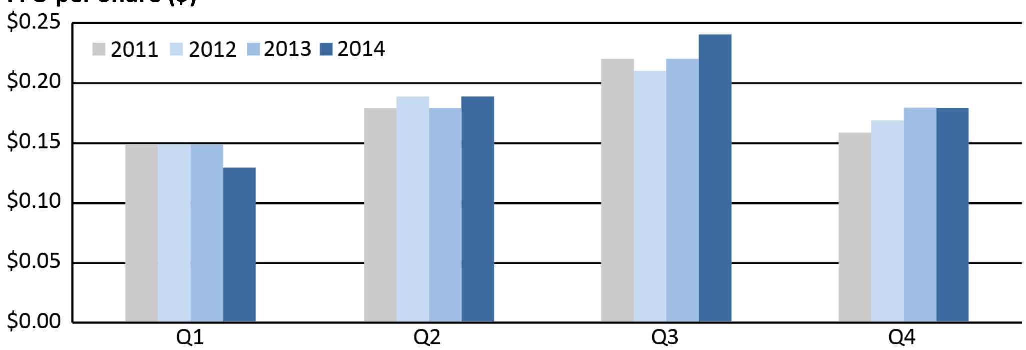
Killam earned FFO of $40.2 million, or $0.72 per share (diluted), during 2014 compared to $38.8 million, or $0.71 per share (diluted), during 2013. The 1.4% increase in FFO per share is attributable to contributions from acquisitions and developments ($3.7 million), interest expense savings on refinancings ($1.3 million), and an increase in corporate income ($0.4 million).

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

This growth was partially offset by a reduction in same store NOI of 0.9% ($0.8 million), an increase in administration costs ($0.8 million), a reduction in MHC earnings attributable to the properties sold in November 2013 ($2.5 million) and a 2.3% increase in the weighted average shares outstanding.

FFO has been adjusted for tax planning costs incurred in 2014 and 2013. As a Corporation, Killam has engaged a third-party to help evaluate the Company's tax planning options to ensure the most efficient tax structure for shareholders in the long-term. These costs are unique to Killam's current corporate structure and therefore have been removed for FFO purposes.

FFO per Share ($)



Adjusted Funds from Operations

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

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

For the years ended December 31,

	2014	2013	% Change
Funds from operations	**$40,162**	$38,770	3.6%
Maintenance Capital Expenditures			
Apartments	**(5,623)**	(5,342)	5.3%
MHCs	**(516)**	(685)	(24.7)%
Adjusted funds from operations	**$34,023**	$32,743	3.9%
AFFO/ share - basic	**$0.61**	$0.60	1.7%
AFFO/ share - diluted(1)	**$0.61**	$0.60	1.7%
AFFO payout ratio - basic(2)	**98%**	96%	2.1%

(1) The calculation of weighted average shares outstanding for diluted AFFO purpose excludes the convertible debentures as they are anti-dilutive. For AFFO purposes, the price used to calculate the conversion feature of the convertible debentures is the conversion price of $13.40 for the 5.65% convertible debentures and $14.60 for the 5.45% convertible debentures.
(2) Based on Killam's annualized dividend of $0.60 for 2014 and $0.58 for 2013 as the dividend increase was not effective until January 2014.

The basic AFFO payout ratio of 98% for year ended December 31, 2014, increased slightly from 96% in 2013. The increase in the payout ratio related to a 3.9% increase in AFFO year-over-year offset by an increase in the dividend from $0.58 in 2014 to $0.60 in 2014 and an increase in the shares outstanding.

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

PART VI

Investment Properties

As at December 31,

	2014	2013	% Change
Investment properties	**$1,693,055**	$1,451,743	16.6%
Investment properties under construction ("IPUC")	**40,840**	24,373	67.6%
	$1,733,895	$1,476,116	17.5%

Continuity of Investment Properties

The following table summarizes the changes in value of Killam's investment properties for the years ended December 31, 2014, and 2013.

As at and for the years ended December 31,

	2014	2013
Balance, beginning of year	**$1,451,743**	$1,296,724
Acquisition of properties	**219,635**	119,667
Disposition of properties	**(29,521)**	(69,680)
Transfer from IPUC	**14,098**	70,315
Capital expenditures	**32,668**	21,647
Fair value adjustments - Apartments	**(298)**	1,272
Fair value adjustments - MHCs	**4,730**	11,798
Balance, end of year	**$1,693,055**	$1,451,743

The key valuation assumption used to determine the fair market value, using the direct capitalization method, is the cap-rate. A summary of the high, low and weighted average cap-rates used in the valuation models as at December 31, 2014 and 2013, as provided by Killam's external valuator, is as follows:

Capitalization Rates

	December 31, 2014			December 31, 2013		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments	**4.50%**	**8.00%**	**5.63%**	4.50%	8.00%	5.88%
MHCs	**5.75%**	**8.00%**	**6.69%**	6.00%	8.25%	6.86%

As highlighted in the above chart, the effective weighted average cap-rate used to value the apartment properties decreased by 25 bps from December 31, 2013, generating an increased valuation for some properties. The effective weighted average cap-rate used to value the MHCs decreased 17 bps from December 31, 2013, which resulted in fair value gains for some Nova Scotia and seasonal park MHC properties in both the second and third quarters of 2014.

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

A sensitivity analysis of all significant assumptions is shown below:

Class of property	Cap-rate		Vacancy rate(1)	Management fee rate(1)
	10 basis points increase	*10 basis points decrease*	*1% increase/ decrease in vacancy*	*1% increase/ decrease in management fee*
Apartments	$(27,322)	$28,311	$22,615	$25,893
MHCs	$(1,805)	$1,860	$1,594	$2,072

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

2014 Acquisitions - Investment Properties

Property	Location	Acquisition Date	Year Built	Units	Purchase Price(1)
Apartments					
65 Bonaccord Street	Moncton	21-Feb-14	2004	35	$3,925
50 Selkirk Street(2)	Ottawa	14-Mar-14	1959	75	6,893
350 Mayfield Avenue(2)	Ottawa	14-Mar-14	1959	61	5,607
300 Royale Blvd	Halifax	15-Apr-14	2014	83	18,625
Kanata Lakes Apartments II(5)	Ottawa	24-Sept-14	2014	152	24,423
Kanata Lakes Apartments I(7)	Ottawa	10-Dec-14	2012	146	11,793
1355 Silver Spear Road(7)	Mississauga	10-Dec-14	1968	199	9,083
Grid 5 Apartments(5)	Calgary	10-Dec-14	2014	307	50,000
180 Mill Street(8)	London	10-Dec-14	2011	127	26,247
					$156,596
Other					
36 Kelly Street(3)	Halifax	15-Jan-14			$1,577
1335 Hollis Street(4)	Halifax	28-Feb-14			1,542
Garden Park Apartments(6)	Halifax	30-Sept-14			500
					$3,619
Total Acquisitions					**$160,215**

(1) Purchase price on acquisition does not include transaction-related costs.
(2) Acquired as a portfolio.
(3) Acquired the leasehold interest of the land at 36 Kelly Street.
(4) 1335 Hollis Street is a 4-unit residential dwelling purchased for future redevelopment potential.
(5) Purchase price represents Killam's 50% ownership interest in the acquired property. Killam entered into a joint operation with affiliates of KingSett Capital Inc. and AIMCo Realty Investors LP.
(6) Acquired an additional 1.7% ownership interest in the property, increasing Killam's ownership to 49%.
(7) Purchase price represents Killam's additional 25% ownership interest in the properties, increasing Killam's ownership in each property to 50%. Killam entered into a joint operation with affiliates of KingSett Capital Inc. and AIMCo Realty Investors LP related to these properties.
(8) Purchase price represents Killam's additional 75% ownership interest in the property, increasing Killam's ownership to 100%.

During 2014, Killam completed four acquisitions through a joint operation with affiliates of KingSett Capital Inc. ("KingSett") and Alberta Investment Management Corporation ("AIMCo"). The fair value of the portfolio of assets is $232 million, with the Company's interest representing 50%. Killam will manage the properties earning an industry standard management fee. The properties include a 307-unit building in Calgary, Killam's first apartment acquisition in Western Canada, as well as three properties in Ontario. Two of the properties in Ontario are those in which Killam previously held a 25% interest through a separate joint venture.

On December 8, 2014, the partnership between Killam and Kuwait Finance House was dissolved whereby Killam purchased the remaining 75% interest in the three assets owned by the joint venture for $118.5 million. Subsequent to the purchase, Killam sold a 50% interest in two of the assets to KingSett and AIMCo as noted above. This positive transaction increased the Company's geographic diversification and helped facilitate the purchase of the Company's first asset in Calgary, which will increase the potential NOI generated from assets outside of Atlantic Canada to 22% in 2015.

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

Investment Properties Under Construction

	2014	2013
Balance, beginning of period	**$24,373**	$57,941
Capital expenditures	**29,013**	28,356
Interest capitalized	**1,216**	1,097
Land acquisitions	**-**	7,294
Transfers to investment properties	**(14,098)**	(70,315)
Fair value gains	**336**	-
Balance, end of period	**$40,840**	$24,373

During 2014 Killam invested $14.0 million in Chelsea Place, a 102-unit development in St. John's, and $14.0 million in Saginaw Gardens, a 122-unit development in Cambridge. Phase I of Chelsea Place (63 units) was completed in December 2014 and is expected to be fully leased in the first half of 2015. The transfer to investment properties during the year represents this property. Phase II of Chelsea Place (39 units), is expected to be completed in Q1-2015 and is 62% pre-leased. The total cost of the project is expected to be $21.8 million and the Company has recognized a $0.7 million gain when the property was recorded at fair value.

Saginaw Gardens is expected to cost $25.3 million and is anticipated to be completed during Q2-2015. This project is recorded at cost as the project has not reached a stage where fair value can be reliably determined.

Killam hired third-party project managers for each of the projects and fixed the majority of construction costs. Both projects are expected to generate all-cash yields of approximately 6.0%. This is an estimated 100 to 150 bps premium over the yield anticipated on acquisitions of similar quality assets. The remaining cash required to finish both projects is expected to come from construction financing, with Killam already having met its equity requirements. Fixed rate mortgages will be placed on the properties once they have been completed and substantially leased.

During Q4-2014 Killam began construction at Southport Developments, a 142-unit development in downtown Halifax. Killam owns a 50% interest in the project, representing 70 rental units. Killam's cost for the development is $14.7 million ($210,000 per unit). The development is expected to be completed in 2016.

Killam expects to continue growing through development. The Company currently holds land with development potential for 800 to 1,000 multi-family residential units. Within the next two years, Management has the opportunity to begin construction on an additional 350 to 400 units, including projects in downtown Halifax, Mississauga, Cambridge and St. John's.

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

Capital Improvements

Killam invests capital to maintain and improve the operating performance of its properties. During the year ended December 31, 2014, Killam invested a total of $32.7 million in its portfolio, compared to $21.6 million in 2013.

For the years ended December 31,

	2014	2013	% Change
Apartments	**$30,096**	$18,100	66.3%
MHCs	**2,525**	3,505	(28.0)%
Other	**47**	42	11.9%
	$32,668	$21,647	50.9%

Apartments - Capital Spend

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

For the years ended December 31,

	2014	2013	% Change
Building improvements	**$18,498**	$8,545	116.5%
Suite renovations	**9,470**	7,390	28.1%
Appliances	**1,246**	1,188	4.9%
Boilers and heating equipment	**363**	371	(2.2)%
Other	**237**	209	13.4%
Equipment	**197**	211	(6.6)%
Parking lots	**45**	133	(66.2)%
Land improvements	**40**	53	(24.5)%
Total capital spend	**$30,096**	$18,100	66.3%
Average number of units outstanding	**12,870**	12,210	5.4%
Capital spend per unit	**$2,338**	$1,482	57.8%

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

Killam spent $2,338 per unit for the year ended December 31, 2014, compared to $1,482 per unit for the year ended December 31, 2013. Of the $30.1 million capital investment made in the apartment segment in 2014, 60% was spent on building improvements. Of the $18.5 million spent on building improvements, approximately $5 million represents large projects that were completed on four properties; Spring Garden Terrace, Quinpool Towers, Cabot House and Sydney Arms. These projects included major façade upgrades, roof and balcony replacements. Excluding the cost of these projects from total capital spend, the revised capital spend per unit would be $1,950 or a 31.6% increase over 2013. This increase is attributable to the timing of capital spend required on certain properties, as $7.3 million was spent on properties built in or prior to 1975. This capital spend would include common area renovations, energy efficiency investments and general upgrades in order to improve the quality of the Company’s portfolio.

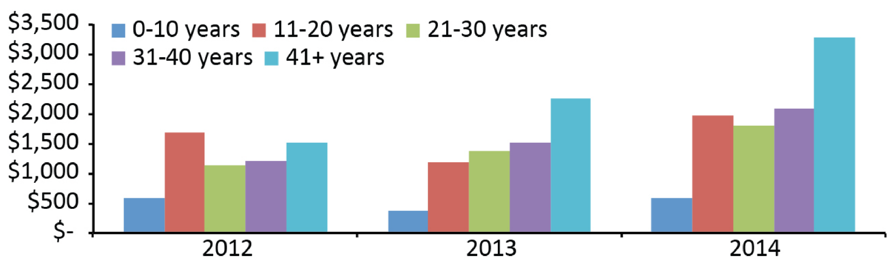
Approximately 30% of the capital spend during the year was invested in suite renovations. The increase year-over-year was due to unit upgrades to improve quality and increase occupancy, increase yields on properties identified for repositioning, and support the Company's commitment to increasing unit quality to maximize rental increases.

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

The Company continues to reposition properties that show significant value creation opportunities by upgrading suites and generating increased NOI through higher rents. During 2014, the Company identified a 199-unit property located in Mississauga, ON, as a property with significant potential for repositioning and rental growth. To-date Killam has completed two unit renovations averaging $10 thousand per renovation. Each unit renovation included new flooring and kitchen and bathroom upgrades, and in both instances, the Company realized an increase of approximately 15% in rents or a return of 24% on the $10 thousand invested. The Company expects to complete additional upgrades during 2015.

The timing of capital spending is influenced by tenant turnover, market conditions, and individual property requirements, causing variability. In addition, the length of time that Killam has owned a property and the age of the property also influences capital requirements.

Average Capital Spend Per Unit by Building Age



As the above chart highlights, the capital spend per unit is less for newer properties, averaging $576 per unit in 2014, compared to $3,271 per unit for buildings over 40 years old. Killam's continual focus on developing and acquiring new properties aids in maintaining lower capital requirements on a per unit basis. 24% of Killam's apartments, as a percentage of anticipated 2015 NOI, have been built in the past ten years.

Value-enhancing capital improvements increase the operating effectiveness and profitability of Killam's apartment portfolio and the Company expects to invest approximately $25 - $27 million during 2015 on portfolio capital investments.

MHCs - Capital Spend

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

For the years ended December 31,

	2014	2013	% Change
Water & sewer upgrades	**$1,226**	$2,212	(44.6)%
Site expansion and land improvements	**544**	552	(1.4)%
Other	**468**	465	0.6%
Roads and paving	**272**	255	6.7%
Equipment	**15**	21	(28.6)%
Total capital spend - MHCs	**$2,525**	$3,505	(28.0)%
Average number of units outstanding	**5,165**	7,207	(28.3)%
Capital spend per unit	**$489**	$486	0.6%

Management expects to invest between $300 and $500 in capital per MHC site on an annual basis. As with the apartment portfolio, a portion of the MHC capital is considered maintenance capital and a portion is value enhancing. Management estimates that $100 per unit is maintenance capital, including costs to support the existing infrastructure, and the remaining amount increases the value of the properties, with improved roadways, ability to accommodate future expansion, and community enhancements, such as the addition of playgrounds. The cost of most capital projects will be recovered through above-guideline increases in the provinces with rent control, leading to increased NOI from the investment.

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

For the year ended December 31, 2014, Killam invested $2.5 million in capital expenditures compared to $3.5 million in 2013. This year-to-date decrease primarily relates to a reduction in MHC properties with the MHC sale in November 2013, and a reduction in water and sewer system upgrades. Year-over-year per unit costs are comparable with $489 invested per unit in 2014 and $486 per unit in 2013.

As with the apartment portfolio, the timing of MHC capital investment changes based on requirements at each community. Killam expects to invest $2.0 - $3.0 million during 2015 on capital improvements across the MHC portfolio.

Loan Receivable

On May 23, 2014, the Company provided a $4.0 million mezzanine loan to a third-party developer for the construction of a multi-family residential property, bearing interest at prime plus 7.0% or a minimum of 10.0%, paid quarterly. Full repayment of the loan is due within 36 months from the initial advance.

Liquidity and Capital Resources

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

Killam's ability to grow through acquisitions and development will be dependent on the ability to access mortgage debt, construction financing and to raise equity in the capital markets. Killam had cash on hand of $18.8 million at December 31, 2014, a portion of which can be used for future growth.

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at December 31,

	2014	2013	% Change
Weighted average years to maturity of mortgage and vendor debt (years)	**4.4**	3.9	12.8%
Gross mortgage, loan and vendor debt as a percentage of total assets	**47.6%**	45.6%	4.4%
Total debt as a percentage of total assets	**54.9%**	52.9%	3.8%
Interest coverage ratio	**2.18x**	2.11x	3.3%
Debt service coverage ratio	**1.32x**	1.36x	(2.9)%
Weighted average interest rate of mortgage and vendor debt	**3.60%**	4.05%	(45) bps
Weighted average interest rate of total debt	**3.93%**	4.38%	(45) bps

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

As at December 31, 2014, three construction financing loans, totaling $31.9 million and five demand loans, totaling $4.8 million, had floating interest rates. The construction financing loans carry an interest rate of prime plus 1.0% and the demand loans carry an interest rate of prime plus 1.0% - 2.0%. The construction loans will be repaid in full and converted into CMHC insured mortgages once rental targets are achieved.

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

Killam's December 31, 2014, weighted average interest rate on mortgages improved to 3.60% compared to 4.05% as at December 31, 2013, as a result of refinancings at lower interest rates during the year. Killam's weighted average interest rate is expected to continue to improve over the next two years when $206.2 million at a current average interest rate of 4.3% (2015 - $91.1 million at current average interest rate of 4.49%; 2016 - $115.1 million at a current average interest rate of 4.21%) are expected to be refinanced at lower interest rates than their current weighted average rate. These refinancings represent 24% of Killam's total mortgage portfolio.

Total debt as a percentage of total assets has increased 200 bps to 54.9% from December 31, 2013. Management expects to maintain the percentage of debt to total assets between 55% and 65%. This ratio is sensitive to changes in the fair value of investment properties, in particular cap-rate changes. A 10 basis point increase in the weighted average cap-rate at December 31, 2014, would have increased the ratio of debt as a percentage of total assets by 90 bps.

2014 Refinancings

During the year ended December 31, 2014, Killam refinanced the following mortgages:

	Mortgage Debt Maturities		Mortgage Debt on Refinancing		Weighted Average Term	Net Proceeds
Apartments	$120,981	4.47%	$172,417	2.72%	6.0 years	$51,436
MHCs	13,513	5.93%	20,465	3.78%	5.0 years	6,952
	$134,494	4.62%	$192,882	2.83%	5.9 years	$58,388

The Company also placed $74.6 million in new financing on unencumbered properties acquired during the year ended December 31, 2014, at a weighted average interest rate of 3.31%.

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

	Apartments			MHCs		**Total**	
Year of Maturity	**Balance December 31, 2014**	Weighted Avg Int. Rate %	% CMHC Insured	**Balance December 31, 2014**	Weighted Avg Int. Rate %	**Balance December 31, 2014**	Weighted Avg Int. Rate %
2015	87,011	4.46	69.3	4,073	5.19	91,084 (1)	4.49
2016	111,945	4.18	53.0	3,143	5.09	115,088	4.20
2017	61,012	3.43	43.3	17,328	4.65	78,340	3.70
2018	87,254	3.68	44.1	12,898	4.34	100,152	3.77
2019	176,618	2.83	97.1	20,251	3.86	196,869	2.94
2020	57,041	3.40	47.2	-	-	57,041	3.40
2021	23,064	3.79	88.7	-	-	23,064	3.79
2022	23,806	3.16	100.0	-	-	23,806	3.16
2023	84,014	3.30	100.0	-	-	84,014	3.30
Thereafter	87,225	3.57	100.0	-	-	87,225	3.57
	$ 798,990	3.55	74.9	$ 57,693	4.36	$856,683	3.60

(1) Excludes $4.1 million related to demand loans classified as current mortgage debt on the 2014 consolidated financial statements.

As at December 31, 2014, approximately 75% of the Company's apartment mortgages were CMHC insured (70% of all mortgages as MHC properties are not eligible for CMHC insurance) (December 31, 2013 – 72% and 67%). The weighted average interest rate on the CMHC insured mortgages was 3.31% as at December 31, 2014 (December 31, 2013– 3.67%).

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

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

The following table presents the NOI of properties that are available to Killam to refinance at debt maturity for 2015 and 2016. With $206.2 million in mortgages maturing in 2015 and 2016, Management is evaluating opportunities to fix interest rates before maturity to lock in savings on refinancings.

2015 & 2016 Debt Refinancings

2015	**Number of Properties**	**NOI**	**Principal Balance (at maturity)**
Apartments with debt maturing in 2015	35	$11,856	$85,551
MHCs with debt maturing in 2015	4	797	3,962
2015 debt maturities	39	$12,653	$89,513
2016			
Apartments with debt maturing in 2016	31	$14,340	$105,841
MHCs with debt maturing in 2016	4	537	2,380
2016 debt maturities	35	$14,877	$108,221

Future Contractual Debt Obligations

At December 31, 2014, the timing of the Company's future contractual debt obligations are as follows:

Year	Mortgage and loans payable	Construction loans	Convertible debentures	**Total**
2015	$115,248	$31,944	$-	**$147,192**
2016	130,668	-	-	**130,668**
2017	95,619	-	57,500	**153,119**
2018	105,562	-	46,000	**151,562**
2019	179,777	-	-	**179,777**
Thereafter	233,871	-	-	**233,871**
	$860,745	$31,944	$103,500	**$996,189**

Debentures

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

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

Construction Loans

As at December 31, 2014, the Company had access to three floating rate non-revolving demand construction loans totaling $43.2 million for the purpose of financing the development projects and 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 December 31, 2014, $31.9 million (December 31, 2013 - $14.8 million) was drawn at a weighted average interest rate of 3.84% (December 31, 2013 - 3.75%).

Credit Facilities

The Company has two credit facilities with major financial institutions, which consists of a $2.0 million revolving demand facility that can be used for the Company's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 bps on prime rate advances or 225 bps over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. At December 31, 2014, the Company had assets with a fair value of $1.8 million pledged to the line and had a balance outstanding of $Nil (December 31, 2013 - $Nil). The agreement includes certain covenants and undertakings of which the Company is in compliance.

The Company also has 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 December 31, 2014, the Company had assets with a fair value of $1.1 million pledged as collateral and letters of credit totaling $1.5 million outstanding against the facility (December 31, 2013 - $0.5 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

Shareholders' Equity

On November 28, 2014, Killam completed a public share offering, on a bought deal basis, of common shares ("shares") to the public at a price of $10.55 per share. Killam issued 4,370,000 shares, including 570,000 shares on the exercise of an Over-Allotment Option, for gross proceeds of $46.1 million.

During the year, the Company issued 426,136 and 691,488 shares for cash proceeds of $4.5 million and $7.0 million through private placements to a joint venture between KingSett and AIMCo. Following the completion of the private placements, the joint venture collectively owns shares of Killam, representing approximately 11% of Killam's shares outstanding. In connection with the private placements, the joint venture has agreed to certain customary "standstill" provisions with respect to Killam's shares. The cash from the private placements were used to acquire a 50% interest in Grid 5 Apartments and Kanata Lakes Apartments II through its joint operation with affiliates of KingSett and AIMCo. In addition, the Company issued 75,330 shares during Q1-2014 related to a Q4-2013 acquisition of 50 Roy Boates Avenue located in PEI.

For the year ended December 31, 2014, 182,500 stock options were exercised for shares, and cash proceeds to the Company of $1.2 million (December 31, 2013 – 144,349 and cash proceeds of $1.0 million). There were also 42,856 restricted share units ("RSUs") redeemed and 25,197 shares issued related to the redemption during 2014 (December 31, 2013 – 50,090 RSUs redeemed and 21,838 shares issued).

Killam pays a dividend of $0.05 per share per month ($0.60 per share annualized). The Company's Dividend Reinvestment Plan ("DRIP") allows shareholders to elect to have all cash dividends from the Company reinvested in additional shares. Shareholders who participate in the DRIP receive an additional dividend of shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to the ten day volume weighted average price of the Company's shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration. For the year ended December 31, 2014, the Company issued 246,553 shares under the DRIP with a value of $2.6 million (December 31, 2013 – 296,004 shares with a value of $3.3 million). For the year ended December 31, 2014, the average DRIP participation rate was 8% (December 31, 2013 - 10%).

Part VII
Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

	2014				2013			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Property revenue	$38,147	$37,777	$36,518	$35,065	$36,262	$37,095	$34,506	$33,249
Operating expenses	(16,380)	(14,004)	(15,077)	(17,445)	(14,863)	(13,845)	(14,281)	(15,083)
Net operating income	21,767	23,773	21,441	17,620	21,399	23,250	20,225	18,166
Operating margin %	57.1%	62.9%	58.7%	50.2%	59.0%	62.7%	58.6%	54.6%
Home sale (loss) income	(15)	40	26	10	66	44	154	59
Equity & corporate income	758	529	371	346	165	484	1,031	362
Net (loss) income applicable to common shareholders	(9,259)	20,491	13,671	4,869	(4,543)	12,117	23,238	8,967
Per share (basic)	(0.16)	0.37	0.25	0.09	(0.10)	0.22	0.43	0.17
FFO	10,238	12,919	10,179	6,826	9,812	11,668	9,478	7,812
FFO/share (basic)	0.18	0.24	0.19	0.13	0.18	0.22	0.18	0.15
FFO/share (diluted)	0.18	0.23	0.18	0.12	0.18	0.21	0.17	0.14

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

For the three months ended December 31,

	2014	2013
Property revenue	**$38,147**	$36,262
Property operating expenses	**(16,380)**	(14,863)
Home sales	**(15)**	66
Equity income	**329**	138
Corporate income	**429**	27
	22,510	21,630
Financing costs	**(8,701)**	(9,061)
Depreciation	**(177)**	(149)
Amortization of deferred financing costs	**(450)**	(431)
Administration	**(2,497)**	(2,185)
	(11,825)	(11,826)
Income before fair value losses, loss on disposition and income taxes	**10,685**	9,804
Fair value losses	**(16,814)**	(13,827)
Loss on disposition	**(1,351)**	(1,572)
Income before income taxes	**(7,480)**	(5,595)
Current tax recovery (expense)	**1,124**	(1,450)
Deferred tax expense	**(2,198)**	2,860
Net loss	**$(8,554)**	$(4,185)
Net loss attributable to:		
Common shareholders	**$(9,259)**	$(4,543)
Non-controlling interest	**705**	358
	$(8,554)	$(4,185)

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

Q4 Same Store NOI

For the three months ended December 31,

	Total Portfolio			Apartments			MHCs		
	2014	2013	% Change	**2014**	2013	% Change	**2014**	2013	% Change
Property revenue	**$ 32,497**	$ 31,936	1.8%	**$29,387**	$28,909	1.7%	**$3,110**	$3,027	2.7%
Property expenses									
Operating expenses	**5,708**	5,624	1.5%	**4,922**	4,803	2.5%	**786**	821	(4.3)%
Utility and fuel expenses	**4,951**	4,639	6.7%	**4,632**	4,368	6.0%	**319**	271	17.7%
Property taxes	**3,695**	3,683	0.3%	**3,551**	3,523	0.8%	**144**	160	(10.0)%
Total property expenses	**14,354**	13,946	2.9%	**13,105**	12,694	3.2%	**1,249**	1,252	(0.2)%
NOI	**$ 18,143**	$ 17,990	0.9%	**$16,282**	$16,215	0.4%	**$1,861**	$1,775	4.8%
Operating margin	**55.8 %**	56.3 %	(50) bps	**55.4%**	56.1%	(70) bps	**59.8%**	58.6%	120 bps

Killam's same store apartment portfolio realized NOI growth of 0.4% for Q4-2014. Net apartment revenue growth of 1.7%, or $0.5 million, quarter-over-quarter is the result of increased rental rates of 1.2% from December 31, 2013, decreased rental incentive offerings and slightly lower vacancy. As shown in the same store summary above, higher utility and fuel costs, up 6.0%, were the main driver of the 3.2% increase in total property operating expenses. Increased natural gas, water and electricity costs drove the increase in expenses. Although the Company experienced a mild fourth quarter in 2014 compared to 2013 with reduced heating consumption, the increase in natural gas costs was approximately $0.3 million due to increased natural gas pricing in Atlantic Canada. As well, operating expenses increased 2.5% as a result of increased salary costs and contract service costs and timing of repairs and maintenance.

The MHC same store portfolio continued to generate strong revenue growth, up 2.7% from Q4-2013, driven by increased rental rates and stable occupancy quarter-over-quarter. Increase in water consumption at one NS property, which has subsequently been remediated, led to a $48 thousand or 17.7% increase in utility expenses, offsetting the savings realized in operating expenses and timing of tax recoveries. Overall operating expenses decreased by 0.2% for the quarter and the MHC portfolio achieved a 4.8% growth in same store NOI.

Q4 FFO and AFFO

For the three months ended December 31,

	2014	2013	% Change
Net income	**$(8,554)**	$ (4,185)	
Fair value losses	**16,800**	13,827	
Fair value (gains) losses in equity income	**(228)**	26	
Non-controlling interest (before fair value gains)	**(247)**	(277)	
Depreciation on owner-occupied building	**42**	36	
Loss on disposition	**1,351**	1,572	
Tax planning costs	**-**	223	
Current tax (recovery) expense	**(1,124)**	1,450	
Deferred tax expense	**2,198**	(2,860)	
FFO	**$ 10,238**	$ 9,812	4.3%
FFO/share - basic	**$ 0.18**	$ 0.18	-%
FFO/share - diluted	**$ 0.18**	$ 0.18	-%
AFFO/share - basic	**$ 0.15**	$ 0.15	-%
AFFO/share - diluted	**$ 0.15**	$ 0.15	-%
Weighted average shares - basic (000's)	**57,277**	54,395	5.3%
Weighted average shares - diluted (000's)	**57,544**	54,702	5.2%
AFFO payout ratio - basic	**99%**	95%	4.2%

FFO was $10.2 million in the fourth quarter, up 4.3% from $9.8 million in the fourth quarter of 2013. FFO per share (diluted) was $0.18 in Q4-2014 consistent with the same period in 2013 due to acquisitions and developments ($1.0 million), interest expense savings and increased capitalized interest ($0.7 million) offset by higher administrative costs ($0.4 million), lost MHC earnings related to the ten property portfolio sold on November 29, 2013 ($0.4 million) and a 5.2% increase in the weighted average shares outstanding.

PART VIII

Risk Management

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

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

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

Killam is exposed to other risks, as outlined below:

Interest Rate Risk

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

As at December 31, 2014, no mortgages or vendor debt had floating interest rates except for five demand loans totaling $4.8 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 three construction loans of $31.9 million with floating interest rates of prime to prime plus 1.0% and consequently, Killam is exposed to short-term interest rate risk on these loans.

Liquidity Risk

Liquidity risk is the risk that the Company may not have access to sufficient debt and equity capital to fund its growth program and/or refinance its debt obligations as they mature. Management manages the Company's cash resources based on financial forecasts and anticipated cash flows. The maturities of the Company's long-term financial liabilities are set out in Note 27 of the consolidated financial statements. The Company structures its financings so as to stagger the maturities of its debt, thereby minimizing the Company's exposure to liquidity risk in any one year. In addition, the Company's apartments qualify for CMHC insured debt, reducing the refinancing risk on mortgage maturities. The Company's MHCs do not qualify for CMHC insured debt, however, they continue to have access to mortgage debt.

Increased Supply Risk

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

Credit Risk

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

Development Risk

Development risk is the risk that costs of developments will exceed original estimates, unforeseen delays occur and/or units will not be leased in the timeframe and/or at rents anticipated. Killam minimizes its exposure to development risk my limiting the amount of development underway at any one time and representing less than 5% of the Company's consolidated statements of financial position. To reduce the Company's exposure to cost increases, Killam enters into fixed-rate contracts when possible. To reduce the lease-up risk, Killam does market research in advance of each development to support expected rental rates, and premarkets its properties early on in the process, to increase demand for the new developments.

Environmental Risk

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

General Uninsured Losses

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

Rent Control Risk

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

Utility, Energy and Property Tax Risk

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

Taxes

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

Dividend Payments

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

Critical Accounting Policies and Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments Other Than Estimates

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

Property Acquisitions

When investment properties are acquired, Management considers whether the acquisition represents the acquisition of an asset or a business. The Company accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made of the extent to which significant processes are acquired.

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

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

Investment Properties

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

Financial Instruments

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

Taxes

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

Consolidation and joint arrangements

The Company has determined that it controls and consolidates the subsidiaries where it owns a majority of the shares. The Company is part owner of one property in which it has a 49% interest. The Company has determined that it does control this property as it operates and manages the property, governs the financial and operating policies, and has the power to cast the majority of the votes at meetings of the board of directors given the widely held distribution of the remaining ownership percentage. This property is accounted for on a consolidated basis.

Estimates

Valuation of Investment Properties

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

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

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

Fair Value of Financial Instruments

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

Changes in Accounting Policies

The accounting policies applied during the year ended December 31, 2014, are consistent with those used in the audited consolidated financial statements for the year ended December 31, 2013, except for the following new International Financial Reporting Interpretations Committee ("IFRIC") interpretation which was 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. The adoption of this interpretation did not have an impact on the Company's financial position.

Future Accounting Policy Changes

As at February 17, 2015, the following new or amended IFRS have been issued by the International Accounting Standards Board (“IASB”) and are expected to apply to Killam for annual reporting periods beginning after December 31, 2014:

IFRS 9 *Financial Instruments* (“IFRS 9”)

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before February 1, 2015. The Company is in the process of assessing the impact IFRS 9 may have on future financial statements and plans to adopt the new standard on the required effective date.

IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”)

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is in the process of assessing the impact IFRS 15 may have on future financial statements and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 *Joint Arrangements: Accounting for Acquisitions of Interests (“IFRS 11”)*

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after January 1, 2016, with early adoption permitted. The Company is in the process of assessing the impact the amendments to IFRS 11 may have on future financial statements.

Disclosure Controls and Procedures and Internal Controls

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

Disclosure Controls and Procedures

As of December 31, 2014, the Company's management evaluated the effectiveness of the operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer.

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

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

Internal Controls over Financial Reporting

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

As of the financial year ended December 31, 2014, the certifying Officers have evaluated the design and effectiveness of such ICFR, or caused them to be designed and evaluated under their supervision. The certifying Officers have concluded that the design and effectiveness of ICFR were operating effectively as at December 31, 2014, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The certifying Officers have evaluated whether there were any changes to the Company's ICFR during the year ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

Subsequent Events

On January 19, 2015, and February 17, 2015, the Company announced dividends of $0.05 per share, payable on February 17, 2015, and March 16, 2015, to shareholders of record on January 30, 2015, and February 27, 2015.