KILLAM PROPERTIES INC
2014 ANNUAL REPORT

WHAT TO KNOW ABOUT KILLAM

SELECTION

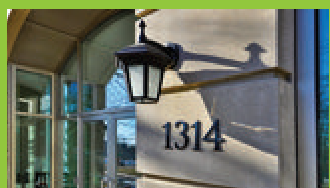
Killam owns more than 200 properties in 6 different provinces.

WELL MAINTAINED

Killam's priority is to have clean and well-maintained properties. These include a selection of new and recently renovated apartments.

SECURE & SAFE

Killam is diligent in maintaining the safety and security of its properties.



RESPONSIVE STAFF

Killam's professional leasing agents and on-site staff are always available to ensure a positive rental experience.

LOCATION

Killam owns properties in preferred neighbourhoods, from urban to suburban.

ABOUT KILLAM PROPERTIES INC.

Killam Properties Inc. is a growth-oriented Canadian real estate company. Killam owns, manages and develops multi-family residential properties in Atlantic Canada, Ontario and Alberta. Since its first acquisition in 2002, Killam's real estate portfolio has grown to $1.7 billion and includes 13,427 apartment units and 5,165 manufactured home community (MHC) sites.

Killam is focused on maximizing its value and long-term profitability by concentrating on three key areas of growth:

- Increasing the earnings from its existing portfolio
- Expanding the portfolio and diversifying geographically through accretive acquisitions, with an emphasis on newer assets, and
- Developing high-quality properties in its core markets

KILLAM'S MISSION

To have a team of caring staff deliver clean, safe, quality housing to tenants who are proud to call our properties home.

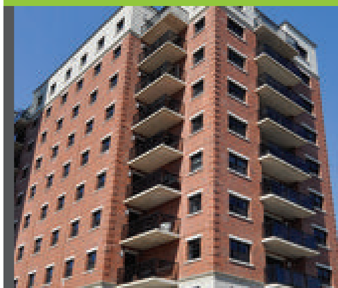
KILLAM'S CORE VALUES

- Build Community
- Do the Right Thing
- Creative Solutions
- Curb Appeal
- Strong Customer Relationships

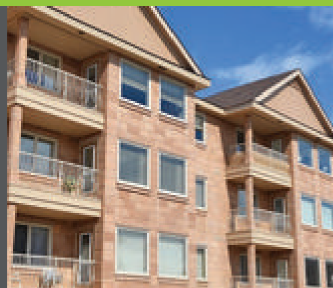
KILLAM'S CORE MARKETS

APARTMENTS

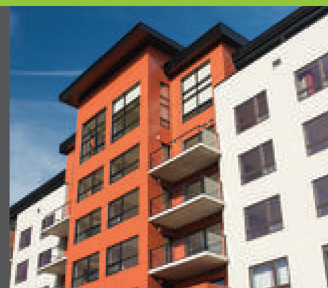
TOTAL APARTMENT UNITS 13,427 | AVERAGE RENT $949



HALIFAX, NS
UNITS 5,056 | RENT $948

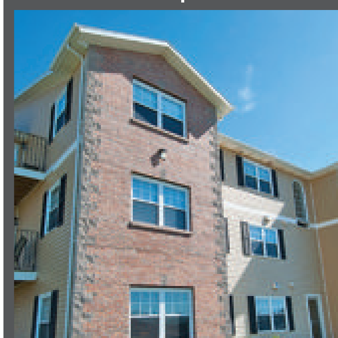


MONCTON, NB
UNITS 1,629 | RENT $832



FREDERICTON, NB
UNITS 1,394 | RENT $895

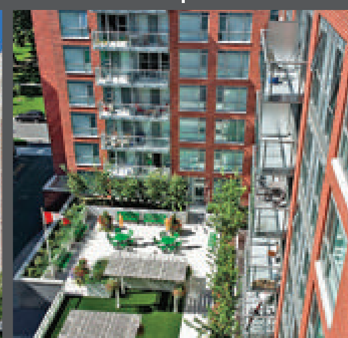
SAINT JOHN, NB
UNITS 1,143 | RENT $749



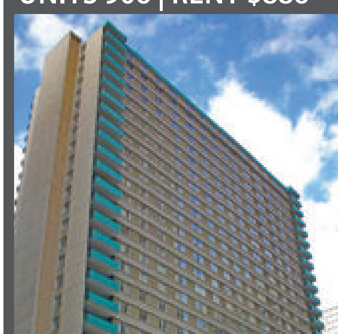
CHARLOTTETOWN, PE
UNITS 906 | RENT $886

ST. JOHN'S, NL
UNITS 876 | RENT $913

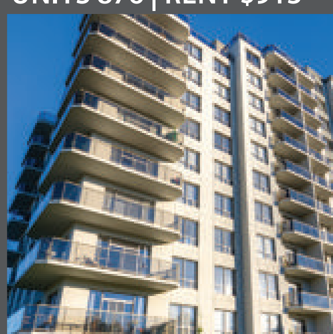
OTTAWA, ON
UNITS 780 | RENT $1,181



TORONTO, ON
UNITS 378 | RENT $1,070



CALGARY, AB
UNITS 307 | RENT $1,359



LONDON, ON
UNITS 264 | RENT $1,615

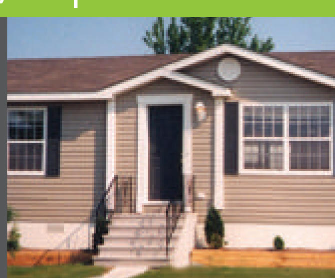
CAMBRIDGE, ON
UNITS 225 | RENT $1,479

NON-CORE REGIONS
UNITS 469 | RENT $819

MHCs

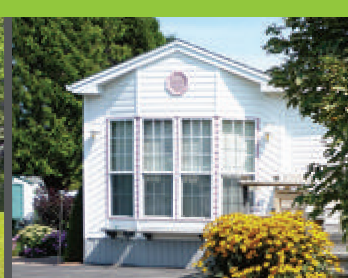
TOTAL MHC UNITS 5,165 | AVERAGE RENT $228

NOVA SCOTIA
SITES 2,626 | RENT $229



ONTARIO
SITES 2,145 | RENT $237

NEW BRUNSWICK
SITES 224 | RENT $146



NEWFOUNDLAND
SITES 170 | RENT $200

2014 HIGHLIGHTS

$160 MILLION IN ACQUISITIONS COMPLETED

2014 was Killam's biggest year for acquisitions since 2005. Killam expanded its portfolio in Atlantic Canada, grew its investment in Ontario, and entered the Alberta apartment market with a $50 million investment.

1.7% IN SAME STORE REVENUE GROWTH

With improved occupancy and rental increases, Killam generated positive revenue growth across the portfolio.

$29 MILLION INVESTED IN DEVELOPMENTS

Killam is focused on expanding its growth opportunities with apartment developments. Two new developments will be completed in 2015. Killam has invested over $100 million in new developments since 2010.

$0.72 IN FFO PER SHARE

Killam generated diluted FFO per share of $0.72, a 1.4% increase compared to $0.71 earned in 2013.

DECREASING INTEREST EXPENSE

Killam benefited from a low interest rate environment as maturing mortgages were refinanced at lower rates. The weighted average mortgage interest rate decreased by 45 basis points in 2014, to 3.60% at December 31, 2014, from 4.05% a year earlier.

FINANCIAL & OPERATING HIGHLIGHTS

(Dollar values in thousands, except per share amounts)

As at and for the years ended December 31,	**2014**	2013	2012
Operations			
Property revenue	**$147,507**	$141,112	$133,641
Net operating income	**$84,601**	$83,040	$80,444
Funds from operations (FFO) [1]	**$40,162**	$38,770	$36,096
FFO per share (diluted)	**$0.72**	$0.71	$0.71
Adjusted funds from operations (AFFO) [2]	**$34,023**	$32,743	$30,353
AFFO per share (diluted)	**$0.61**	$0.60	$0.59
Dividends declared per share	**$0.60**	$0.58	$0.58
FFO payout ratio	**83.3%**	81.7%	81.7%
AFFO payout ratio	**98.4%**	96.7%	98.3%
Financial Position			
Total assets	**$1,775,234**	$1,532,431	$1,443,128
Total liabilities	**$1,112,551**	$928,371	$854,692
Total equity	**$662,683**	$604,060	$588,436
Shares outstanding (weighted average)	**55,394**	54,143	50,227
Shares outstanding (at Dec 31)	**60,476**	54,459	53,802
Total gross debt as a percent of total assets	**54.9%**	52.9%	51.6%
Interest coverage ratio	**2.18**	2.11	2.00
Portfolio Information			
Apartment units	**13,427**	12,647	11,620
MHC sites	**5,165**	5,164	7,407
Average rent per apartment unit	**$949**	$915	$888
Average rent per MHC site	**$228**	$221	$224

(1) FFO is calculated 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.
(2) AFFO is calculated as FFO less $450 per apartment unit and $100 per MHC site for maintenance-related capital costs.

2014 PERFORMANCE SUMMARY

Objective	2014 Target	2014 Performance	2015 Target
Consolidation of the Multi-family Residential Real Estate Market and Increase Investment in New Properties	Complete a minimum of $75 million in acquisitions and develop two current apartment projects on schedule and within 5% of budget.	Target achieved. Killam completed $160.2 million in acquisitions in 2014, purchasing apartment buildings in Ottawa, Moncton and Halifax, a 50% interest in a property in Calgary, a 50% interest in a property in Ottawa and increased ownership interests in three properties located in Ontario, previously held as part of a joint venture. Killam's two apartment developments, Chelsea Place (St. John's, NL) and Saginaw Gardens (Cambridge, ON), are on budget. Their scheduled completion has been extended by approximately three months from the originally expected completion dates. Both projects are expected to be completed during the first half of 2015.	Complete a minimum of $75 million in acquisitions and complete two apartment developments within 5% of budget.
Geographic Diversification	Invest more than 50% of the 2014 acquisition program outside Atlantic Canada, with a focus on Ontario.	Target achieved. During 2014, Killam completed $84.0 million of acquisitions in Ontario and a $50 million acquisition in Calgary. These purchases represent 83.7% of the total acquisitions completed in 2014 and exceed the geographic diversification target set for 2014. These acquisitions increased the percentage of Killam's NOI and equity income generated outside of Atlantic Canada to 13.5% in 2014, from 10.4% in 2013. Killam expects this percentage to increase to 22% during 2015 based on the portfolio at December 31, 2014.	2015 acquisition program to include over 50% of acquisitions outside Atlantic Canada, with a focus on Ontario and Alberta.
Growth in Same Store Net Operating Income	Same store NOI growth of 0% to 2%.	Target not achieved. Despite generating 1.7% growth in same store revenue, high natural gas prices in Atlantic Canada caused total same store utility and fuel expenses to increase 13% during the year, which resulted in a decrease in same store NOI of 0.9% for the year.	Same store NOI growth of 0% to 2%.

2014 ACQUISITIONS

Killam completed $160 million in acquisitions in 2014, the biggest year of acquisitions since 2005. Below are highlights of Killam's major purchases this year.

300 Royale

300 Royale Boulevard
Dartmouth, Nova Scotia

$18.6 million

Killam acquired the newly constructed 83-unit luxury apartment building in April 2014. The property is located adjacent to two other Killam buildings, 100 and 200 Royale, acquired in 2011 and 2013, respectively. The three buildings together create a community of 247 new, condo-quality apartment units with a shared courtyard.

180 Mill

180 Mill Street
London, Ontario

$26.2 million for an additional 75% interest

Killam increased its ownership of 180 Mill Street from 25% to 100% in December 2014. Built in 2011, 180 Mill Street is a 12-storey, 127-unit property with two levels of underground parking in downtown London.

Kanata Lakes I & II

1025 Canadian Shield Avenue
& 1175 Maritime Way
Ottawa, Ontario

Kanata Lakes I

$11.8 million for an additional 25% interest

In December 2014, Killam increased its ownership from 25% to 50% of this 146-unit building constructed in 2012. Killam's original 25% interest was acquired in 2012.

Kanata Lakes II

$24.4 million for a 50% interest

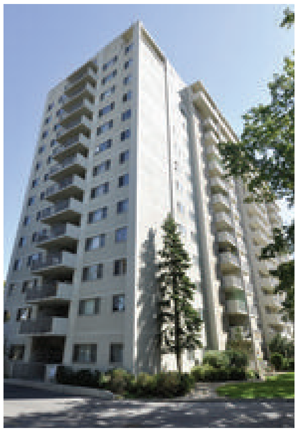
Killam acquired a 50% interest in this newly constructed 152-unit building in September 2014. Completed in 2013, Kanata Lakes II is the second of a five-building complex with a shared clubhouse.

Grid 5

618 5th Avenue SW,
Calgary, Alberta

$50 million for a 50% interest

Killam acquired a 50% interest in Grid 5, a 307-unit building located in downtown Calgary, in December 2014. This represents Killam's first apartment acquisition in Alberta. Grid 5 was extensively redeveloped in 2014. The property includes 14,500 square feet of commercial space and five levels of parking.



Silver Spear

1355 Silver Spear Road
Mississauga, Ontario

$9.1 million for an additional 25% interest

Killam increased its investment in 1355 Silver Spear Road from 25% to 50% in December 2014. Killam has had an ownership interest in the 199-unit property since 2012 and was pleased to increase its investment in 2014. Adjacent to 1355 Silver Spear is land for future development, of which Killam also has a 50% interest.

2014 DEVELOPMENTS

Killam invested $29 million in developments in 2014, making substantial progress on two projects which will be completed in 2015 and began a new project in December 2014.

Saginaw Gardens

650 Saginaw Parkway, Cambridge, Ontario

$25.3 million, $207,000 per suite

Killam's first development project in Ontario, Saginaw Gardens will open its doors during the spring of 2015. The 7-storey, 122-unit, concrete building includes condo-quality features, large balconies, underground parking, a fitness studio and a large outdoor terrace. Killam owns an additional site adjacent to Saginaw Gardens, which is expected to be developed in 2015 or 2016.

Chelsea Place

11& 15 St. John's Place, St. John's, Newfoundland

$21.4 million, $210,000 per suite

A 102-unit property located near downtown and Quidi Vidi Lake, Chelsea Place is Killam's second new development in St. John's. Demand is strong for new apartments in St. John's, as there has been limited new apartment construction in the market for many years. Chelsea Place will be completed during the first quarter of 2015.

Southport

1057 Barrington Street, Halifax, Nova Scotia

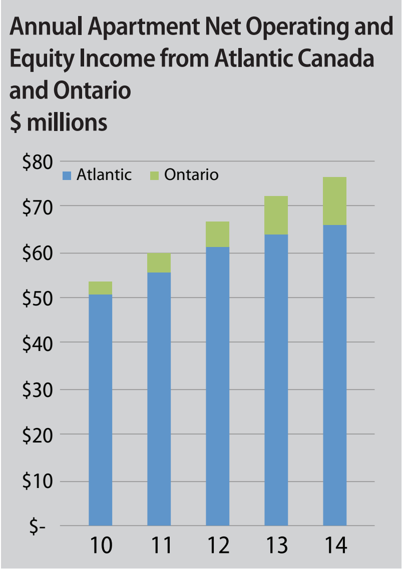
$14.7 million for Killam's 100% apartment interest, $210,000 per suite

During December 2014, Killam began construction of Southport, a 142-unit project located in downtown Halifax. The building will include 72 condo units and 70 rental units. Killam will own 100% of the rental units. The project will offer a unique urban living environment when it is completed in 2016.

KILLAM BY THE THE NUMBERS

INCREASING GEOGRAPHIC DIVERSIFICATION

Killam is increasing its geographic diversification by expanding its apartment ownership outside Atlantic Canada, growing its investment in Canada's strongest and largest apartment markets. Since its first Ontario apartment acquisition in 2010, Killam has invested over $300 million in Ontario and Alberta. Killam's first Alberta apartment acquisition, an apartment building in downtown Calgary, was completed December 2014. During 2014, 14% of Killam's apartment net operating income (NOI) was generated outside Atlantic Canada and this is expected to increase to 22% in 2015. The long-term goal is to have 50% of Killam's NOI generated outside Atlantic Canada.

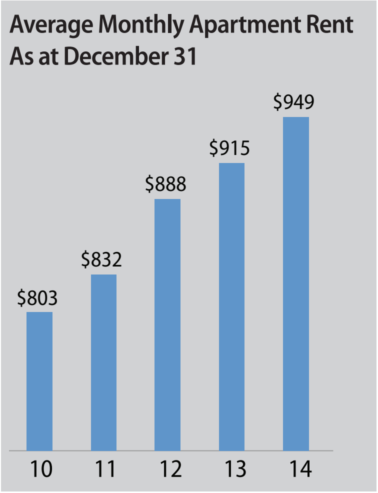


GROWTH THROUGH ACQUISITIONS AND DEVELOPMENTS

Killam is expanding its portfolio by acquiring centrally located buildings in urban markets, focused on ownership in Ontario and Alberta, as well as adding to an established portfolio in Atlantic Canada. During 2014, Killam completed $160 million in acquisitions, with purchases in Calgary, Ottawa, London, Mississauga, Halifax and Moncton. Killam enhanced its growth opportunities with developments, investing $29 million in development projects in 2014. Developments valued at $48 million are expected to be completed during the first half of 2015.

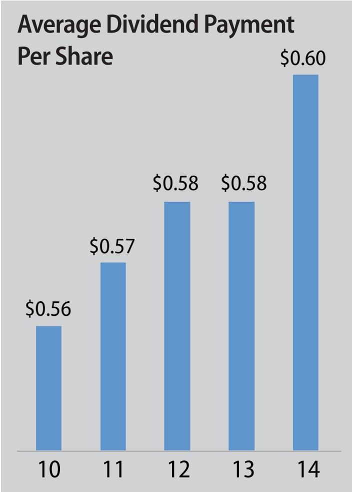
INCREASING THE QUALITY OF ITS PORTFOLIO

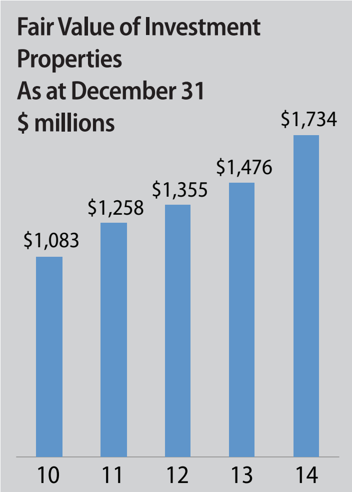
By strategically acquiring newer properties, developing properties and continuing to invest in the portfolio, Killam has increased the quality of its portfolio on an annual basis, which is reflected in the steady increase in average rent. The average rent for the apartment portfolio at the end of December 2014 was $949, an increase of 18.2% compared to $803 at the end of 2010, only four years earlier.



3.6% INCREASE IN DIVIDENDS PAID IN 2014

Killam's annual dividend increased 3.6% in 2014 to $0.60 from $0.58 in 2013. The dividend represents an 83% payout of 2014 FFO per share. At December 31, 2014, the dividend yield on Killam's shares was 5.9%.



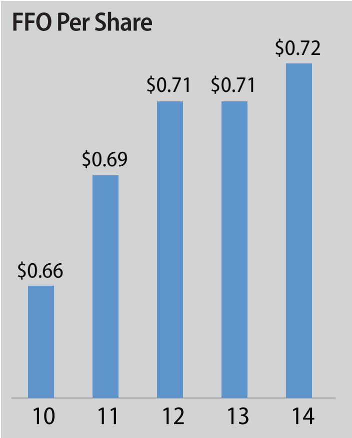


FAIR VALUE OF INVESTMENT PROPERTIES

Killam's real estate portfolio was valued at $1.7 billion at December 31, 2014. An annual increase in the value of investment properties has been attributable to acquisitions, developments and fair value gains on the existing portfolio. Killam funds its growth through a combination of mortgage debt and equity. At December 31, 2014, total debt represented 54.9% of the fair value of Killam's investment properties.

GROWING FFO PER SHARE

Killam generated diluted FFO per share of $0.72 in 2014, a 1.4% increase over 2013. The benefit from acquisitions, developments and interest expense savings were partially offset by higher than normal operating costs due to high natural gas costs in Atlantic Canada. With organic growth expected from its same store portfolio, earnings associated with acquisitions and developments, and continued interest expense savings, Killam is well positioned to continue to grow FFO per share during the year ahead.



LETTER TO SHAREHOLDERS

Robert Richardson
Executive Vice President
& Chief Financial Officer

Philip Fraser
President &
Chief Executive Officer

Colleen McCarville
Vice President
Human Resources

Erin Cleveland
Vice President
Finance

Michael McLean
Vice President
Development

Dale Noseworthy
Vice President
Investor Relations &
Corporate Planning

Ruth Buckle
Vice President
Property Management

Pam Crowell
Vice President
Tenant Experience &
MHC Management

Jeremy Jackson
Vice President
Marketing

Dear Shareholders,

I am pleased to present Killam's results and highlights from 2014 and discuss our plans for the future. Despite headwinds we faced this past year, we made great progress on many fronts. We increased our occupancy levels, effectively managed those expenses we directly control, improved internal operating procedures, progressed on new developments, and completed $160 million in acquisitions. Overall, we generated $0.72 in FFO per share (diluted) in 2014 vs. $0.71 in 2013, a modest increase in our funds from operations.

Our strategy remains consistent. We are focused on three areas of growth for Killam: completing accretive acquisitions, enhancing the portfolio with developments and increasing the value of our existing portfolio. In addition, we are actively pursuing Killam's geographic diversification by increasing the Company's investment in Canada's strongest performing markets.

We were pleased to generate 1.7% revenue growth from our same store assets during the year.

$160 Million in Acquisitions

In 2014, we completed a total of $160 million in acquisitions. This was our largest year for acquisitions since 2005, and well above our minimum target for the year of $75 million. Of the transactions completed, $134 million, or 84%, related to assets outside of Atlantic Canada. We invested $84 million in Ontario, increasing our ownership interest in Ottawa, Toronto and London, and completed our first apartment acquisition in Alberta with a 50% interest in a $100 million property in downtown Calgary. We also continued to strengthen our Atlantic Canadian apartment portfolio with the addition of two luxury properties, a newly developed 83-unit property in Halifax and a 35-unit property in downtown Moncton.

We have been focused on expanding Killam's geographic diversification since we purchased our first apartment in Ontario in 2010. We have a strong operating platform and can support a larger and more geographically diverse portfolio. Increasing our ownership outside Atlantic Canada will give us access to Canada's strongest rental markets. With the inclusion of our 2014 acquisitions, we expect that 22% of apartment net operating income (NOI) in 2015 will be generated in Ontario, up from 14% in 2014.

As part of the acquisitions completed in 2014, we exited our joint venture agreement with Kuwait Finance House, which previously held three Ontario assets, and began a new joint ownership agreement with an affiliate of KingSett Capital Inc. (KingSett) and AIMCo Realty Investors LP, a limited partnership managed by Alberta Investment Management Corporation (AIMCo). Today we own four properties together, with Killam having a 50% interest in each. This partnership has assisted Killam to increase its investment in Ontario and enter the Alberta market. The transactions completed with our new partners allowed us to redeploy capital into properties with better prospects for future growth. We look at KingSett and AIMCo as long-term strategic partners and expect to grow this co-ownership arrangement with future joint acquisitions and/or developments.

Creating Long-term Shareholder Value Though Developments

We create long-term shareholder value through our development program by building assets that enhance our portfolio and consistently create value and deliver strong earnings growth for many years. We are refining our development skills and capacity to build new assets in our core markets, like Halifax and Southern Ontario.

Our two major new developments, which represent a projected total development cost of $48 million, progressed well during the year. The first phase (including 63 units) of Chelsea Place, a 102-unit development in St. John's, Newfoundland, was completed in late fall 2014, with tenants moving in throughout December. Phase two, a 39-unit building, was completed in March 2015. The second development project is Saginaw Gardens, a 122-unit building in Cambridge, Ontario, expected to be completed during the second quarter of 2015. Both these developments have been built at a cost below market, creating real value for shareholders and reflecting the benefit of developing properties versus focusing solely on acquisitions.

In December 2014, we began construction of Southport, a new development in Halifax. This is a unique project with a 50/50 condo/apartment mix. We partnered with an experienced condominium developer on this project, with Killam owning 100% of the apartments and our partner developing and selling the condo units. Southport is located on Barrington Street in downtown Halifax, and will offer a unique urban living environment for tenants. Killam's 50% interest in the project will cost $14.7 million and is expected to be completed in 2016.

Our new developments are efficient, high-quality buildings that command rents well above the market average.

Our new developments are efficient, high-quality buildings that command rents well above the market average. In St. John's, for example, Chelsea Place will have average monthly rent of approximately $1,400, 68% above the average rent in the city. With no deferred maintenance and higher NOI margins, we expect future cash flow growth associated with these new developments to lead our portfolio. We look forward to these new properties contributing positively to 2015 earnings.

Growing Earnings from Killam's Existing Portfolio

The main measure of performance for our existing portfolio is same store NOI growth. This measures how much we have been able to increase the earnings from properties that we have owned for equivalent periods, removing the impact of acquisitions and developments.

We started 2014 expecting to achieve positive same store NOI growth, and had targeted an increase of up to 2%. Unfortunately, record high energy costs derailed our plans and we came up short, finishing the year with a 0.9% decrease in NOI from our same store properties.

However, a 1.7% increase in revenue from same store assets helped to offset the majority of the 5.3% increase in expenses. Revenue growth was achieved in each of our markets, with our Saint John, Charlottetown and Ontario assets leading the way.

In addition to achieving top-line growth in the year, we successfully managed those operating expenses we control directly. Through a consistent focus on operational efficiencies, we were able to manage the increase in same store operating expenses (which excludes energy, utility costs, and property taxes) to 1.8%. In addition, with successful property tax assessment appeals, these taxes increased by only 1.4% in 2014.

The biggest challenge this past year was utility costs, most specifically, natural gas costs in Nova Scotia and New Brunswick. During 2014, natural gas prices in the Maritimes and northeastern United States were much more volatile than in other parts of North America. This volatility is being caused by pipeline constraints and increased natural gas demand in New England. The infrastructure in place can't meet the demand, driving up the cost of natural gas on very cold days. We had experienced high gas prices in 2013; however, natural gas costs were up another 25% in 2014. These increased costs were a major contributor to the decline in same store NOI in the year.

The volatile natural gas price in Atlantic Canada and New England is a medium-term challenge. We anticipate that these regions will continue to experience periods of high price volatility during times of very cold weather, until projects are completed to address the infrastructure issues. Based on projects underway and proposed, we expect that by 2018 we should see stabilized natural gas prices return to this part of the country, contributing to more predictable, and increased, same store NOI for Killam.

Raising Debt and Equity

During the year, we raised a record level of attractively priced debt and equity to fund our investment activities. We successfully raised $179.4 million of new debt by refinancing $121.0 million of maturing apartment mortgages at a weighted average interest rate of 2.72%, 220 basis points lower than the weighted average interest rate prior to refinancing. We also refinanced $13.5 million of manufactured home community mortgages at a weighted average interest rate of 3.78%, 215 basis points 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 refinancings. Looking forward, we have another big year of refinancings in 2015, and expect to be able to continue to refinance at lower interest rates.

We raised $46 million of equity in late November through a public share offering, and an additional $12 million in equity in the second half of the year through two private placements with our new joint ownership partners, KingSett and AIMCo. The equity raised was primarily used to fund acquisitions.

Apartment Fundamentals Are Strong

Apartment fundamentals remain strong in Canada. Apartment vacancy in the country is low, and has been low, in the 2% to 3% range, for many years. This level of vacancy is below most other real estate classes, which, depending on the sector and cycle of the economy, have experienced up to 10% vacancy. There are regional variations, but overall, the apartment sector remains resilient and stable.

The strength of the apartment sector is being driven by strong population growth in Canada's urban centres; increasing demand from the baby boomer generation who are starting to transition away from homeownership into rental; strong demand from the echo-boomers (children of the baby boomers), who are renting prior to home ownership; and the high cost of home ownership in many urban markets. We expect that apartment demand will remain strong in Canadian urban centres for many years to come.

In Atlantic Canada, we have seen an up-tick in vacancy levels over the last four years, due to a softer economy and increased levels of apartment construction. In Halifax, for example, where Killam generated 45% of its apartment NOI in 2014, CMHC reported vacancy levels of 3.8% in their fall 2014 Rental Market Report, compared to 2.6% in the fall of 2010. Increased competition has been the biggest factor contributing to this change, with an average of 1,400 new apartment completions in each of the last three years, compared to an average of 650 units per year from 1999 to 2010. The majority of these units are catering to the baby boomer demographic, with spacious units, condo-quality features and amenities, and rents above the market averages.

The increased apartment supply has resulted in a more competitive rental market in certain Halifax submarkets. We've responded by ramping up our leasing and marketing programs. We have enhanced our leasing team over the last two years to bring a richer and more consistent leasing experience to prospective tenants, realizing very positive results in the year. We have also invested in additional training for all staff, and in technology to help improve communication with our tenants. We are well positioned to outperform the market in Atlantic Canada.

> **I am feeling optimistic about the year ahead and believe we are well positioned for a strong year of growth in 2015.**

Looking Forward

I am optimistic about the year ahead and believe that we are well positioned for strong growth in 2015. In addition to having a stronger portfolio of assets and improved operating processes in place, as I've mentioned, we expect improved population growth in our core markets in Nova Scotia and New Brunswick, given several large economic projects underway. After three years of preparations, Irving Shipbuilding is expected to start cutting steel in September 2015, and both BP and Shell have confirmed that their combined $2 billion exploration programs will proceed offshore of Nova Scotia. In addition, investments in forestry and mill upgrades in New Brunswick, as well as the proposed Energy East Pipeline, are positive for Atlantic Canada. As the biggest landlord in the region, we will benefit from stronger economic activity in this area. A stronger Atlantic Canada, combined with a larger presence in our key markets in Ontario, and now downtown Calgary, are all expected to augment our future growth.

We have a talented team of employees who are committed to our tenants, our strategy and our success. I've been reminded of the extra effort our team makes on a daily basis through our quarterly Core Value Awards. During 2014 we had over 50 nominations for individuals who have gone above and beyond, and who live Killam's core values in their jobs. We have an exceptional team, and I know we're well positioned for the year ahead.

We were pleased to be recognized as a preferred employer twice during the last year. Killam was named one of the 2014 "Best Places to Work in Atlantic Canada" for the first time, and in January 2015, we learned that we'd been named as one of Canada's Top Small & Medium Employers for 2015. This reflects the outstanding team and positive environment at Killam.

Thank you for your interest and investment in Killam. I invite you to attend Killam's annual shareholders meeting on May 6, 2015 at 2pm Atlantic Time at the Halifax Marriott Harbourfront Hotel, either in person or via webcast. I look forward to providing updates on our 2015 progress over the coming months.

Yours truly,

Philip Fraser

COMMITTED EMPLOYEES MAKE THE DIFFERENCE

Killam's team of over 400 employees is committed to providing tenants with premium service and a strong sense of community throughout its apartments and manufactured home communities. Killam team members also work diligently to ensure that the Company's properties are well maintained: a place that tenants are proud to call home.

During the last two years, Killam has expanded its team of leasing agents and streamlined the leasing process to heighten the quality of service for prospective tenants. In addition, the Company has improved its marketing and advertising reach with creative marketing campaigns on university campuses and by increasing its radio and television presence. The result of these changes has been positive, with Killam achieving improved occupancy and revenue growth for 2014.

Killam employees have achieved operational efficiencies, allowing the Company to manage its controllable operating expenses to less than 2% growth for each of the last two years. In 2014, this included negotiating improved pricing from suppliers, investing in energy efficient technologies and implementing water saving initiatives.

The Company's quarterly Core Value Awards program recognizes employees that exemplify Killam's core values in their daily work. Since launching the employee recognition program in late 2013, the Company has received over 80 nominations, and has recognized 21 employees for their exceptional contributions.

Killam was pleased to receive recognition as an employer of choice in 2014, being named one of the "Best Places to Work in Atlantic Canada" for the first time. Killam was also named as one of Canada's Top Small & Medium Employers in 2015.

DARA CROWELL
Leasing Representative

2014 EMPLOYEE SURVEY HIGHLIGHTS

93% understand the importance of their role in Killam's success

92% like the type of work they do

90% are willing to give the extra effort to help Killam succeed

88% are proud to work for Killam

ENVIRONMENTAL EFFICIENCIES

Killam is committed to reducing its environmental footprint and investing in energy efficient solutions. This investment allows for long-term cost savings, and is the right thing to do. Investments in green solutions in 2014 included:

- Hired an energy efficiency specialist to expand Killam's green initiatives.
- Invested $0.8 million in energy and water saving initiatives.
- Installed water saving fixtures in over 600 apartment units, achieving a reduction in water consumption of over 25%.
- Invested in advance building control systems and equipment upgrades, resulting in reduced energy consumption and increased comfort.
- Completed energy efficient lighting upgrades at 21 apartment buildings.

SUSTAINABILITY – DOING THE RIGHT THING

TENANT SATISFACTION

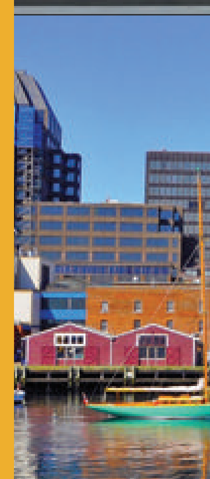
One of Killam's strategic focuses is to provide outstanding customer service and to build a sense of community at its properties. Some of the many initiatives in 2014 included:

- Invested $32 million in capital upgrades.
- Hosted community events throughout the portfolio, including holiday parties, resident barbecues, meet and greets, pizza parties and movie nights.
- Invested in community enrichment at properties, including supporting community gardens, the installation of playground equipment, new or enhanced community and fitness rooms, and upgraded recreational facilities and equipment at seasonal resorts.
- Upgraded the corporate website, including the launch of an on-line live chat option, and expanded communication options for existing and prospective tenants.
- Invested in technology to increase tenant's ability to communicate with Killam staff.
- Increased emphasis on tenant experience and retention.
- Conducted an extensive tenant survey whereby 89% of the 1,733 survey participants responded that they were satisfied with Killam Properties as a landlord.

COMMUNITY MATTERS

Killam is a strong community supporter and believes that giving back to the community is an important part of being a responsible corporate citizen.

- Annually, Killam donates six furnished suites to hospitals in its core markets, providing comfortable accommodations to families as they support loved ones through medical treatment.
- The Red Cross is on hand to help when emergencies and disasters impact communities, and Killam is pleased to support this organization with financial assistance on an annual basis.
- Killam provides financial support for various charities in its core markets, with an emphasis on supporting employees, tenants and organizations focused on shelter and families.
- Employees are involved in various community events and charities. In 2014, this included Habitat for Humanity, Junior Achievement, the Halifax Pride Parade and Doors Open Halifax, to name just a few.
- Killam's board of directors join together annually to support a charity or community organization. In 2014, the board members donated $100,000 to the Janeway Children's Hospital in St. John's.



AFFORDABLE HOUSING ALTERNATIVES

Killam supports affordable housing alternatives in its communities.

- Killam has over 500 apartments, including 228 newly developed units of government sponsored affordable housing, with long-term commitments to provide quality, affordable units for qualifying tenants.
- Through its nationally recognized Supported Housing Program, Killam has partnered with a variety of non-profit housing agencies, including Capital Health's Mental Health Program, Shelter Nova Scotia, YWCA, and Phoenix House, to provide over 70 subsidized units to previously under-housed individuals.
- Killam's Tenant Assistance Program offers short-term rent relief for tenants who are undergoing temporary financial hardships.

SUPPORTING EMPLOYEES

Killam employees are its biggest asset. Supporting employees both at work and in their communities is a priority at Killam.

- Three annual scholarship awards are available to children and grandchildren of Killam employees to help them pursue post-secondary education.
- Killam's employee share-purchase plan encourages employees to become shareholders through payroll deductions, and rewards longer-term employees with a 50% company match.
- Killam promotes employees' involvement in the community by providing a full day of paid leave per year for employees to volunteer with a charity of their choice.
- Killam invests in employee education, including bringing staff together on a regular basis for training, accessible on-line training and coaching programs, providing financial assistance for further education, and supporting employees to pursue the Certified Property Management certification.
- Killam values communication with employees, producing quarterly newsletters, hosting team summits and senior management staff visits.
- Killam encourages health and wellness across the organization, including holding an annual company-wide team fitness challenge.
- Killam provides ongoing safety training and education.

ASSET PORTFOLIO

Apartment Portfolio

Halifax, NS	Year Built	Units
1 Oak Street	1969	146
10-214 Harlington Crescent	1978	60
19 Plateau Crescent	1974	81
159 Radcliffe Drive	1995	25
175-211 Harlington Crescent	1978	60
21 Parkland Drive	2002	98
26 Alton Drive & 36 Kelly Street	1969	80
294-300 Main Street	1969	58
3 Veronica Drive	1983	70
31 Carrington Place	1998	38
3565 Connaught Avenue	1958	19
50 Barkton Lane	1991	63
5206 Tobin Street	1993	47
57 Westgrove Place	1969	41
59 Glenforest/21 Plateau	1978	153
6 Jamieson Street	1965	24
6087 South Street	1999	9
6101 South Street	2002	30
67-141 Harlington Crescent	1978	60
75 Knightsridge Drive	1986	41
85-127 Harlington Crescent	1978	60
9 Bruce Street	1974	60
9 Sybyl Court	1975	22
95 Knightsridge Drive	1984	46
Bedford Apartments	1987	53
Brentwood Apartments	1968	240
Carlton Street	n/a	3
Chapter House	2004	41
Dillman Place	1970s	60
Garden Park Apartments (1)	1980	246
Glenforest Apartments	1969	80
Glenbourne Gate	2000	67
Glenmoir Terrace	1972	28
Hillcrest Apartments	1980	50
Kent Street Properties	1950	135
Lakefront Apartments	1954	396
Linden Lea & Pleasant Street	1950	28
Maplehurst Apartments	1965	268
Maplehurst Houses	1965	15
Parker Street Apartments	1960/75	239
Parkridge Place	2002	76
Paxton Place	2000	67
Quinpool Court	1978	198
Quinpool Towers	1978	233
S2	2013	63
Shaunslieve Apartments	1978	154
Sheradon Place	1979	82
Spring Garden Terrace	1964	201
The Aspen	2012	83
The James	2008	108
The Linden	2011	81
The Willow	2014	84
Victoria Gardens	1954	198
Waterview Place	1971	88
Halifax Total		**5,056**
Halifax Average Rent		**$948**

Fredericton, NB	Year Built	Units
25 McKnight Street	2001	64
110 McKnight Street	1996	45
116 & 126 Wilsey Avenue	1975	48
120 McKnight Street	1998	45
127 & 157 Biggs Street	1985/92	46
200 Reynolds Street	2001	52
260 Wetmore Road	1978	38
300 Reynolds Street	2006	52
305 Reynolds Street	2010	52
50,60 Greenfields & 190 Parkside	1977/86	72
75 Greenfields Drive	1980	44
969 Regent Street	1997/01	62
Carrington House	2002	41
Elroy Apartments	1973	194
Forest Hill Towers	1968/79	151
Princess Place	1968/79	141
Southgate Apartments	2003	47
The Plaza	2013	101
Venus Apartments	1965	54
Westwood Apartment	1975	45
Fredericton Total		**1,394**
Fredericton Average Rent		**$895**

Moncton, NB	Year Built	Units
100 Archibald Street	2003	60
101 Archibald Street	1993	60
115 Kedgewick Drive	2009	25
133 Kedgewick Drive	2010	23
135 Gould Street	2011	69
155 Canaan Drive	2008	48
1111 Main Street	1957	16
276-350 Gauvin Road	1991/96	84
303 Normandie Street	1994	70
316 Acadie Avenue	1996	48
360 Acadie Avenue	1998	60
364-368 Gauvin Road	1995	80
46 & 54 Strathmore Avenue	2001	40
65 Bonaccord Street	2004	35
Gauvin Estates	2013	48
Belmar Plaza	2005	50
Buckingham Place	1998	55
Cambridge Court	1994	45
Cambridge Place	1995	63
Cameron Arms	1981	81
Cameron Street	1966/67	81
Eagles Ridge Estates	1994	59
Gordon/Bonaccord Street	1950/84	41
Hester & Church Street	1993	64
Lakeview Estates	1980/81	48
Lorentz Apartments	1969	102
Lutz & Kendra Street	1950/75	40
Pine Glen Apartments	1974	54
Suffolk Street	2000	80
Moncton Total		**1,629**
Moncton Average Rent		**$832**

Saint John, NB	Year Built	Units
37 Somerset Place	2007	21
53 Somerset Place	1973	16
115 Woodhaven Drive	1977	24
Blue Rock Estates	2007	60
Carleton Towers	1968	60
Cedar Glen Apartments	1977	204
Ellerdale Apartments	1975	154
Fort Howe Apartments	1970	153
Parkwood Apartments	1947	205
Rocky Hill Apartments	2004	42
Sydney Arms	1961	54
The Anchorage	2003	51
Woodward Gardens	1962	99
Saint John Total		**1,143**
Saint John Average Rent		**$749**

St. John's, NL		
Bennett House	2013	71
Blackshire Court	1981	69
Chelsea Place (Phase 1)	2014	63
Cornwall Manor	1976	31
Freshwater Road Apartments	1972	159
Forest Manor	1978	65
Meadowland Apartments	1976	105
Mount Pleasant Manor	1976	100
Pleasantview Manor	1979	36
Rutledge Manor	1983	53
Torbay Road Apartments	1972	84
Village Manor	1978	40
St. John's Total		**876**
St. John's Average Rent		**$913**

Charlottetown, PE		
198 Spring Park Road	2006	32
27 Longworth Avenue	1983	24
280 Shakespeare Drive	2010	26
319-323 Shakespeare Drive	2004	22
36 Westridge Crescent	1985	8
505-525 University Avenue	2003	35
Bridlewood Apartments	1998/99	66
Browns Court	1997	52
Brighton House	2013	47
Burns/University	2003	95
Charlotte Court	2011	49
Country Place	1998/02	39
DesBarres House	1978	51
Ducks Landing	2005/12	138
Horton Park	1987	69
Kensington Court	1990	105
Queen Street	1978	48
Charlottetown Total		**906**
Charlottetown Average Rent		**$886**

Cambridge, ON	Year Built	Units
100 Eagle Street	2008	119
200 Eagle Street	2004	106
Cambridge Total		**225**
Cambridge Average Rent		**$1,479**

London, ON		
180 Mill Street	2011	127
Richmond Hill Apartments	2009	137
London Total		**264**
London Average Rent		**$1,615**

Ottawa, ON		
1090 Kristin Way	1974	102
1425 Rosenthal Avenue	1962	54
1440 Mayview Avenue	1960	103
266 Bronson Avenue	1968	43
350 Mayfield Avenue	1959	61
50 Selkirk Street	1959	75
621 Cummings Avenue	1950	44
Kanata Lakes Apartments I [2]	2012	146
Kanata Lakes Apartments II [2]	2014	152
Ottawa Total		**780**
Ottawa Average Rent		**$1,181**

Toronto, ON		
100 Lower Ossington Ave	2012	179
1355 Silver Spear Road [2]	1968	199
Toronto Total		**378**
Toronto Average Rent		**$1,070**

Calgary, AB		
Grid 5 [2]	1965	307

Other		
Cabot House	1974	88
Edward Court	1993	96
Moxham Court	1998	51
Nevada Court	1995	48
Northgate Apartments	2006	38
Ridgeview Terrace Apartments	1975	59
Terrace Apartments	1970/90	89
Other Total		**469**
Other Average Rent		**$819**

Total Apartment Portfolio	**13,427**
Total Apartment Average Rent	**$949**

MHC Portfolio

Nova Scotia	Acres	Units
Amherst Estates	67	300
Birch Hill Estates	73	216
Birchlee Estates	42	222
Cairdeil Estates	37	160
Cowan Place	50	56
Enfield Estates	10	56
Fairview Estates	15	131
Glen Aire Estates	130	265
Greenhill Estates	30	115
Heather Estates	72	217
Kent Drive Estates	10	50
Maple Ridge Estates	18	160
Mountainview Estates	168	353
Shamrock Estates	8	65
Silver Birch Estates	16	64
Valley View Hills	50	196
Nova Scotia Total		**2,626**

New Brunswick		
Camper's City [3]	61	224
New Brunswick Total		**224**

Newfoundland		
Lakeview Court	13	86
Sunset Parkway	43	84
Newfoundland Total		**170**

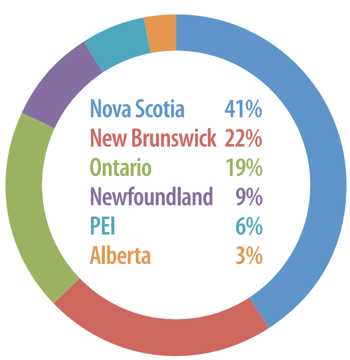
Notes:
(1) Killam has a 49% ownership interest in the 246-unit Garden Park Apartments.
(2) Killam has a 50% interest in Kanata Lakes I & II, 1355 Silver Spear Road and Grid 5.
(3) Seasonal resort community.

Ontario	Acres	Units
Cedardale [3]	25	204
Domaine le Village	36	70
Family Paradise [3]	50	214
Holiday Harbour [3]	15	143
Holiday Park Campground [3]	35	290
Lakewood Estates	13	60
Lynnwood Gardens	54	64
Millcreek Estates	35	73
Paradise Valley [3]	109	392
Pinehurst Estates	16	82
Pine Tree Village	38	70
Rockdale Ridge	96	69
Stanley Park	76	107
The Village at Listowel	53	87
Westhill Estates	8	94
Wood Haven Campground [3]	50	126
Ontario Total		**2,145**

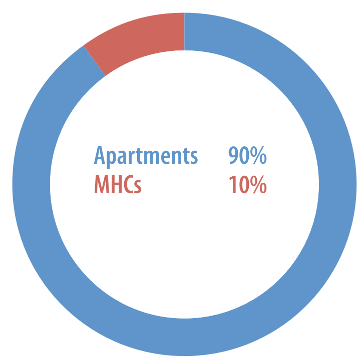
Total MHC Portfolio	**5,165**
Total MHC Average Rent	**$228**

Apartment NOI by Province

Based on the portfolio
as at December 31, 2014

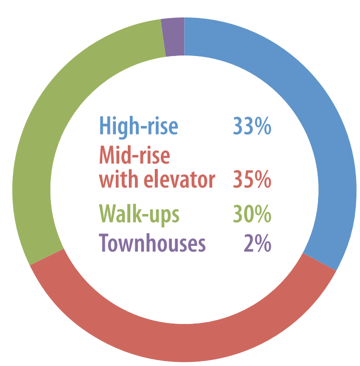


NOI by Asset Class



Type of Apartments by Unit Count

As at December 31, 2014



2014 Management's Discussion & Analysis

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

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PART I

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") has been prepared by Management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 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.

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.

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.

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.

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.

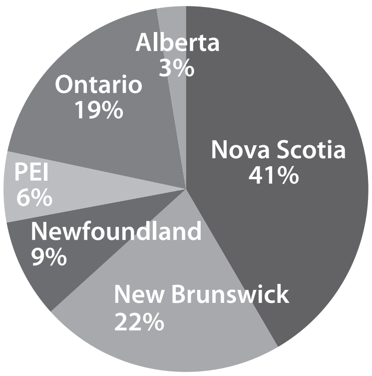
Manufactured Home Communities Portfolio

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%**

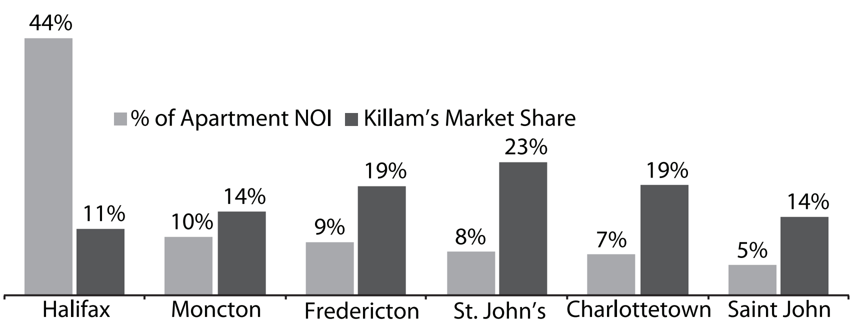
Killam's NOI by Province

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:



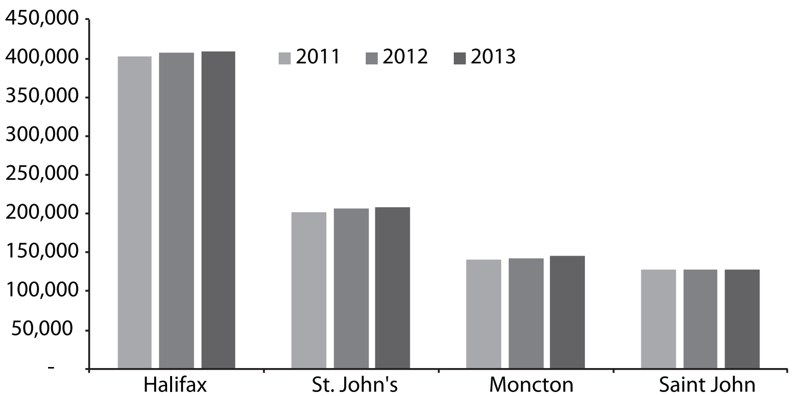
The Multi-family Market Leader in Atlantic Canada

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 48.

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.

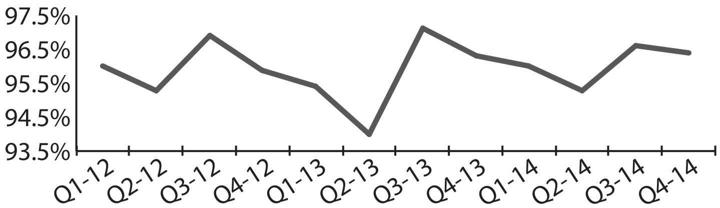
Apartment Occupancy and Average Rent Analysis by Core Market

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%

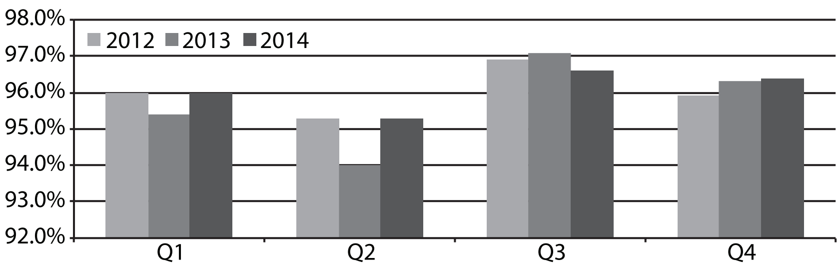
(1) Includes all stabilized properties.

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.

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.

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

Utility and Fuel Expense - Same Store

For the years ended December 31,

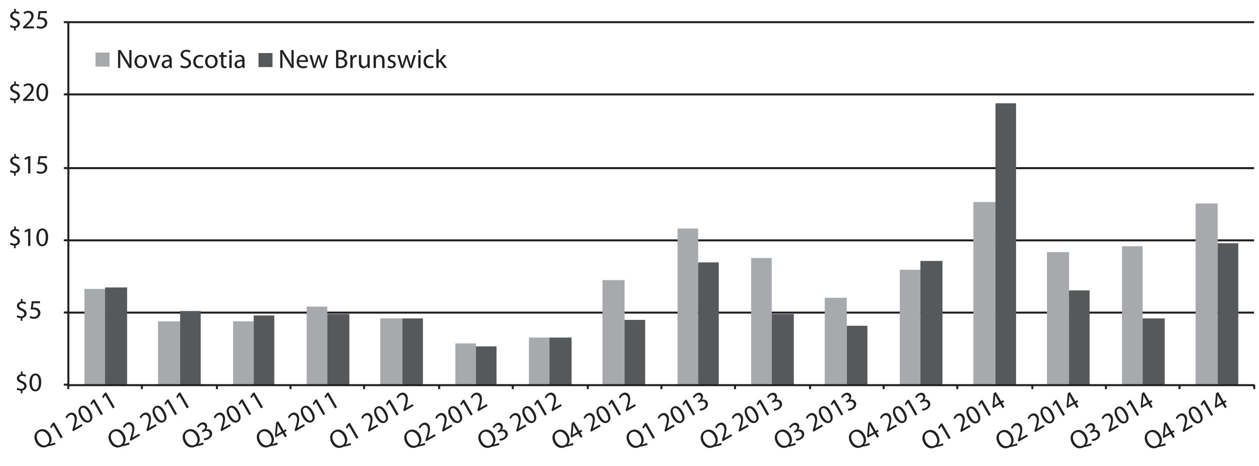
	2014	2013	% Change
Natural gas	**$6,149**	$4,925	24.9%
Electricity	**5,973**	5,455	9.5%
Water	**4,176**	3,749	11.4%
Oil	**1,414**	1,523	(7.2)%
Other	**30**	30	- %
Total utility and fuel expenses	**$17,742**	$15,682	13.1%

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 28. 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.

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

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.

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.

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

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.

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 52.

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, 2015, 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 55 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.

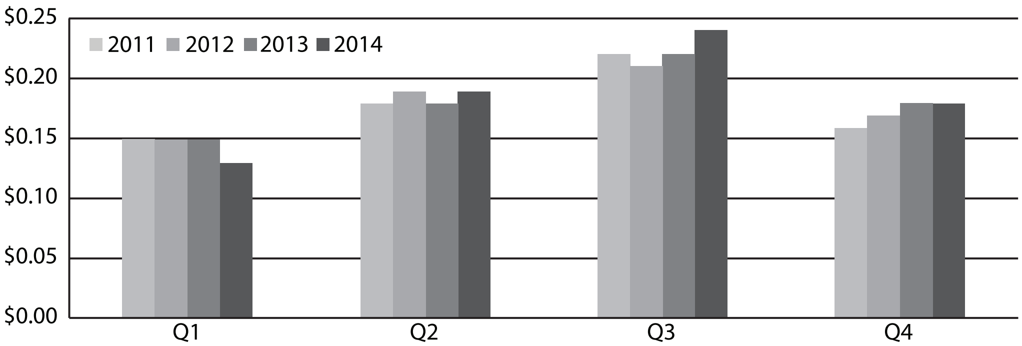
Killam earned FFO of $40.2 million, or $0.72 per share (diluted), during 2014 compared to $38.8 million, or $0.71 per share (diluted), during 2013. The 1.4% increase in FFO per share is attributable to contributions from acquisitions and developments ($3.7 million), interest expense savings on refinancings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

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

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.

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.

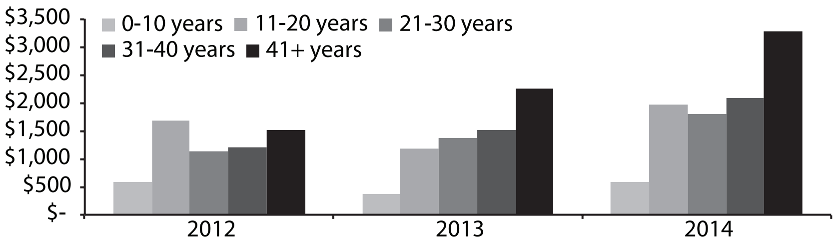
Approximately 30% of the capital spend during the year was invested in suite renovations. The increase year-over-year was due to unit upgrades to improve quality and increase occupancy, increase yields on properties identified for repositioning, and support the Company's commitment to increasing unit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

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements and management's discussion and analysis of results of operations and financial condition (MD&A) have been prepared by the management of Killam Properties Inc. in accordance with International Financial Reporting Standards, and include amounts based on management's informed judgements and estimates. Management is responsible for the integrity and objectivity of these consolidated financial statements. The financial information presented in the MD&A is consistent with that in the consolidated financial statements in all material respects.

To assist management in the discharge of these responsibilities, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing financial statements and other financial information, transactions are properly authorized and recorded, and assets are safeguarded.

As at December 31, 2014, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

Ernst & Young LLP, the auditors appointed by the Shareholders, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Shareholders their opinion on the consolidated financial statements. Their report as auditors is set forth below.

The consolidated financial statements have been further reviewed and approved by the Board of Directors and its Audit Committee. This committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

February 17, 2015

Philip Fraser
President and Chief Executive Officer

Robert Richardson
Executive Vice President and Chief Financial Officer

Independent Auditors' Report

To the Shareholders of Killam Properties Inc.

We have audited the accompanying consolidated financial statements of **Killam Properties Inc.**, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Killam Properties Inc.** as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Halifax, Canada
February 17, 2015

Chartered accountants

Consolidated Statements of Financial Position

In thousands of Canadian dollars

As at December 31,	Note	**2014**	2013
ASSETS			
Non-current assets			
Investment properties	[5]	**$1,733,895**	$1,476,116
Investments in joint venture	[6]	**-**	11,469
Property and equipment	[8]	**4,854**	4,527
Loan receivable	[9]	**4,000**	-
Other non-current assets		**6**	17
		1,742,755	1,492,129
Current assets			
Cash		**18,847**	27,678
Rent and other receivables	[10]	**1,954**	2,751
Inventory	[11]	**139**	570
Other current assets	[12]	**11,539**	9,303
		32,479	40,302
TOTAL ASSETS		**$1,775,234**	$1,532,431
EQUITY AND LIABILITIES			
Shareholders' equity		**$648,029**	$590,724
Accumulated other comprehensive loss ("AOCL")		**(198)**	-
Non-controlling interest		**14,852**	13,336
Total Equity		**662,683**	604,060
Non-current liabilities			
Mortgages and loans payable	[14]	**729,474**	545,541
Convertible debentures	[16]	**97,967**	96,419
Other liabilities		**1,916**	2,171
Deferred tax		**105,958**	93,221
		935,315	737,352
Current liabilities			
Mortgages and loans payable	[14]	**115,248**	153,589
Construction loans	[15]	**31,944**	14,775
Accounts payable and accrued liabilities	[13]	**30,044**	22,655
		177,236	191,019
Total Liabilities		**1,112,551**	928,371
TOTAL EQUITY AND LIABILITIES		**$1,775,234**	$1,532,431

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board

Director Director

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars (except per share amounts)

For the Years Ended December 31,

	Note	2014	2013
Property revenue		**$147,507**	$141,112
Property operating expenses		**(62,906)**	(58,072)
Net operating income		**84,601**	83,040
Other income			
Equity income	[6]	**829**	1,296
Home sales	[19]	**61**	323
Corporate income	[20]	**1,175**	746
		2,065	2,365
Other expenses			
Financing costs	[21]	**(34,609)**	(35,231)
Depreciation		**(644)**	(589)
Amortization of deferred financing costs		**(1,711)**	(1,643)
Administration		**(8,525)**	(7,878)
		(45,489)	(45,341)
Income before fair value gains, loss on disposition and income taxes		**41,177**	40,064
Fair value gains	[5]	**4,768**	13,070
Loss on disposition		**(1,257)**	(1,401)
Income before income taxes		**44,688**	51,733
Current tax recovery (expense)		**1,451**	(1,451)
Deferred tax expense		**(13,472)**	(9,350)
Net income		**$32,667**	$40,932
Other comprehensive loss			
Item that may be reclassified subsequently to net income			
Net loss on forward interest rate hedge (net of tax - $82)	[26]	**(198)**	-
Comprehensive income		**$32,469**	$40,932
Net income attributable to:			
Common shareholders		**29,772**	39,779
Non-controlling interest		**2,895**	1,153
		$32,667	$40,932
Comprehensive income attributable to:			
Common shareholders		**29,574**	39,779
Non-controlling interest		**2,895**	1,153
		$32,469	$40,932
Net income per share attributable to common shareholders:			
-basic		**$0.54**	$0.74
-diluted		**$0.53**	$0.69

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Equity

In thousands of Canadian dollars

For the Year Ended December 31, 2014

	Share Capital	**Contributed Surplus**	**Other Paid-in Capital**	**Retained Earnings**	**AOCL**	**Non-Controlling Interest**	**Total Equity**
At January 1, 2014	**$398,181**	**$2,302**	**$5,681**	**$184,560**	**$ -**	**$13,336**	**$604,060**
Net income	**-**	**-**	**-**	**29,772**	**-**	**2,895**	**32,667**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(198)**	**-**	**(198)**
Dividends	**-**	**-**	**-**	**(33,551)**	**-**	**-**	**(33,551)**
Distributions to non-controlling interest	**-**	**-**	**-**	**-**	**-**	**(910)**	**(910)**
Acquisition of non-controlling interest	**-**	**-**	**-**	**12**	**-**	**(469)**	**(457)**
Dividend reinvestment plan	**2,555**	**-**	**-**	**-**	**-**	**-**	**2,555**
Stock options exercised	**1,274**	**(152)**	**-**	**-**	**-**	**-**	**1,122**
Share-based compensation	**-**	**745**	**-**	**-**	**-**	**-**	**745**
Issuance of shares for cash	**56,035**	**-**	**-**	**-**	**-**	**-**	**56,035**
Issuance of shares for acquisitions	**800**	**-**	**-**	**-**	**-**	**-**	**800**
Restricted share units redeemed	**293**	**(478)**	**-**	**-**	**-**	**-**	**(185)**
At December 31, 2014	**$459,138**	**$2,417**	**$5,681**	**$180,793**	**$(198)**	**$14,852**	**$662,683**

For the Year Ended December 31, 2013

	Share Capital	Contributed Surplus	Other Paid-in Capital	Retained Earnings	Non-Controlling Interest	Total Equity
At January 1, 2013	$391,120	$2,241	$5,681	$176,293	$13,101	$588,436
Net income	-	-	-	39,779	1,153	40,932
Dividends	-	-	-	(31,512)	-	(31,512)
Distributions to non-controlling interest	-	-	-	-	(918)	(918)
Dividend reinvestment plan	3,346	-	-	-	-	3,346
Stock options exercised	1,036	(111)	-	-	-	925
Share-based compensation	-	624	-	-	-	624
Issuance of shares for acquisitions	2,390	-	-	-	-	2,390
Restricted share units redeemed	289	(452)	-	-	-	(163)
At December 31, 2013	$398,181	$2,302	$5,681	$184,560	$13,336	$604,060

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands of Canadian dollars

For the Years Ended December 31,

	Note	**2014**	2013
OPERATING ACTIVITIES			
Net income		**$32,667**	$40,932
Add (deduct) items not affecting cash			
Fair value gains	[5]	**(4,768)**	(13,070)
Depreciation and amortization		**2,355**	2,233
Non-cash compensation expense		**372**	385
Equity income		**(829)**	(1,296)
Deferred income taxes		**13,472**	9,350
Current tax recovery		**(1,451)**	-
Loss on disposition		**1,257**	1,101
Financing costs	[21]	**34,609**	35,231
Interest paid	[25]	**(34,658)**	(35,156)
Net change in non-cash operating activities	[25]	**8,498**	(630)
Cash provided by operating activities		**$51,524**	$39,080
FINANCING ACTIVITIES			
Increase in deferred financing		**(6,440)**	(3,425)
Proceeds on issuance of common shares		**56,583**	869
Repayment of subordinated debentures		**-**	(10,000)
Mortgage financing		**263,367**	190,152
Mortgages repaid on maturity		**(130,117)**	(70,015)
Mortgage principal repayments		**(26,456)**	(30,043)
Proceeds from construction loans		**21,944**	21,223
Construction loans repaid on maturity		**(4,775)**	(20,511)
Distributions paid to non-controlling interest		**(910)**	(918)
Dividends		**(30,593)**	(28,094)
Cash provided by financing activities		**$142,603**	$49,238
INVESTING ACTIVITIES			
(Increase) decrease in restricted cash		**(1,141)**	3,160
Acquisition of non-controlling interest		**(457)**	-
Increase in loan receivable		**(4,000)**	-
(Increase) decrease in investment in joint venture, net of distributions		**(226)**	116
Net proceeds on sale of investment properties		**17,471**	43,122
Acquisition and development of investment properties, net of debt assumed		**(180,966)**	(141,154)
Capital expenditures		**(33,639)**	(22,610)
Cash used in investing activities		**$(202,958)**	$(117,366)
Net decrease in cash		**(8,831)**	(29,048)
Cash, beginning of the year		**27,678**	56,726
Cash, end of year		**$18,847**	$27,678

See accompanying notes to the consolidated financial statements.

1. Corporate Information

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

The consolidated financial statements of the Company for the year ended December 31, 2014, were authorized for issue in accordance with a resolution of the Board of Directors on February 17, 2015.

2. Significant Accounting Policies

(A) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

(B) Basis of Presentation

The consolidated financial statements of the Company have been prepared on a historical cost basis, except for investment properties and derivative financial instruments that have been measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets. The consolidated financial statements have been prepared on a going concern basis and are presented in Canadian dollars, which is Killam's functional currency, and all values are rounded to the nearest thousand ($000), except share, per share or as noted amounts. Standards and guidelines not effective for the current accounting period are described in Note 4.

(C) Basis of Consolidation

(i) Subsidiaries

The consolidated financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial period. Killam and its subsidiaries are collectively referred to as Killam in these consolidated annual financial statements. Non-controlling interests represent the portion of profit or loss and net assets not held by Killam, and are presented separately in the consolidated statements of income and comprehensive income and within equity in the consolidated statements of financial position, separately from shareholders' equity.

Subsidiaries are entities controlled by Killam. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by Killam. In certain circumstances, Killam has control over entities in which it does not own more than 50% of the voting power.

In its evaluation, Management considers whether Killam controls the entity by virtue of the following circumstances:

a) Power over more than half of the voting rights by virtue of an agreement with other investors;
b) Power to govern the financial and operating policies of the entity under a statute or an agreement;
c) Power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body;
d) Power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

2. Significant Accounting Policies (continued)

The Company's investment in subsidiaries, all of which are incorporated in Canada, are listed in the following table:

Subsidiary	% Interest
Killam Investments Inc.	100%
Killam Investments (PEI) Inc.	100%
Killam Properties Apartments Trust	100%
Killam Properties M.H.C. Trust	100%
661047 N.B. Inc.	100%
Blackshire Court Limited	100%
Blackshire Court Limited Partnership	96.94%
Killam KFH (180 Mill St.) Inc.	100%
Killam KFH (Kanata Lakes) Inc.	100%
Killam KFH (1355 Silver Spear Road) Inc.	100%

(ii) Joint Arrangements

The Company has joint arrangements in and joint control of a number of properties. The Company has assessed the nature of its joint arrangements at December 31, 2014, and determined them to be joint operations. For joint operations, the Company recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions on the consolidated statements of financial position and consolidated statements of income and comprehensive income. All balances and effects of transactions between joint operations and the Company have been eliminated to the extent of the Company's interest in the joint operations.

At December 31, 2013, the Company had contractual arrangements with other parties which represented joint ventures. These joint ventures were dissolved during 2014. Where a joint venture is established through an interest in a separate vehicle (a jointly controlled entity), the Company recognizes an interest in the entity's net assets using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the consolidated statements of financial position at cost plus changes in the Company's share of the net assets of the joint venture since the acquisition date, less any impairment in the value of the individual investments.

(D) Property Asset Acquisitions

At the time of acquisition of a property or a portfolio of investment properties, the Company evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, Business Combinations ("IFRS 3") is only applicable if it is considered that a business has been acquired. A business according to IFRS 3 is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to the Company. When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, the Company applies judgment when determining whether an integrated set of activities is acquired in addition to the property or portfolio of properties. The basis of this judgmental assessment is set out in Note 3.

When an acquisition does not represent a business as defined under IFRS 3, the Company classifies these properties or a portfolio of properties as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their relative fair values at the acquisition date, except for financial instruments which are recognized initially at fair value. Acquisition-related transaction costs are capitalized to the property.

All of Killam's acquisitions have been classified as asset acquisitions.

2. Significant Accounting Policies (continued)

(E) Revenue Recognition

(i) Rental income

Revenue from rental properties is recognized when a tenant commences occupancy of a rental unit or site and rent is due. Rental income from investment properties is recognized on a straight line basis over the lease term. The Company has not transferred substantially all of the benefits and risks of ownership of its rental properties, and therefore accounts for leases with its tenants as operating leases.

(ii) Service charges and expenses recoverable from tenants

Income arising from expenses recovered from tenants is recognized gross of the related expenses in the period in which the expense can be contractually recovered. Revenue related to laundry and parking are included gross of the related costs.

(iii) Manufactured home sales

Where revenue is obtained from the sale of manufactured homes, it is recognized when the significant risks and rewards have been transferred to the buyer. This will normally take place on the closing date of the home sale. Such sales are considered sales of goods, and not sales of real estate, as the Company does not manufacture these homes itself.

(F) Tenant Inducements

Incentives such as cash, rent-free periods and move-in allowances may be provided to lessees to enter into a lease. These incentives are capitalized and amortized on a straight-line basis over the term of the lease as a reduction of rental revenue

(G) Investment Properties

Investment properties includes multi-family residential properties and manufactured home communities held to earn rental income and properties that are under construction or development for future use as investment properties.

(i) Completed investment property

Investment properties are measured initially at cost, including transaction costs. Transaction costs include deed transfer taxes and various professional fees. Subsequent to initial recognition, investment properties are recorded at fair value. Fair value is determined based on a combination of internal and external processes and valuation techniques. Gains and losses arising from changes in fair values are included in the income statement in the year in which they arise.

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected. Any gains or losses on the retirement or disposal of investment property are recognized in the statements of income and comprehensive income in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by the commencement of operating leases. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of redevelopment.

(ii) Investment property under construction ("IPUC")

The cost of development properties includes direct development costs, realty taxes and borrowing costs directly attributable to the development. Under the requirements of International Accounting Standard 40 Investment Property ("IAS 40"), IPUC is measured at fair value at each reporting date, with the recognition of gains or losses in the income statement. If the fair value of IPUC is not reliably determinable, but the Company expects the fair value of the property to be reliably determinable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

2. Significant Accounting Policies (continued)

(iii) Borrowing costs related to IPUC

Although IPUC is measured at fair value, Killam's policy is to present its statements of income and comprehensive income as if borrowing costs related to the construction are capitalized. Borrowing costs directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are recorded as part of the cost of the respective assets. The interest is calculated using the Company's weighted average cost of borrowings after adjusting for borrowings associated with specific developments. Where borrowings are associated with specific developments, the amount is the gross interest incurred on those borrowings less any investment income arising on their temporary investment. Interest is capitalized from the commencement of the development work until the date of substantial completion. The capitalization of borrowing costs is suspended if there are prolonged periods when development activity is interrupted. Interest is also capitalized on the purchase cost of a site or property acquired specifically for redevelopment but only where activities necessary to prepare the asset for redevelopment are in progress. The Company considers substantial completion to have occurred when the property is capable of operating in the manner intended by management.

(H) Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and are mainly comprised of head office buildings, leasehold improvements and information technology systems. The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for prospectively. These items are amortized on a straight-line basis over their estimated useful lives ranging as follows:

Building	40 years
Heavy equipment	15 years
Vehicles	10 years
Furniture, fixtures and office equipment	5-10 years
Leaseholds	Lease term

(I) Inventory

Inventory represents manufactured homes available for sale. The manufactured homes are valued at the lower of cost (purchase price plus delivery and setup costs) and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business based on market prices at the reporting date less costs to complete and the estimated costs of sale.

(J) Consolidated Statements of Cash Flows

Cash and cash equivalents consist of cash on hand and banks account balances. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the consolidated statements of cash flows and are disclosed separately in the notes to the consolidated annual financial statements.

(K) Share-Based Compensation

The Company issues share-based awards to certain employees and non-employee directors whereby employees render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is recognized, together with a corresponding increase in contributed surplus in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The movement in cumulative expense recognized at the beginning and end of a period is recognized in administration expense.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified, if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of share-based awards is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 23).

2. Significant Accounting Policies (continued)

(L) Financial Assets and Liabilities

Financial instruments are accounted for, presented, and disclosed in accordance with IFRS 7 Financial Instruments: Disclosures ("IFRS 7"), IAS 32 Financial Instruments: Presentation ("IAS 32") and IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument as follows:

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income and comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost, using the effective interest method, less a provision for impairment. A provision for impairment is established when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include delinquency of payment and significant financial difficulty of the holder. The carrying amount of the financial asset is reduced through an allowance account, and the amount of the loss is recognized in the consolidated statements of income and comprehensive income. Any subsequent reversal of an impairment loss is recognized in profit or loss.

Financial liabilities at FVTPL

Financial liabilities are classified as FVTPL if they meet certain conditions and are designated as such by management, or they are derivative liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income and comprehensive income.

Other financial liabilities

Other financial liabilities are financial liabilities that are not classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount of the initial recognition.

Fair value measurements recognized in the consolidated statements of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values:

Level 1: Quoted prices in active markets for identical assets or liabilities.
Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
Level 3: Valuation techniques for which any significant input is not based on observable market data.

2. Significant Accounting Policies (continued)

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety. The following summarizes the Company's classification and measurement of financial assets and liabilities:

Type	Classification	Measurement
Rent, loan and other receivables	Loans and Receivables	Amortized cost
Accounts payable and other liabilities	Other Financial Liabilities	Amortized cost
Mortgages, loans payable and construction loans	Other Financial Liabilities	Amortized cost
Convertible debentures	Other Financial Liabilities	Amortized cost

(i) Mortgages and loans payable

Mortgages and loans payable are initially recognized at fair value less directly attributable transaction costs. After initial recognition, mortgages and loans payable are subsequently measured at amortized cost using the effective interest rate method. Mortgage maturities and repayments due more than 12 months after the consolidated statements of financial position date are classified as non-current.

Financing fees and other costs incurred in connection with debt financing are deducted from the cost of the debt and amortized using the effective interest rate method. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Canada Mortgage and Housing Corporation ("CMHC") insurance premiums are amortized over the mortgage amortization period.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate calculation.

(ii) Convertible Debentures

Convertible debentures are separated into liability and equity components based on the terms of the contract. On issuance of the Convertible debenture, the fair value of the liability component is determined using a market rate for an equivalent nonconvertible bond. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognized and included in shareholders' equity. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debenture based on the allocation of proceeds to the liability and equity components when the instruments are initially recognized. Upon conversion, no gain or loss is recognized.

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

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

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

2. Significant Accounting Policies (continued)

Cash flow hedges

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

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

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

(N) Comprehensive Income

Comprehensive income includes net income and other comprehensive loss. Other comprehensive loss includes the effective portion of cash flow hedges less any amounts reclassified to interest and other financing costs and the associated income taxes.

(O) Accumulated Other Comprehensive Loss

AOCL is included in the consolidated statements of financial position as equity and includes the unrealized gains and losses of the changes in the fair value of cash flow hedges.

(P) Taxation

(i) Current income tax

Current income tax assets and liabilities are measured at the amount expected to be paid to tax authorities, net of recoveries, based on the tax rates and laws enacted or substantively enacted at the reporting date. Current income tax relating to items recognized directly in equity is recognized in equity and not profit or loss. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(ii) Deferred income tax

Deferred income tax is provided using the liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss.

Deferred income tax assets are recognized only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits, or tax losses can be utilized. The carrying value of deferred income tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the income tax asset will be recovered.

The Company determines the deferred tax consequences associated with temporary differences relating to investment properties as if the carrying amount of the investment property is recovered entirely through sale.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in profit or loss.

3. Significant Accounting Judgments, Estimates and Assumptions

In the application of Killam's accounting policies, which are described in Note 2, 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 considers an acquisition to be a business combination if all the following criteria are 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 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.

3. Significant Accounting Judgments, Estimates and Assumptions (continued)

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 net operating income ("NOI") method to determine the fair market value. 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 normalized NOI by property, using property specific quarterly capitalization rates ("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 recognizes 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.

4. 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 recognized 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, however, the Company does not anticipate a significant impact on the financial results as revenue earned from leases is outside the scope of the standard.

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.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

5. Investment Properties

As at and for the year ended December 31, 2014

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

As at and for the year ended December 31, 2013

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

(1) Acquisitions include the cost of acquiring a 75% interest in three properties previously held through a joint venture, as well as, the transfer of Killam's 25% interest previously recorded as an investment in a joint venture (refer to Note 6). The subsequent sale of a 50% interest in two of the properties is shown as a disposition.

During the year ended December 31, 2014, the Company capitalized salaries of $3.0 million (2013 - $2.8 million), as part of its project improvement, suite renovation and development programs.

For the year ended December 31, 2014, interest costs associated with the general corporate borrowings used to fund development have been capitalized to the respective development using the Company's weighted average borrowing rate of 3.93% (December 31, 2013 - 4.38%). Interest costs associated with construction loans are capitalized to the respective development using the actual borrowing rate associated with the loan.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

5. Investment Properties (continued)

Investment properties with a fair value of $1,683.4 million at December 31, 2014, (December 31, 2013 - $1,432.7 million) are pledged as collateral against the Company's mortgages payable.

Valuation Process

The management group that determines the Company's valuation policies and procedures for investment property valuations comprises the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO").

Each quarter the CEO and CFO decide after consultation with the Company's external valuator and the Company's finance department:

- whether a property's fair value can be reliably determined;
- which valuation method should be applied for each property; and
- the assumptions made for unobservable inputs that are used in the valuation methods.

Valuations for interim reporting purposes are prepared internally by the Company's finance department using cap-rates provided by the Company's external valuator quarterly. On an annual basis the Company obtains full valuation reports from an external valuator for approximately 20% of its investment property portfolio, and therefore every property is externally valued at least once every five years.

At each reporting date, the finance department analyses the movement in each property's value; including verification of major inputs and assumptions by referencing supporting information in the calculation to market reports and other relevant documents. For each property, the latest valuation is also compared with the valuations in the preceding quarter. If the fair value change (positive or negative) is more than 5%, the change is further analyzed to ensure reasonability, as well as absence of expected changes.

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

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

Class of property	Fair value at December 31, 2014	Fair value at December 31, 2013	Valuation technique	Unobservable inputs	2014 Inputs	2013 Inputs
Apartments -Level 3	**$1,568,203**	$1,334,153	Capitalization of net income approach	- Capitalization rate (weighted average) - Vacancy rate (weighted average) - Management fee rate	**5.63%** **3.60%** **3.50%**	5.88% 3.50% 3.50%
MHCs -Level 3	**$122,629**	$115,414	Capitalization of net income approach	- Capitalization rate (weighted average) - Vacancy rate - Management fee rate	**6.69%** **1.70%** **3.00%**	6.86% 1.70% 3.00%

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

IPUC includes properties under construction, recorded at fair value of $37.8 million (December 31, 2013 - $21.6 million), and land held for future development, which is recorded at a fair value of $3.0 million (December 31, 2013 - $2.8 million).

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

5. Investment Properties (continued)

Sensitivity Analysis

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

	December 31, 2014			December 31, 2013		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments			**5.63%**			5.88%
Halifax	5.00%	7.00%	5.60%	5.15%	7.00%	5.87%
Moncton	5.15%	8.00%	5.95%	5.56%	8.00%	5.94%
Fredericton	5.15%	6.25%	5.89%	5.15%	6.25%	5.93%
Saint John	6.25%	6.75%	6.53%	6.25%	6.75%	6.63%
St. John's	5.15%	6.00%	5.83%	5.15%	6.25%	5.94%
Charlottetown	5.50%	6.20%	5.89%	5.65%	6.00%	5.88%
Ontario	4.50%	5.10%	4.96%	4.50%	5.25%	5.26%
Alberta	5.00%	5.00%	5.00%	n/a	n/a	n/a
Other Atlantic	5.75%	7.00%	6.83%	6.00%	7.00%	6.76%
MHCs			**6.69%**			6.86%
Ontario	7.00%	8.00%	7.25%	7.00%	8.00%	7.09%
Nova Scotia	5.75%	7.50%	6.25%	6.00%	7.50%	6.61%
New Brunswick	8.00%	8.00%	8.00%	8.25%	8.25%	8.25%
Newfoundland	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

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

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

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

6. Investments in Joint Venture

The Company had the following interest in a joint venture, which was measured using the equity method.

Through this joint venture, Killam owned:
a) 25% share in a 127-unit property located in London, Ontario;
b) 25% share in a 140-unit property located in Ottawa, Ontario; and,
c) 25% share in a 199-unit property located in Mississauga, Ontario.

This joint venture was dissolved on December 9, 2014, and Killam purchased the remaining 75% ownership interest in the properties. Subsequent to the purchase, Killam sold a 50% interest in two of the properties to a third-party and these properties are now accounted for as joint operations (Refer to Note 7).

For the years ended December 31,	**2014**	2013
Balance, beginning of year	**$11,469**	$10,289
Additions	**805**	97
Share of net income	**828**	1,296
Distributions	**(579)**	(213)
Dissolution of joint venture	**(12,523)**	-
Balance, end of year	**$-**	$11,469

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

For the years ended December 31,	**2014**	2013
Property revenue	**$11,502**	$11,968
Property operating expenses	**(6,710)**	(6,696)
Net operating income	**4,792**	5,272
Interest and deferred financing expense	**(2,391)**	(2,774)
Fair value gains	**914**	2,655
Net income and comprehensive income	**3,315**	5,153
Company's share of net income and comprehensive income	**$829**	$1,296

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

7. Joint Operations

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

Investment property	Acquisition Date	Location	Ownership as at December 31, 2014	2013
Silver Spear[(1)]	December 9, 2014	Mississauga, ON	50%	25%
Kanata Lakes I[(1)]	December 9, 2014	Ottawa, ON	50%	25%
Kanata Lakes II	September 24, 2014	Ottawa, ON	50%	-%
Grid 5	December 9, 2014	Calgary, AB	50%	-%

(1) Investment properties were previously owned through a joint venture and accounted for using the equity method until December 9, 2014.

Summarized financial information of the Company's jointly controlled operations, which represents the Company's 50% interest, is set out below:

As at December 31,	**2014**	2013
Current assets	**$712**	$-
Non-current assets	**116,571**	**-**
Current liabilities	**(2,629)**	**-**
Non-current liabilities	**(66,569)**	**-**
Net assets	**$48,085**	$-

For the years ended December 31,	**2014**	2013
Revenues	**$826**	$-
Expenses	**(484)**	-
Net income	**$342**	$-

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

8. Property and Equipment

As at	**December 31, 2014**		December 31, 2013	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$270**	**$-**	$270	$-
Building	**1,824**	**156**	1,824	106
Heavy equipment	**222**	**81**	198	71
Vehicles	**1,271**	**399**	1,191	308
Furniture, fixtures and equipment	**4,080**	**2,885**	3,588	2,451
Leaseholds	**803**	**95**	428	36
	8,470	**3,616**	7,499	2,972
Less: accumulated depreciation	**(3,616)**		(2,972)	
	$4,854		$4,527	

Land and building represents the Company's ownership of a 50% interest in the land and building that its head office occupies. Under IFRS, owner-occupied property is required to be accounted for as property and equipment and not investment property.

Property with a carrying value of $2.0 million (December 31, 2013 - $2.0 million) is pledged as collateral against the Company's mortgages payable.

For the years ended December 31,	**2014**	2013
Balance, beginning of year	**$4,527**	$4,574
Disposals	**-**	(420)
Capital expenditures	**971**	962
Depreciation	**(644)**	(589)
Balance, end of year	**$4,854**	$4,527

9. 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.

10. Rent and Other Receivables

As at	**December 31, 2014**	December 31, 2013
Rent receivable	**$852**	$879
Insurance receivable	**212**	337
Other receivables	**890**	1,535
	$1,954	$2,751

Included in other receivables are laundry revenue, commission revenues and other non-rental income. The majority of these receivables are less than 60 days old. The Company's policy is to write-off tenant receivables when the tenant vacates the unit and any subsequent receipt of funds is netted against bad debts. The Company's bad debt expense experience has historically been less than 0.4% of revenues. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

11. Inventory

Inventory relates to manufactured homes for which sales have not closed at year-end, as well as one stock home (2013 - four stock homes) and related costs. As at December 31, 2014, no amount of the inventory is pledged as collateral related to short-term or long-term financing.

12. Other Current Assets

As at	**December 31, 2014**	December 31, 2013
Restricted cash	**$7,959**	$6,818
Prepaid property tax	**1,466**	1,389
Taxes receivable	**1,124**	-
Other prepaids	**564**	720
Prepaid insurance	**426**	376
	$11,539	$9,303

Restricted cash consists of security deposits, funds held in trust and property tax reserves.

13. Accounts Payable and Other Liabilities

As at	**December 31, 2014**	December 31, 2013
Accounts payable	**$7,401**	$6,024
Mortgage interest payable	**2,332**	2,162
Accrued payables	**10,561**	5,015
Rent received in advance	**1,236**	915
Dividends payable	**3,031**	2,638
Taxes payable	**-**	1,451
Security deposits	**5,228**	4,195
Promissory note payable	**255**	255
	$30,044	$22,655

14. Mortgages and Loans Payable

As at	**December 31, 2014**		December 31, 2013	
	Weighted Average Interest	**Debt Balance**	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**3.60%**	**$839,813**	4.05%	$694,789
Variable rate	**4.14%**	**4,760**	4.18%	3,853
Vendor financing	**6.81%**	**149**	7.10%	488
Total		**$844,722**		$699,130
Current		**115,248**		153,589
Non-current		**729,474**		545,541
		$844,722		$699,130

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

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

14. Mortgages and Loans Payable (continued)

As of December 31, 2014, unamortized deferred financing costs of $17.2 million (December 31, 2013 - $11.9 million) and mark-to-market premiums on mortgages assumed on acquisitions of $1.2 million (December 31, 2013 – $1.7 million) are netted against mortgages and loans payable.

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

	Principal repayments by year
2015	$115,248
2016	130,668
2017	95,619
2018	105,562
2019	179,777
Subsequent	233,871
	860,745
Unamortized deferred financing costs	(17,228)
Unamortized mark-to-market adjustments	1,205
	$844,722

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

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

II. A $1.5 million revolving demand facility that can be used for the Company's acquisition program and for general business purposes. The interest rate on the debt is prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at December 31, 2014, the Company had assets with a carrying value of $1.1 million pledged as collateral and letters of credit totaling $1.5 million outstanding against the facility (December 31, 2013 - $0.5 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

15. Construction Loans

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. 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%).

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

16. Convertible Debentures

Face Interest Rate %	Effective Interest Rate %	Conversion Price	Face Amount	Maturity	December31, 2014	December 31, 2013
5.65%	7.30%	$13.40	$57,500	November 30, 2017	**$55,108**	$54,395
5.45%	6.30%	$14.60	$46,000	June 30, 2018	**44,859**	44,576
					99,967	98,971
Less: Deferred financing charges					**(2,000)**	(2,552)
					$97,967	$96,419

Killam's $57.5 million convertible subordinated debentures are redeemable at the option of Killam after November 30, 2013, and on or before November 30, 2015 (provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price). After November 30, 2015, the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $52.5 million and the fair value of the holders' conversion option was $5.0 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component, which is paid semiannually, is calculated at 7.3%.

Killam's $46.0 million convertible subordinated debentures are redeemable at the option of Killam after June 30, 2014, and on or before June 30, 2016 (provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is not less than 125% of the conversion price). After June 30, 2016, the debentures are redeemable at face value. Upon maturity or redemption, Killam may elect to repay all or any portion of the debentures outstanding by issuing the number of common shares obtained by dividing the aggregate of the principal amount of the debentures that have matured or are being redeemed by 95% of the weighted average market price of the common shares for the preceding 20 days (ending 5 days preceding the fixed date for redemption or maturing). At the time of issuance, the fair value of Killam's obligation to make principal and interest payments was $43.9 million and the fair value of the holders' conversion option was $2.1 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component, which is paid semiannually, is calculated at 6.3%.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

17. Capital Stock and Contributed Surplus

Capital Stock

Authorized:

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

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

For the years ended December 31,	**2014** Number of Shares	**2014** Value	2013 Number of Shares	2013 Value
Balance, beginning of year	**54,458,774**	**$398,181**	53,801,809	$391,120
Issued for cash (i)	**5,487,624**	**56,035**	-	-
Dividend reinvestment plan (ii)	**246,553**	**2,555**	296,004	3,346
Stock options exercised	**182,500**	**1,274**	144,349	1,036
Stock issued for acquisitions	**75,330**	**800**	194,774	2,390
Restricted share units redeemed	**25,197**	**293**	21,838	289
Balance, end of year	**60,475,978**	**$459,138**	54,458,774	$398,181

(i) Net of issue costs of $1.6 million (2013 - $Nil).
(ii) Net of issue costs of $6 (2013 - $31).

Dividends

Killam paid monthly dividends as declared by the Board of Directors on or about the 15th day of each month. An annualized dividend of $0.60 was paid in 2014 (2013 - $0.58).

Dividend Reinvestment Plan ("DRIP")

Killam's DRIP allows common shareholders to elect to have all cash dividends from Killam reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to a ten day volume weighted average closing price of Killam's common shares on the Toronto Stock Exchange ("TSX") preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration.

Contributed Surplus

	2014	2013
Balance, beginning of year	**$2,302**	$2,241
Stock options expensed	**4**	44
Stock options exercised	**(152)**	(111)
Restricted share units issued	**741**	580
Restricted share units redeemed	**(478)**	(452)
Balance, end of year	**$2,417**	$2,302

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

18. Share-Based Compensation

Share-based compensation expense for the year ended December 31, 2014, and 2013 is as follows:

For the years ended December 31,	**2014**	2013
Stock option plan	**$4**	$44
Restricted share unit plan	**461**	421
Total share-based compensation expense	**$465**	$465

Killam did not issue stock options during 2014 or 2013.

Options exercised during the years ended December 31 are as follows:

	2014		2013	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**550,407**	**$7.66**	694,756	$7.40
Exercised	**(182,500)**	**6.64**	(144,349)	6.40
Outstanding, end of year	**367,907**	**$8.16**	550,407	$7.66

The following table summarizes the stock options outstanding:

As at	**December 31, 2014**			December 31, 2013		
Exercise Price	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$5.32	**-**		**-**	97,500	0.35 years	97,500
$8.16	**367,907**	**0.40 years**	**367,907**	452,907	1.40 years	399,783
	367,907		**367,907**	550,407		497,283

The exercisable options had a weighted average exercise price of $8.16 at December 31, 2014 (December 31, 2013 - $7.60).

Restricted Share Unit Plan

The Restricted Share Unit ("RSU") Plan gives members of the senior executive team and directors the right to receive a percentage of their annual bonus and non-executive members of the board of directors the right to receive a percentage of their annual retainer, in the form of Restricted Shares in lieu of cash. The Compensation Committee has established the following parameters on the percentage of the annual bonus and annual retainer which may be allocated to Restricted Shares:

	Minimum	**Maximum**
Non-executive board members	-%	100%
Chief Executive Officer and Chief Financial Officer	50%	50%
Other executives and director-level employees	25%	50%

Killam will match the elected amount in the form of Restricted Shares having a value equal to the volume weighted average price of all common shares traded on the TSX for the five trading days immediately preceding the date on which the compensation is payable. The Restricted Shares earn notional dividends based on the same dividends paid on the common shares, and such notional dividends are used to acquire additional Restricted Shares. The initial Restricted Shares and Restricted Shares acquired through notional dividend reinvestment are credited to each person's account and are not issued to the employee or board member until they redeem such Restricted Shares.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

18. Share-Based Compensation (continued)

The Restricted Shares will be redeemed and paid out by December 31 of the year in which the Restricted Shares have vested. The Restricted Shares shall vest with the following schedule; (a) 50% on the second anniversary of the grant rate; and (b) 50% on the third anniversary of the grant date.

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

For the years ended December 31,	**2014**		2013	
	Number of Shares	**Weighted Average Issue Price**	Number of Shares	Weighted Average Issue Price
Outstanding, beginning of year	**94,345**	**$12.29**	100,209	$11.89
Granted	**80,734**	**10.37**	50,070	11.90
Redeemed	**(42,856)**	**12.61**	(50,090)	11.09
Forfeited	**-**	**-**	(12,226)	11.78
Additional restricted share distributions	**8,290**	**10.40**	6,382	11.33
Outstanding, end of year	**140,513**	**$11.01**	94,345	$12.29

19. Home Sales

For the years ended December 31,	**2014**	2013
Home sales revenues	**$1,299**	$2,598
Cost of home sales	**(1,174)**	(2,226)
New home placement fees	**-**	17
Operating expenses	**(64)**	(66)
Income from home sales	**$61**	$323

20. Corporate Income

For the years ended December 31,	**2014**	2013
Property management fees	**$576**	$518
Interest and other revenue	**599**	228
	$1,175	$746

21. Financing Costs

For the years ended December 31,	**2014**	2013
Mortgage, loan and construction loan interest	**$29,561**	$30,090
Amortization of fair value adjustments on assumed debt	**(499)**	(459)
Amortization of loss on interest rate hedge	**11**	-
Convertible debenture interest	**6,752**	6,687
Subordinated debenture interest	**-**	10
Capitalized interest	**(1,216)**	(1,097)
	$34,609	$35,231

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

22. Income Taxes

The income tax provisions differ from that computed using the statutory rates for the following reasons:

For the years ended December 31,	**2014**		2013	
Net income before income taxes	**$44,688**		$51,733	
Income tax expense at federal statutory rates	**13,076**	**29.3%**	14,977	29.0%
Change in unrealized capital gains	**(434)**	**(1.0)%**	(4,942)	(9.6)%
Non-taxable non-controlling interest	**(847)**	**(1.9)%**	(333)	(0.6)%
Effect of rate change on opening temporary differences	**96**	**0.2%**	1,608	3.1%
Other	**130**	**0.3%**	(509)	(1.0)%
Tax expense	**$12,021**		$10,801	

Deferred income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred income tax assets and liabilities are as follows:

	Consolidated Statements of Financial Position		**Consolidated Statements of Income**	
	2014	2013	**2014**	2013
Real estate properties	**$103,490**	$90,871	**$12,619**	$3,981
Loss carryforwards	**(374)**	-	**(374)**	3,884
Convertible debentures	**1,034**	1,324	**(290)**	(241)
Other	**1,808**	1,026	**1,517**	1,726
Net deferred tax expense			**$13,472**	$9,350
Net deferred tax liabilities	**$105,958**	$93,221		
Reconciliation of net deferred tax liabilities				
Balance, beginning of year			**$93,221**	$83,871
Recognized in statements of income and comprehensive income			**13,472**	9,350
Recognized in equity on issuance of shares			**(653)**	-
Recognized in other comprehensive loss			**(82)**	-
Balance, end of year			**$105,958**	$93,221

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognized, aggregate to $0.1 million (December 31, 2013 - $Nil).

23. Per Share Information

The following is the weighted average number of shares outstanding for the years ended December 31, 2014 and 2013.

For the years ended December 31,	**2014**	2013
Weighted average shares outstanding - basic	**55,393,775**	54,142,897
Unexercised dilutive options	**123,127**	232,877
Restricted share units	**147,204**	126,014
Convertible debentures	**10,087,719**	9,875,954
Weighted average shares outstanding - diluted	**65,751,825**	64,377,742

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

23. Per Share Information (continued)

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

For the years ended December 31,	**2014**	2013
Net income applicable to common shareholders	**$29,772**	$39,779
Adjustment for dilutive effect of convertible debentures	**4,727**	4,681
Adjusted net income for diluted per share amounts	**$34,499**	$44,460

24. Segmented Information

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

For the year ended December 31, 2014	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$132,950**	**$13,980**	**$577**	**$147,507**
Property operating expenses	**(57,294)**	**(5,255)**	**(357)**	**(62,906)**
Net operating income	**$75,656**	**$8,725**	**$220**	**$84,601**
Home sales, equity income & corporate income	-	**-**	**2,065**	**2,065**
Financing costs	**(25,913)**	**(2,569)**	**(6,127)**	**(34,609)**
Depreciation and amortization	**(1,086)**	**(198)**	**(1,071)**	**(2,355)**
Administration	**(1,502)**	**(357)**	**(6,666)**	**(8,525)**
Income before fair value gains, loss on disposition and income taxes	**$47,155**	**$5,601**	**$(11,579)**	**$41,177**
Total assets	**$1,572,049**	**$149,058**	**$54,127**	**$1,775,234**
Total liabilities	**$842,283**	**$58,395**	**$211,873**	**$1,112,551**
Capital expenditures on investment properties	**$30,096**	**$2,525**	**$47**	**$32,668**

For the year ended December 31, 2013	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	$121,306	$19,253	$553	$141,112
Property operating expenses	(50,435)	(7,336)	(301)	(58,072)
Net operating income	$70,871	$11,917	$252	$83,040
Home sales, equity income & corporate income	-	-	2,365	2,365
Financing costs	(24,837)	(4,116)	(6,278)	(35,231)
Depreciation and amortization	(942)	(254)	(1,036)	(2,232)
Administration	(1,457)	(362)	(6,059)	(7,878)
Income before fair value gains, loss on disposition and income taxes	$43,635	$7,185	$(10,756)	$40,064
Total assets	$1,386,826	$134,760	$10,845	$1,532,431
Total liabilities	$676,072	$53,326	$198,973	$928,371
Capital expenditures on investment properties	$18,100	$3,505	$42	$21,647

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

24. Segmented Information (continued)

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

2014	**Property Revenue**	**Property Operating Expenses**	**Net Operating Income**	**Fair Value of Investment Properties**
Halifax, NS	**$55,843**	**$(21,909)**	**$33,934**	**$648,717**
Moncton, NB	**15,796**	**(8,091)**	**7,705**	**134,465**
Fredericton, NB	**13,936**	**(6,887)**	**7,049**	**143,150**
Saint John, NB	**9,911**	**(5,920)**	**3,991**	**66,596**
St. John's, NL	**8,416**	**(2,652)**	**5,764**	**116,340**
Charlottetown, PE	**9,280**	**(3,962)**	**5,318**	**91,443**
Ontario	**14,966**	**(5,862)**	**9,104**	**277,946**
Alberta	**202**	**(48)**	**154**	**50,036**
Other Atlantic	**4,600**	**(1,963)**	**2,637**	**39,510**
	$132,950	**$(57,294)**	**$75,656**	**$1,568,203**

2013	Property Revenue	Property Operating Expenses	Net Operating Income	Fair Value of Investment Properties
Halifax, NS	$53,705	$(20,089)	$33,616	$593,809
Moncton, NB	14,076	(7,052)	7,024	133,157
Fredericton, NB	13,070	(6,000)	7,070	142,881
Saint John, NB	9,483	(5,485)	3,998	70,074
St. John's, NL	7,687	(2,466)	5,221	103,211
Charlottetown, PE	8,196	(3,507)	4,689	91,984
Ontario	10,921	(4,026)	6,895	158,914
Other Atlantic	4,168	(1,810)	2,358	40,123
	$121,306	$(50,435)	$70,871	$1,334,153

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

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

25. Supplemental Cash Flow Information

For the years ended December 31,	**2014**	2013
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$28,902**	$29,392
Interest paid on convertible debentures	**5,756**	5,756
Interest paid on subordinated debentures	**-**	8
	$34,658	$35,156
Changes in non-cash operating assets and liabilities		
Rent and other receivables	**$798**	$1,016
Inventory	**430**	192
Other current assets	**(1,095)**	(200)
Accounts payable and other liabilities	**8,365**	(1,638)
	$8,498	$(630)

26. Financial Instruments

The Company entered into a fixed forward interest rate swap contract to partially hedge the exposure to changes in future borrowing rates related to two anticipated mortgage refinancings. The interest rate swap contract was designated as a cash flow hedge at inception on March 7, 2014. The fixed interest rate on the 5-year forward swap was 2.36%, while the total notional amount of the mortgage debt subject to the interest rate hedge was $15.0 million.

On September 25, 2014, the forward interest rate swap contract settled and was evaluated as an effective hedge. A net unrealized loss of $209 thousand was recognized in AOCL for the fair value change of the derivative. The loss on the settled hedge will be amortized into net income over the terms of the mortgages. For the year ended December 31, 2014, $11 thousand (net of tax) was reclassified to net income through financing costs (December 31, 2013 - Nil).

For the years ended December 31,	**2014**	2013
Balance, beginning of the year	**$-**	$-
Unrealized loss of forward interest rate hedge (net of tax $86)	**(209)**	-
Reclassification during the year to net income (net of tax $4)	**11**	-
Balance, end of year	**$(198)**	$-

27. Financial Risk Management Objectives and Policies

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

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

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

(i) Interest rate risk

The Company is exposed to interest rate risk as a result of its mortgages and loans payable, however this risk is mitigated through the Company's strategy to have the majority of its mortgages payable in fixed-term arrangements, as well as, at times, entering into cash flow hedges. The Company also structures its financings so as to stagger the maturities of its debt, minimizing the Company's exposure to interest rate volatility in any one year.

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

27. Financial Risk Management Objectives and Policies (continued)

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 totaling $31.9 million with floating interest rates ranging from prime to prime plus 1.0% and consequently, Killam is exposed to short-term interest rate risk on these loans.

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 $115.2 million of Killam's fixed mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, except at a 100 basis point increase in interest rates, financing costs would increase by $0.9 million per year.

(ii) Credit risk

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

(iii) Liquidity risk

Management manages the Company's cash resources based on financial forecasts and anticipated cash flows. The Company structures its financings so as to stagger the maturities of its debt, thereby minimizing the Company's exposure to liquidity risk in any one year. In addition, the Company's apartments qualify for CMHC insured debt, thereby reducing the refinancing risk on mortgage maturities. The Company's MHCs do not qualify for CMHC insured debt, however, they continue to have access to mortgage debt. Management does not anticipate liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector.

During the year ended December 31, 2014, the Company refinanced $121.0 million of maturing apartment mortgages with new mortgages totaling $172.4 million for net proceeds of $51.4 million. As well, the Company refinanced $13.5 million of maturing manufactured home community mortgages with new mortgages totaling $20.5 million for net proceeds of $7.0 million.

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

For the twelve months ended December 31,	**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**

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

27. Financial Risk Management Objectives and Policies (continued)

Capital Management

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

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

As at	**December 31, 2014**	December 31, 2013
Mortgages, loans payables and construction loans	**$876,666**	$713,905
Convertible debentures	**97,967**	96,419
Total debt	**$974,633**	$810,324
Total assets	**$1,775,234**	$1,532,431
Total debt as a percentage of total assets	**54.9%**	52.9%

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. A 10 basis point increase in the weighted average cap-rate as at December 31, 2014, would increase the debt as a percentage of assets by 90 bps.

Fair Value Measurement

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

		December 31, 2014		December 31, 2013	
Classification	**Subsequent Measurement**	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value
Financial Assets:					
Loan receivable (a)	Amortized cost	**$4,000**	**$4,027**	$ -	$ -
Financial Liabilities:					
Mortgages (b)	Amortized cost	**$844,722**	**$941,158**	$699,130	$748,806
Convertible debentures (c)	Amortized cost	**$97,967**	**$103,996**	$96,419	$100,461

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

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

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

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

Dollar amounts in thousands of Canadian dollars (except share and per share amounts)

27. Financial Risk Management Objectives and Policies (continued)

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

As at	**December 31, 2014**	December 31, 2013
Mortgages - Apartments	**2.11%**	2.60%
Mortgages - MHCs	**3.91%**	4.45%

As at December 31, 2014, and December 31, 2013, the Company did not have any financial assets or liabilities measured at fair value on the consolidated statements of financial position.

28. Commitments

As at December 31, 2014, Killam has committed development costs of $7.1 million.

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. Management believes that the final outcome of such matters will not have a material adverse effect on the financial position, results of operations or liquidity of the Company. However, actual outcomes may differ from Management's expectations.

29. Related Party Transactions

Killam has contracted APM Construction Services Inc. ("APM") to act as Project Manager on a development project in St. John's, NL. APM was previously the Project Manager on two developments that were completed in 2013. APM is an entity controlled by a director of Killam. APM will be paid an industry standard management fee of approximately 4% of the construction costs. For the year ended December 31, 2014, Killam paid APM $0.4 million for construction management services (December 31, 2013 - $0.5 million).

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a company controlled by an executive and director of Killam. In addition, the property manager for the commercial complex is controlled by the executive and director and is paid an industry standard property management fee. Occasionally, Killam will also pay market leasing placement fees, to the company controlled by an executive and director of Killam, for placement of a commercial tenant in a property owned by Killam.

Key management personnel remuneration

The remuneration of directors and other key management personnel, which include the Board of Directors, President & Chief Executive Officer, Executive Vice-President and Chief Financial Officer, and Vice-Presidents of Killam, is as follows:

For the years ended December 31,	**2014**	2013
Salaries, board compensation and incentives	**$2,635**	$2,371
Restricted share awards	**840**	847
Total	**$3,475**	$3,218

30. 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.

Five-Year Summary

In thousands (except per share data)

Statement of Income Information	2014	2013	2012	2011	2010
Net operating income	**$84,601**	$83,040	$80,444	$76,352	$70,460
Corporate income	**$1,175**	$746	$962	$94	$547
Equity income	**$829**	$1,296	$758	$13	$ -
Income from home sales	**$61**	$323	$469	$486	$403
Financing costs	**($34,609)**	($35,231)	($34,633)	($34,891)	($31,610)
Administration	**($8,525)**	($7,878)	($8,832)	($7,672)	($7,765)
Depreciation and amortization	**($2,355)**	($2,232)	($2,145)	($1,711)	($2,114)
Fair value gains	**$4,768**	$13,070	$37,726	$52,070	$39,098
Loss on disposition	**($1,257)**	($1,401)	($1,286)	$ -	$ -
Current tax recovery (expense)	**$1,451**	($1,451)	$ -	$ -	$ -
Deferred tax expense	**($13,472)**	($9,350)	($19,234)	($17,920)	($14,611)
Net income	**$32,667**	$40,932	$54,229	$66,821	$54,408
Net income attributable to common shareholders	**$29,772**	$39,779	$51,727	$65,965	$53,786
Net income per share - basic	**$0.54**	$0.74	$1.03	$1.45	$1.24
Net income per share - diluted	**$0.53**	$0.69	$0.97	$1.34	$1.19
Funds From Operations (FFO)					
FFO	**$40,162**	$38,770	$36,096	$31,757	$29,036
FFO per share (diluted)	**$0.72**	$0.71	$0.71	$0.69	$0.66
Balance Sheet Information					
Total assets	**$1,775,234**	$1,532,431	$1,443,128	$1,329,531	$1,116,333
Total liabilities	**$1,112,551**	$928,371	$854,692	$816,988	$689,292
Total equity	**$662,683**	$604,060	$588,436	$512,543	$427,041
Statement of Cash Flow Information					
Cash provided by operating activities	**$51,524**	$39,080	$46,027	$39,291	$34,280
Cash provided by financing activities	**$142,603**	$49,238	$43,878	$92,813	$68,855
Cash used in investing activities	**($202,958)**	($117,366)	($76,527)	($105,673)	($97,887)
Share Information					
Weighted average number of shares - basic	**55,394**	54,143	50,227	45,523	43,393
Weighted average number of shares - diluted	**65,752**	64,378	58,239	52,090	47,201
Shares outstanding at December 31	**60,476**	54,459	53,802	49,291	44,972
Share price at December 31	**$10.26**	$10.48	$12.49	$11.57	$10.45

Board of Directors

Timothy Banks[3]
President & CEO,
APM Group of Companies
Charlottetown, Prince Edward Island

Philip Fraser
President & CEO,
Killam Properties Inc.
Halifax, Nova Scotia

Robert Kay[1]
Chairmen of the Board,
Killam Properties Inc.
Chairman,
Springwall Group International
and Springwall Sleep Products Inc.
Moncton, New Brunswick

James Lawley[1][2]
General Manager, Scotia Fuels Ltd.
Halifax, Nova Scotia

Arthur Lloyd[2]
Executive Vice President,
Global Investments,
Ivanhoé Cambridge
Calgary, Alberta

Karine MacIndoe
Corporate Director,
Toronto, Ontario

Robert Richardson, FCA
Executive Vice President & CFO,
Killam Properties Inc.
Halifax, Nova Scotia

Manfred Walt, CPA, CA[2][3]
President & CEO,
Walt & Co. Inc.
Toronto, Ontario

Wayne Watson, CA[1][3]
Corporate Director,
Halifax, Nova Scotia

(1) member of the Audit Committee
(2) member of the Corporate Governance, Nomination and Succession Committee
(3) member of the Compensation Committee

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killamproperties.com/investor-relations

Executive Team

Philip Fraser
President & Chief Executive Officer

Robert Richardson, FCA
Executive Vice President
& Chief Financial Officer

Ruth Buckle
Vice President, Property Management

Erin Cleveland, CA
Vice President, Finance

Pamela Crowell
Vice President,
Tenant Experience &
MHC Management

Jeremy Jackson
Vice President, Marketing

Colleen McCarville
Vice President, Human Resources

Michael McLean
Vice President, Development

Dale Noseworthy, CA, CFA
Vice President, Investor Relations
and Corporate Planning

Investor Inquiries

investorrelations@killamproperties.com
902.442.0388

Auditors

Ernst & Young, LLP
Halifax, NS

Solicitors

Bennett Jones, LLP
Calgary, AB

Stewart McKelvey
Halifax, NS

Registrar and Transfer Agent

Computershare Investor Services Inc.
Suite 2008, Purdy's Wharf,
Tower II
Halifax, NS B3J 3R7

Share Listing

Toronto Stock Exchange (TSX)
Trading Symbol: KMP

Monthly Dividend

$0.05 per share

Head Office

Suite 100
3700 Kempt Road
Halifax, NS B3K 4X8
902.453.9000
866.453.8900

Annual General Meeting

The Annual General Meeting of Shareholders will be held on Wednesday, May 6, 2015, at 2:00 pm Atlantic Time at the Halifax Marriott Harbourfront Hotel, 1919 Upper Water Street, Halifax, Nova Scotia.

Killam Properties Inc.
Suite 100
3700 Kempt Road
Halifax, Nova Scotia
B3K 4X8

1.866.453.8900
killamproperties.com
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