KILLAM PROPERTIES INC

2013 ANNUAL REPORT

cover: 100 & 200 Eagle Street, Cambridge, Ontario

About Killam Properties Inc.

Killam Properties Inc. is a growth oriented Canadian real estate company. We own, manage and develop multi-family residential properties in Atlantic Canada and Ontario. Since our first acquisition in 2002, our real estate portfolio has grown to $1.5 billion and includes 12,647 apartment units and 5,164 manufactured home community (MHC) sites. We are committed to growing Killam's earnings by maximizing the returns from our existing portfolio and expanding through acquisitions and development.

Our Mission

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

Our Core Values

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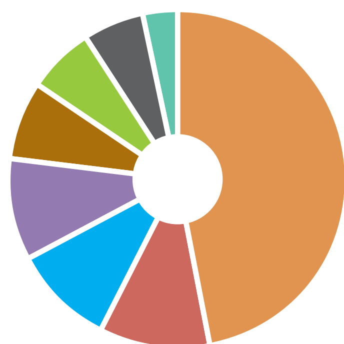
180 Mill Street, London, Ontario

Killam Fundamentals

Atlantic Canada's Market Leader

We are Atlantic Canada's largest residential landlord with a 14% market share of apartments in the region's six largest cities. With a portfolio of over 11,000 apartment units in Atlantic Canada, including 5,000 in Halifax, we have strong market recognition and are able to meet the rental needs of a diversified and growing customer base. Our established operating platform allows us to maximize efficiencies and support additional growth in the region and beyond.

Apartment Net Operating Income by Core Market
for the year ended December 31, 2013

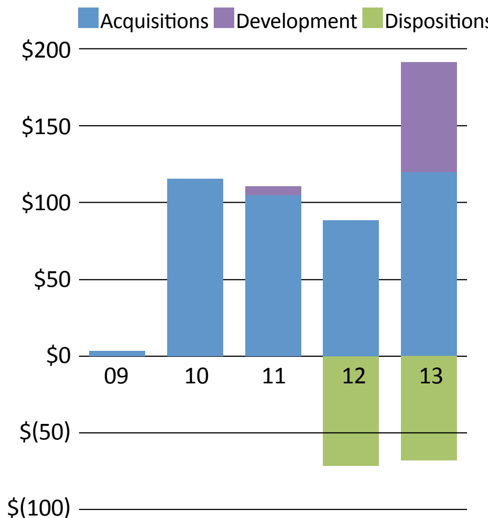


Halifax | 47%
Ontario | 10%
Fredericton | 10%
Moncton | 10%
St. John's | 7%
Charlottetown | 7%
Saint John | 6%
Other | 3%

Expanding Annually Through Acquisitions and Development

We have grown our real estate portfolio on an annual basis through the acquisition of apartments and MHCs. Since 2010, we have been complementing our growth with developments. 2013 marked the Company's biggest year for acquisitions and developments in eight years, adding $191 million in properties to the portfolio. Growth is funded through a combination of equity, mortgage debt and the recycling of assets, further increasing the quality of the portfolio. In 2013 we sold a portfolio of MHCs in New Brunswick, the proceeds of which will be used primarily for apartment acquisitions.

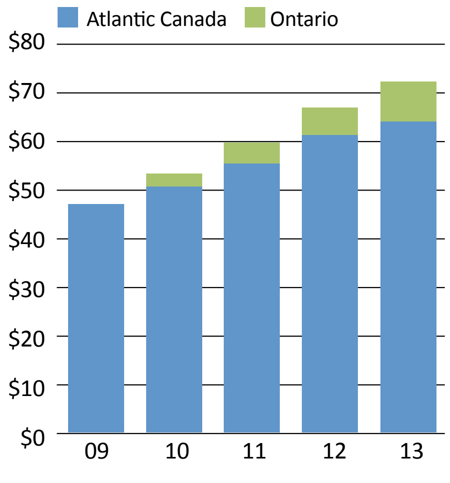
Annual Investment in Acquisitions and Development
$ millions



Increasing Geographic Diversification

We are increasing our geographic diversification by expanding our apartment ownership outside Atlantic Canada. Over the last four years we have invested approximately $200 million in apartments located in Ontario and at the end of 2013 owned 1,359 units in three core Ontario markets: Ottawa, Toronto and Southwestern Ontario. Our long-term goal is to have 50% of our earnings generated outside Atlantic Canada. We plan to achieve this by focusing future acquisition and development activity in Ontario, and potentially Western Canada.

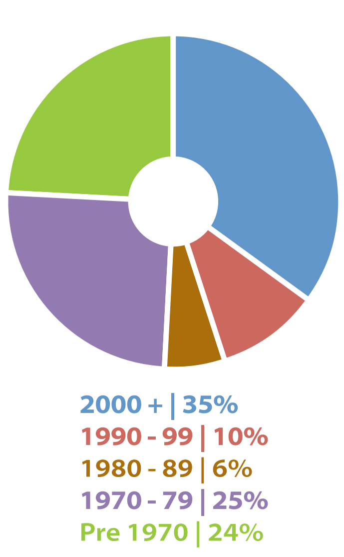
Annual Apartment Net Operating and Equity Income from Atlantic Canada and Ontario
$ millions



Investing in Newer Properties

We are expanding our portfolio with a focus on acquiring newer properties and through development. We believe that newer buildings often generate higher total returns due to limited deferred maintenance requirements, lower operating costs and a preference for renters to live in newer buildings. With 35% of Killam's apartment portfolio constructed since the year 2000, Killam has one of the newest multi-family real estate portfolios in Canada.

Apartment Value by Year of Construction



Management Team

Dale Noseworthy
Vice President
Investor Relations and
Corporate Planning

Jeremy Jackson
Vice President
Marketing

Robert Richardson
Executive Vice President
& Chief Financial Officer

Michael McLean
Vice President
Development

Erin Cleveland
Vice President
Finance

2013 Financial & Operating Highlights

+5.6%
Property
Revenue
Growth

+1.8%
Same Store
Revenue
Growth

96.3%
Apartment
Occupancy
at December 31, 2013

Ruth Buckle
Vice President
Property Management

Philip Fraser
President &
Chief Executive Officer

Pamela Crowell
Vice President
Property Management
(MHC)

$191M
Acquisitions
& Developments
Completed

$0.72
Funds from
Operations
per Share

52.9%
Debt as a
Percentage
of Total Assets

2013 Performance Summary

Objective	2013 Target	2013 Performance
Consolidation of the Multi-family Residential Real Estate Market	To complete $75 million to $125 million in acquisitions.	Target achieved. $121 million in acquisitions completed in 2013, including $113 million in apartment acquisitions, $7 million for three parcels of land for future development and $1 million for an MHC acquisition.
Increase Investment in New Properties	Acquire new properties as part of the acquisition program in 2013.	Target achieved. During 2013, 74% of the total units added to the portfolio were constructed after 2001. These acquisitions included three buildings constructed in 2013, a 179-unit building on Queen Street West in Toronto, an 83-unit luxury building in Halifax, and a 48-unit building in Moncton.
	Complete and lease-up Killam's four developments and commence two new development projects.	Target partially achieved. The Company completed the construction of four development projects totaling 282 units during the first half of 2013. Two of the properties, Bennett House and Brighton House, were fully leased within three months of opening, while S2 and The Plaza are expected to be substantially leased by the middle of 2014. Killam began two new developments during the second half of the year, a 101-unit building in St. John's, Newfoundland, and a 122-unit building in Cambridge, Ontario.
Geographic Diversification	2013 acquisition program to include investments in Ontario.	Target achieved. Killam acquired $55 million in Ontario real estate in 2013, representing 45% of its acquisition program in the year. Assets acquired included a 102-unit property in Ottawa, a newly built, 179-unit, mixed-used property in downtown Toronto and a 5.2 acre parcel of land for development in Cambridge, Ontario.
Growth in Same Store Net Operating Income (NOI)	Same store NOI growth of 2% to 4% in 2013.	Target not achieved. Despite generating 1.8% growth in same store revenue, high natural gas prices in Atlantic Canada caused total same store utility and fuel expenses to increase 13.8% during the year, which resulted in a decrease in same store NOI of 0.4% for the year.

Richmond Hill, London, Ontario

President's Letter

Dear Shareholders,

I am pleased to review Killam's 2013 performance with you, and outline our strategy and plans for the future. We are progressing nicely with our priorities to increase the quality of our portfolio and expand geographically. In addition, we are focused on three key areas of growth for the Company: increase the value of our existing portfolio, acquire accretively and develop profitably.

During the past year we expanded communication of our corporate strategy to reach the broader Killam community with the introduction of Killam's Core Values. These values have been inherent in the Company since our first acquisition in 2002, but had not been broadly promoted until this past year. Our Core Values (Curb Appeal, Build Community, Strong Customer Relationships, Do the Right Thing and Creative Solutions) are represented in the colourful squares you will see throughout this year's report. Killam employees across the Company demonstrate these values in their daily work, distinguishing Killam as a high-quality landlord. The introduction of a quarterly awards program, which recognizes employees who exemplify Killam's Core Values, enables us to celebrate these values. I have been impressed by both the number and quality of nominations. We truly have a remarkable group of employees who go above and beyond in providing exceptional service to our tenants.

A Look Back at 2013

I would summarize 2013 as a mixed year for Killam. We were successful in achieving many of the objectives and targets we had set for ourselves, as summarized in the adjacent chart, but faced challenges that impacted our financial performance. We added $191 million in new assets to our portfolio through acquisitions and the completion of four new developments. We also enhanced our leasing and marketing programs, which allowed us to realize gains in occupancy in the second half of the year and improve our position for 2014. We further benefited from both interest and administrative cost savings in the year. These improvements were mitigated somewhat by large increases in natural gas costs in Atlantic Canada and a more competitive rental market in the Maritimes, which resulted in increased year-over-year vacancy. The challenges we faced in 2013 resulted in funds from operations (FFO) per share of $0.72, the same as Killam's 2012 FFO per share.

Growing the Cash Flow from our Properties

We expect to generate, on average, between 2% and 4% in net operating income (NOI) growth through our same store portfolio on an annual basis. Our same store portfolio represents properties we have owned for equivalent periods year-over-year. Due to commodity price volatility, we experienced an unexpected spike in natural gas prices in Nova Scotia and New Brunswick throughout the 2013 heating season that increased same store utility and fuel expenses by 14%. We were able to partially offset this unprecedented increase by managing controllable expenses to a modest 0.3% increase in the year; however, overall same store operating costs grew by 5.0%. These higher expenses more than offset a 1.8% growth in revenue, resulting in a disappointing 0.4% decline in same store NOI for the year.

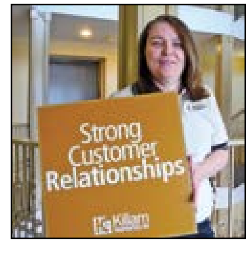
We are targeting positive same store growth in 2014 of up to 2%. Year-over-year occupancy improvements and increased rental rates are expected to generate revenue growth. Increasing our leasing staff and refining our marketing and leasing process is proving effective, resulting in improved occupancy levels in many of our core markets, especially in Ontario and New Brunswick. A colder than normal winter this year (2014) is translating into increased energy consumption and continued volatility in natural gas prices in Atlantic Canada, expected to result in higher than normal heating costs. We continue to invest in energy and operational efficiencies which we expect will keep our controllable costs down throughout the year and partially offset higher heating costs.

Looking beyond 2014, we expect to generate NOI growth more in the 2% to 4% range as large economic projects in Atlantic Canada are predicted to lead economic and population growth in the region. As the dominant residential landlord in Atlantic Canada with a wide variety of buildings and price points, we expect to benefit from this growth through increased demand for apartments.

Growth through Acquisitions

Growth through acquisitions will continue to be a focus for Killam. We completed $121 million of acquisitions last year, at the top of our acquisition target range of $75 million to $125 million. This was our largest year for acquisitions since 2005. Apartment acquisitions in Ontario in 2013 included a 102-unit building in Ottawa and a newly constructed mixed-use apartment and retail complex in downtown Toronto, for a total of $50 million. We are also pleased with the $64 million in properties we added to our portfolio in Atlantic Canada this past year, complementing our existing assets in Halifax, Charlottetown and Moncton.

We have targeted a minimum of $75 million in acquisitions for 2014. We are committed to adding strategically to our asset base in our core markets, targeting both new buildings and centrally located older buildings with upside opportunities.



Recycling Assets and Increasing the Quality of Killam's Portfolio

Part of our growth through acquisitions in 2014 includes investing funds from the New Brunswick MHC portfolio we sold in November 2013. This was Killam's second MHC portfolio sale in the last two years. Although we continue to value the MHC asset class and see it as a strong complement to the apartment portfolio, we recognize that growth opportunities in this asset class are limited, with few investment grade communities available. In addition, the value of MHCs has increased significantly in the last number of years, arguably to a greater extent than many other real estate assets classes, including apartments. The decision to sell was based on the opportunity to crystallize the value of the properties at an attractive price and use the funds to accretively grow the apartment portfolio. The net proceeds from the sale have been, and will be, used primarily to fund growth of the apartment portfolio. We expect to fully deploy the net cash from the 2013 sale of $46 million during the first half of 2014 and are confident in our strategy to enhance the long-term quality of our portfolio and shareholder value.

We continued to invest capital in our properties, spending $22 million in 2013. Annual capital investment is a reality for real estate owners. We believe that higher total investment returns are often available by acquiring newer assets because the annual capital requirements are significantly less than acquiring an older building with deferred maintenance issues. This is especially true in the recent acquisition market with very low capitalization rates (cap rates) and high valuations attributable to most real estate assets. Generally, we have not seen a large enough cap rate spread recognizing the different quality of assets, or the condition of assets with significant deferred maintenance, in recent years. In the past there was a larger valuation spread attributable to these factors. At the end of December 2013, 35% of the value of our real estate assets were considered new, defined as built since the year 2000. In fact, 17% were built in the last five years.

Complementing Acquisitions with Developments

Development is an important component of Killam's future growth. We are gaining expertise as developers, resulting in both increased efficiencies and returns. We completed four new developments in 2013, representing an investment of $70 million. Two of the buildings leased-up within three months, and two are expected to be substantially leased by the middle of 2014. The slower than expected lease-up at S2 in Halifax is attributable to a higher than normal amount of new units coming to market in recent years, leading to increased competition at the high-end of the market. At The Plaza in Fredericton, a soft home sales market is leading to longer than expected lease-up. We will realize the full financial benefit from these buildings once they are fully occupied.

We currently have two new developments underway. Chelsea Place, a 101-unit, 2-building complex located in St. John's, is expected to be completed in the third quarter of 2014. Saginaw Gardens, a 122-unit building in Cambridge, on land acquired in January 2013, was started in December 2013 and will be completed in 2015. The total investment in the two developments is approximately $46 million, representing 3% of our balance sheet. We expect to limit our

Our Goals for 2014

Complete a minimum of $75 million in acquisitions.

Acquire over 50% of 2014 acquisitions outside Atlantic Canada, with a focus in Ontario.

Grow same store NOI by up to 2%.

Continue to invest in development with two projects underway, managing projects on schedule and on budget.

development program to a maximum of 5% of our balance sheet per year. We have three other developments projects in various planning stages, but don't expect to begin construction on any additional new projects until late 2014 or into 2015.

Geographic Diversification is a Priority

Geographic diversification is a priority for Killam. Our asset base in Atlantic Canada is the foundation of the Company; however, with Atlantic Canada representing only 5% of the Canadian rental market, our growth opportunities increase significantly by expanding our target markets outside of this region. With its strong operating platform, Killam can support a larger and more geographically diverse portfolio. We are actively growing a portfolio of apartments in Ontario in three target markets: Ottawa, the Greater Toronto Area, and Southwestern Ontario. An increased investment outside Atlantic Canada will increase not only Killam's growth potential, it will also expand the Company's diversification and exposure to higher growth markets.

Acquisitions in Ontario represented 45% of acquisitions in 2013. In addition to 1,359 apartment units in the province, we also have 2,144 manufactured home community sites, representing 29% of the MHC NOI last year. Based on our current portfolio, 15% of Killam's 2014 NOI will be generated in Ontario, compared to our longer-term goal of generating 50% of NOI outside Atlantic Canada. We expect to reach this goal by focusing acquisition activity in Ontario, with the majority of future investment anticipated in the province over the next few years. We will look for additional development opportunities in Ontario and we are exploring opportunities in Western Canada, attracted by the strong population growth trends in Alberta's urban markets.

I would like to thank all Killam employees for their contributions and commitment over the last year and our board of directors for their governance. Also, I would like to thank you, our shareholders, for your continued investment in Killam. I invite you to attend the Company's annual meeting on May 7, 2014 at 2:00 pm Atlantic Time at the Halifax Marriott Harbourfront Hotel, either in person or via webcast.

Yours truly,

Philip Fraser

Portfolio Facts

12,647
Apartment Units

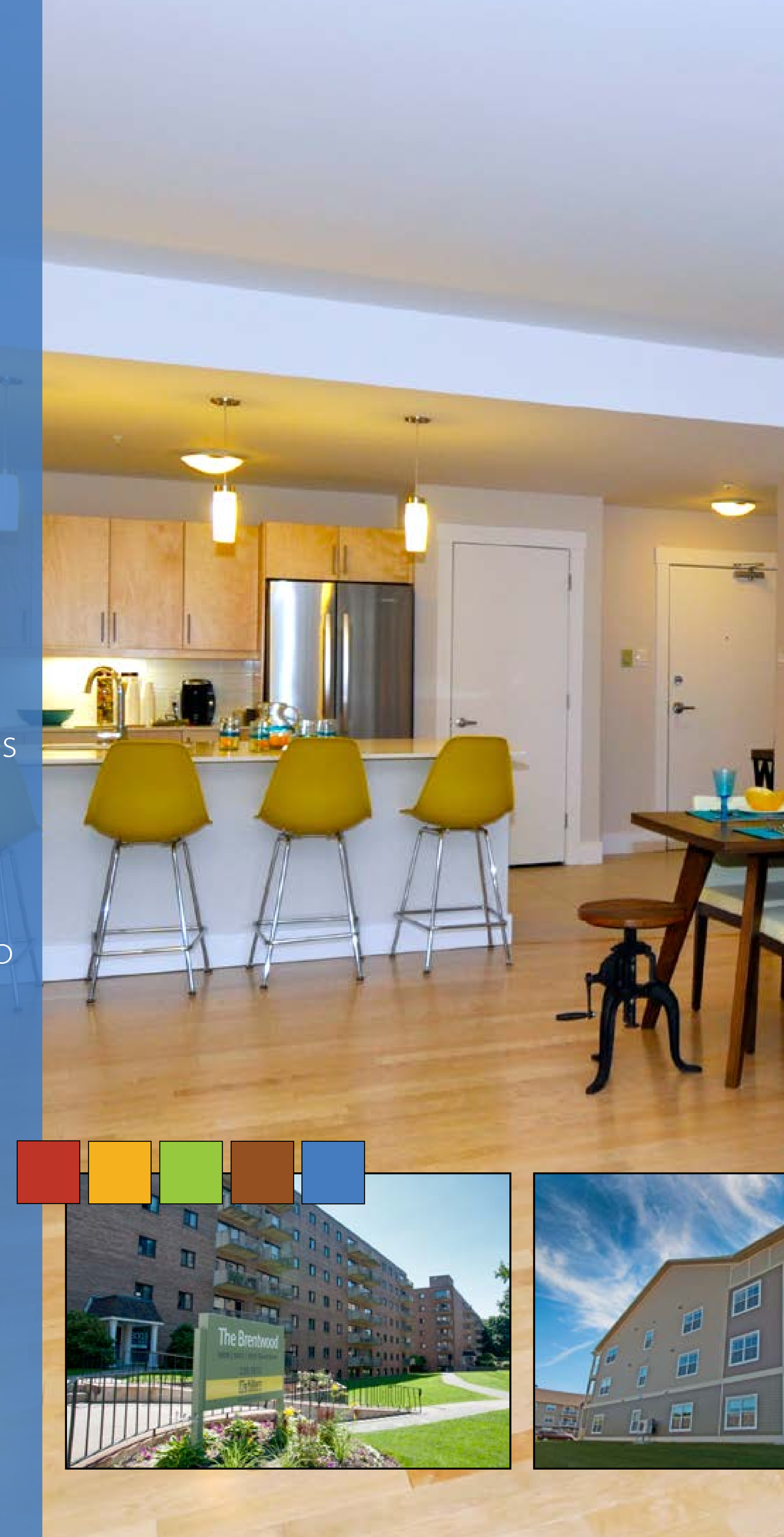
164
Apartment Properties

35
Manufactured Home Communities

35%
Value of Apartment Portfolio Built Since 2000

$915
Average Apartment Rent

$222
Average MHC Rent



A Diversified Portfolio

Killam has a diverse portfolio of both apartments and manufactured home communities. The apartment portfolio represents 86% of Killam's earnings and includes a variety of property types, such as high-rises, mid-rises and walk-ups, in nine urban centres across five provinces. With a wide selection of properties and price points in each city, Killam caters to a broad tenant base. Killam's 35 manufactured home communities represent 14% of earnings and are located primarily in Nova Scotia and Ontario. The manufactured home communities complement the apartment business, providing stable and predictable cash flows.

S2, Halifax, Nova Scotia

Opportunities for Growth

Killam's growth opportunities include increasing earnings of its existing portfolio and expanding the portfolio through acquisitions and development. Acquisitions have been an important part of Killam's growth, having completed over $1.1 billion in acquisitions since the first property was acquired in 2002. Killam began development as a complement to its acquisition program in 2010, and to-date has invested approximately $90 million in new developments. 2013 was Killam's largest year for growth since 2005, adding $191 million of properties to the portfolio, including $121 million in acquisitions and $70 million in new developments. Looking ahead to 2014, Killam has targeted a minimum of $75 million in acquisitions, and the development of two new apartment buildings totaling approximately $46 million.

The Plaza, Fredericton, New Brunswick

2013 Acquisition & Development Facts

$121M

Acquisitions Completed

5.8%

Average Acquisition Capitalization Rate

743

Apartment Units Acquired

282

New Apartment Units Added from Completed Developments

$7M

Invested in Land for Future Developments

Geographic Expansion Facts

1,359
Apartment Units in Ontario

42%
MHC Sites in Ontario

20%
Real Estate Assets Located in Ontario

50%
Target NOI to be Generated Outside Atlantic Canada

Core Markets in Ontario include Ottawa, Toronto & Southwestern Ontario

Increasing Geographic Diversification

With a home base in Halifax, Killam's roots are in Atlantic Canada and the Company has successfully grown by consolidating the residential real estate market in the region's urban centres. In order to meet its long-term growth targets and increase its investment in Canada's most dynamic real estate markets, Killam has been actively expanding its apartment portfolio in Ontario and is exploring investment opportunities in Western Canada. Since 2010, Killam has expanded its apartment target markets to include specific cities in Ontario, and has invested approximately $200 million in real estate assets in the province. Approximately 15% of Killam's 2014 net operating income is expected to be earned in Ontario. The Company has set a long-term target to earn 50% of its net operating income outside Atlantic Canada.

1033 Queen Street West, Toronto, Ontario

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	139
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
Victoria Gardens	1954	198
Waterview Place	1971	82
Halifax Total		**4,970**
Halifax Average Rent		**$923**

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		**$896**

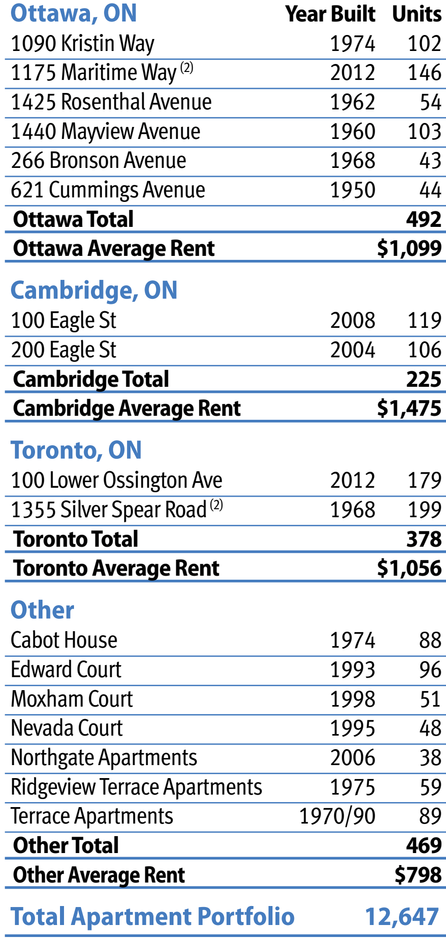
Moncton, NB		
100 Archibald Street	2003	60
101 Archibald Street	1993	60
115 Kedgewick Drive	2009	25
133 Kedgewick Drive	2010	23
135 Gould Street	2011	69
155 Canaan Drive	2008	48
1111 Main Street	1957	16
276-350 Gauvin Road	1991/96	84
303 Normandie Street	1994	70
316 Acadie Avenue	1996	48
360 Acadie Avenue	1998	60
364-368 Gauvin Road	1995	80
46 & 54 Strathmore Ave	2001	40
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	101
Lutz & Kendra Street	1950/75	40
Pine Glen Apartments	1974	54
Suffolk Street	2000	80
Moncton Total		**1,593**
Moncton Average Rent		**$831**

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		**$746**

St. John's, NL		
Bennett House	2013	71
Blackshire Court	1981	69
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		**813**
St. John's Average Rent		**$849**

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		**$878**

London, ON		
180 Mill Street (2)	2011	127
Richmond Hill Apartments	2009	137
London Total		**264**
London Average Rent		**$1,632**



Ottawa, ON	Year Built	Units
1090 Kristin Way	1974	102
1175 Maritime Way [2]	2012	146
1425 Rosenthal Avenue	1962	54
1440 Mayview Avenue	1960	103
266 Bronson Avenue	1968	43
621 Cummings Avenue	1950	44
Ottawa Total		**492**
Ottawa Average Rent		**$1,099**

Cambridge, ON		
100 Eagle St	2008	119
200 Eagle St	2004	106
Cambridge Total		**225**
Cambridge Average Rent		**$1,475**

Toronto, ON		
100 Lower Ossington Ave	2012	179
1355 Silver Spear Road [2]	1968	199
Toronto Total		**378**
Toronto Average Rent		**$1,056**

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		**$798**

Total Apartment Portfolio	**12,647**
Total Apartment Average Rent	**$915**

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**

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	289
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		**2,144**

Total MHC Portfolio	**5,164**
Total MHC Average Rent	**$222**

Notes:
(1) Killam has a 47% ownership interest in the 246-unit Garden Park Apartments.
(2) Killam has a 25% interest in 180 Mill Street, 1175 Maritime Way and 1355 Silver Spear Road through a joint venture.
(3) Seasonal resort community.

Doing the Right Thing

At Killam we are investing in our communities, as well as our real estate. We believe that giving back to the community is an important part of being a responsible corporate citizen.

Supporting Killam Families with Scholarship Program

Killam's Scholarship Program awards three $3,000 scholarships to children or grandchildren of Killam employees on an annual basis. After a competitive application process in 2013, Bradley Price, Hayley Gillis and Georgia Telman were selected for demonstrating an outstanding combination of academic excellence and community involvement.

Home Away from Home

On an annual basis, Killam donates six fully furnished apartments to hospitals in Halifax, Saint John, Moncton, Fredericton and Charlottetown. These units are used by families of patients who need to travel away from home for health care.

Red Cross

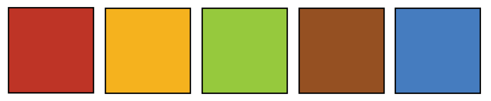
Killam has partnered with the Red Cross in many of its core markets. The Red Cross is on hand to help when emergencies and disasters impact communities. Over the last six years, Killam has provided the Red Cross with financial assistance to fund their operations. In return, the Red Cross has provided emergency training to Killam staff, helping us react effectively to emergencies when required.

Supporting Higher Education in Atlantic Canada

On an annual basis, Killam's board of directors join together to support a common charity or organization. During 2013 the board members together donated $100,000 to establish an endowment at Mount Allison University in Sackville, New Brunswick, providing an annual entrance scholarship to the university. Previous $100,000 board donations supported the Boys and Girls Clubs of Prince Edward Island, the YMCA of Greater Halifax/Dartmouth and Saint Mary's University in Halifax.

Caring for Kids

During 2013 Killam organized the Caring for Kids Lottery, a fundraiser in support of the IWK Health Centre in Halifax. The IWK Health Centre provides quality medical care to women, children, youth and families in the Maritime provinces. Killam tenants supported the cause through the purchase of lottery tickets for the chance to win free rent for a year. All funds raised went directly to the IWK Foundation.



Management's Discussion and Analysis

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Management's Discussion and Analysis

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

PART I

Basis of Presentation

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

Forward-looking Statements

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

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

Non-IFRS Measures

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

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

PART II

Business Overview

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

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

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

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

Key Performance Indicators (KPIs)

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

1. FFO per Share – A standard measure of earnings for real estate entities. Management is focused on growing FFO per share on an annual basis.
2. Rental Increases – Management expects to achieve increases in average rental rates on an annual basis and measures the average rental increases achieved.
3. Occupancy – Management is focused on maximizing occupancy levels while also managing the impact of higher rents. This measure considers units rented as a percentage of total stabilized units at a point in time.
4. Same Store NOI Growth – This measure considers the Company's ability to increase the NOI at properties that it has owned for equivalent periods year-over-year, removing the impact of acquisitions, dispositions, developments and other non same store operating adjustments.
5. Weighted Average Cost of Debt – Killam monitors the weighted average cost of its mortgage debt and total debt.
6. Debt to Total Assets – Killam measures its debt levels as a percentage of total assets and works to ensure that the debt to total assets remains at a range of 55% to 65%.
7. Term to Maturity – Management monitors the average number of years to maturity on its debt.
8. Interest Coverage Ratio – A common measure of credit risk used by lenders, this measure considers Killam's ability to pay interest on outstanding debt. Generally, the higher the interest coverage ratio, the lower the credit risk.
9. Debt Service Coverage Ratio – A common measure of credit risk used by lenders, this measure considers Killam's ability to pay interest and principal on outstanding debt. Generally the higher the debt service coverage ratio, the lower the credit risk.

Financial and Operational Highlights

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

Results of Operations

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

Same Store Results

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

Balance Sheet

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

Ratios

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

Summary of 2013 Results and Operations

Acquisitions and Developments Drive Revenue Growth of 5.6%

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

Consolidated Same Store Revenue Growth of 1.8%

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

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

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

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

Stability in Controllable Operating Costs

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

Interest Cost Savings on Refinancings

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

Stable FFO Despite Pressures on Non-Controllable Costs

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

Continued Geographic Expansion in Ontario

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

Reduced Cap-Rate Compression in 2013

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

Dividend Increase

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

Performance Compared to 2013 Key Objectives

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

Increase Investment in New Properties	
2013 Target	Focus on newer properties as part of the acquisition program in 2013. Complete and lease-up Killam's four developments, and commence two new development projects.
2013 Performance	During 2013 Killam acquired 552 units which were constructed after 2001, representing 74% of the total units added to the portfolio during the year. The acquisitions included three buildings constructed in 2013, an 83-unit luxury building in Halifax, a 48-unit building in Moncton, and a 179-unit building on Queen Street West in Toronto. The Company also completed the construction of four development projects totaling 282 units during the first half of the year. These buildings were all ready for occupancy by the beginning of May 2013 with lease-up periods varying by project. Bennett House and Brighton House were fully leased within three months of opening while the S2 and The Plaza are currently 62% and 61% leased. Both properties are expected to be substantially leased by mid-2014. Killam commenced two new development projects during the year. Development started on a 101-unit project in St. John's in Q3-2013 and a 122-unit project in Cambridge broke ground in December 2013. Please refer to the Investment Properties Under Construction section of the MD&A on page 49 for further details on these projects.

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

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

2014 Targets

Consolidation of Multi-family Residential Real Estate Market and Increase Investment New Properties	Complete a minimum of $75 million in acquisitions and continue to develop two current projects on schedule and within 5% of budget.

Geographic Diversification	Killam's 2014 acquisition program is to include over 50% of acquisitions outside of Atlantic Canada, with a focus on Ontario.

Growth in Same Store Net Operating Income	Same Store NOI growth of 0% to 2%.

2014 Outlook

Economic Growth Opportunities in Atlantic Canada

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

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

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

Occupancy Gains Expected

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

Natural Gas Volatility

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

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

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

$139 Million in Debt Maturing in 2014

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

Business Strategy

Maximize NOI from Existing Portfolio

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

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

Growth through Acquisitions

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

Growth through Development

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

Investment in New Properties

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

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

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

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

Geographic Diversification

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

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

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

Portfolio Summary

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

Apartment Properties

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

(1) Unit count includes properties held through Killam's partnerships and joint ventures.
(2) Killam owns a 47% interest in and manages Garden Park Apartments, a 246-unit building located in Halifax, NS. Killam's 47% ownership interest represents 116 of the 246 units related to this property.
(3) Killam owns three buildings located in Ontario through a joint venture, with Killam having a 25% ownership interest and managing the properties. Killam's 25% ownership interest represents 118 of the 472 units related to these properties.

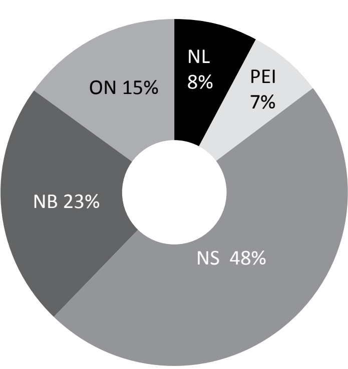
Manufactured Home Communities Portfolio

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

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

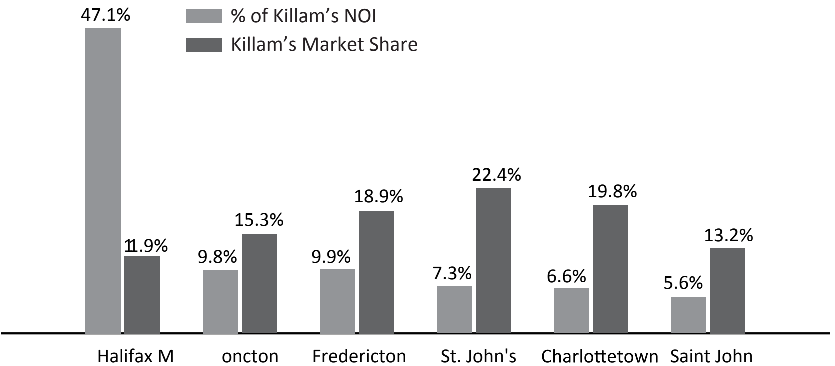
Killam's NOI by Province

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



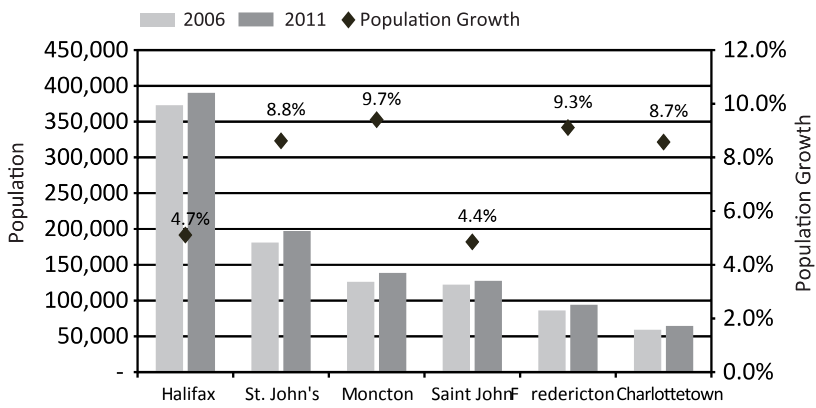
The Multi-family Market Leader in Atlantic Canada

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



Urbanization Leading to Population Growth in Killam's Core Markets

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



47% of Killam's Apartment NOI Generated in Halifax

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

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

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

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

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

Growing Investment in St. John's

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

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

Investment in the Urban Centres of New Brunswick and PEI

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

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

Expanding Ownership in Ontario

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

A Diversified Portfolio of Apartment Properties

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

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

MHCs Compliment Killam's Apartment Portfolio

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

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

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

Limited Exposure to Rent Control

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

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

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

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

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

PART III

2013 Financial Overview

Consolidated Results

For the years ended December 31,

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

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

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

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

Non same store property NOI consists of properties acquired in both 2012 and 2013, MHC properties sold in Q2 2012 and Q4 2013, completed development projects, other non-stabilized properties and adjustments to normalize for non-operational revenue or expense items. Details of properties acquired in 2013 are found on page 48.

Apartment Results

For the years ended December 31,

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

Apartment Property Revenue

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

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

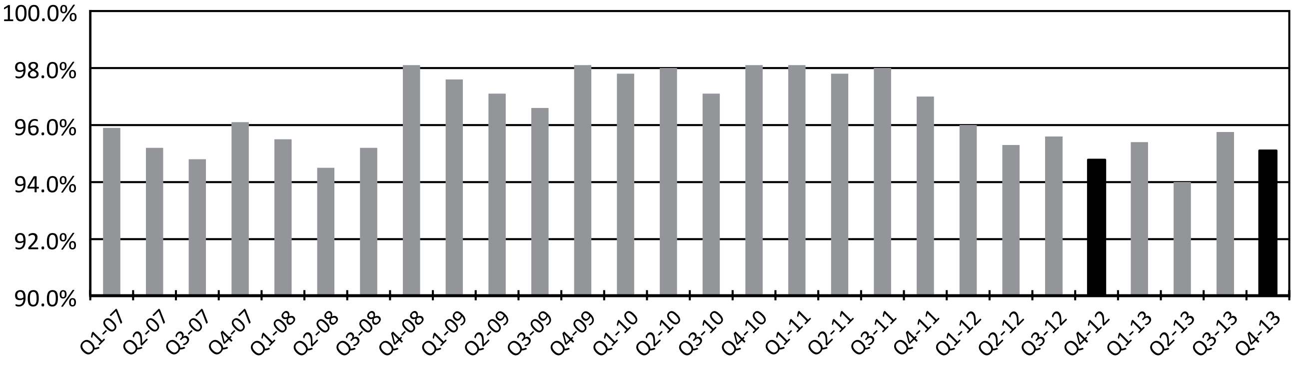
Based on current rents, an annualized 100 bps change in apartment vacancy rates would impact the annualized rental revenue by $1.3 million.

Apartment Occupancy by Core Market

As at December 31,

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

(1) Includes all stabilized properties.



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

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

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

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

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

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

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

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

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

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

Apartment Property Expenses

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

Utility and Fuel Expense - Same Store

For the years ended December 31,

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

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

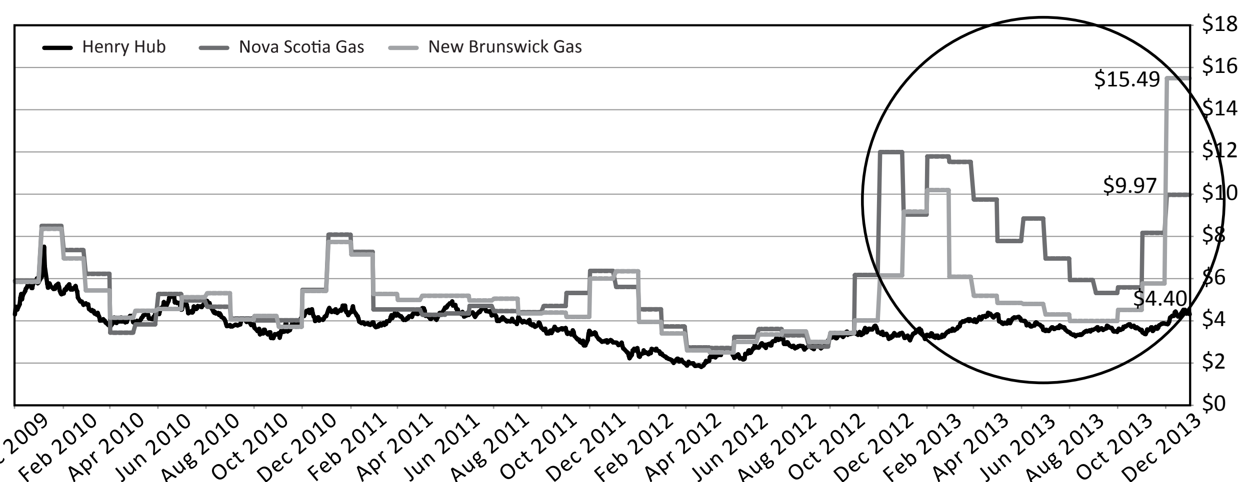
Electricity costs at the unit level are usually paid directly by tenants, reducing Killam's exposure to the majority of the 4,500 units heated with electricity. Fuel costs associated with natural gas or oil fired heating plants are paid by Killam. As such, the Company is exposed to fluctuations in natural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

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

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

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

Historic Natural Gas Pricing ($ per Gj)
Henry Hub Vs. Heritage Gas



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

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

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

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

Apartment Same Store NOI by City

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

For the years ended December 31,

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

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

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

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

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

MHC Results

For the years ended December 31,

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

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

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

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

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

PART IV

Other Income

Home Sales

For the years ended December 31,

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

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

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

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

Equity Income

For the years ended December 31,

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

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

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

Corporate Income

For the years ended December 31,

	2013	2012	% Change
Total	**$746**	$962	(22.5)%

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

Fair Value Gains

For the years ended December 31,

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

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

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

Other Expenses

Financing Costs

For the years ended December 31,

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

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

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

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

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

Depreciation Expense

For the years ended December 31,

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

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

Amortization of Deferred Financing Costs

For the years ended December 31,

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

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

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

Administration Expenses

For the years ended December 31,

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

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

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

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

Loss on Disposition

For the years ended December 31,

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

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

Deferred Tax Expense

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

PART V

Funds from Operations ("FFO")

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

For the years ended December 31,

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

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

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

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

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

FFO per Share ($)

	2011	2012	2013
Q1	$0.15	$0.15	$0.15
Q2	$0.18	$0.19	$0.18
Q3	$0.22	$0.21	$0.22
Q4	$0.16	$0.17	$0.19

Adjusted Funds From Operations ("AFFO")

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

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

For the years ended December 31,

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

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

PART VI

Investment Properties

As at December 31,

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

Continuity of Investment Properties

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

As at and for the years ended December 31,

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

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

Capitalization Rates

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

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

A sensitivity analysis of all significant assumptions is shown below:

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

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

2013 Acquisitions - Investment Properties

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

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

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

2013 Dispositions - Investment Properties

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

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

Investment Properties Under Construction

For the years ended December 31,

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

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

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

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

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

Capital Improvements

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

For the years ended December 31,

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

Apartments - Capital Spend

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

For the years ended December 31,

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

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

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

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

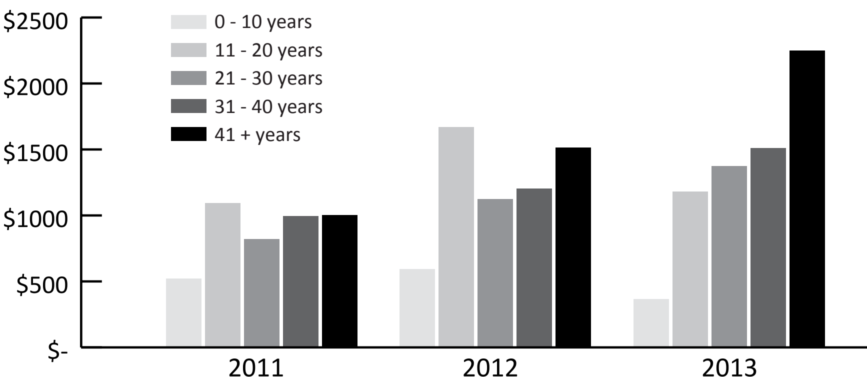
Killam has also invested in suite renovations to reposition an Ottawa portfolio acquired in 2012. Kitchen, bathroom, flooring and appliance upgrades have improved the quality of the Ottawa units, leading to a 1,100 bps increase in occupancy in the past 12 months. Excluding the repositioning of the Brentwood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

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

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

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

Average Capital Spend Per Unit by Building Age



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

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

MHCs - Capital Spend

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

For the years ended December 31,

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

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

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

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

Liquidity and Capital Resources

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

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

Mortgages and Other Loans

Below are Killam's key debt metrics:

As at December 31,

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

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

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

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

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

2013 Refinancings

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

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

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

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

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

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

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

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

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

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

Future Contractual Debt Obligations

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

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

Debentures

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

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

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

Construction Loans

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

Credit Facility

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

Operating Facility

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

Shareholders' Equity

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

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

Part VII

Quarterly Results & Discussion of Q4 Operations

Summary of Quarterly Results

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

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

Q4 - Consolidated Statements of Income

In thousands (except per share amounts)

For the three months ended December 31,

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

Q4 Same Store NOI

For the three months ended December 31,

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

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

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

Q4 FFO and AFFO

For the three months ended December 31,

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

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

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

PART VIII

Risk Management

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

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

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

Killam is exposed to other risks, as outlined below:

Interest Rate Risk

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

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

Liquidity Risk

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

Increased Supply Risk

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

Credit Risk

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

Development Risk

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

Environmental Risk

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

General Uninsured Losses

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

Rent Control Risk

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

Utility and Property Tax Risk

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

Taxes

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

Dividend Payments

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

Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments Other Than Estimates

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

Property Acquisitions

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

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

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

Investment Properties

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

Leases

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

Financial Instruments

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

Taxes

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

Consolidation and joint arrangements

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

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

Estimates

Valuation of Investment Properties

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

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

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

Fair Value of Financial Instruments

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

Changes in Accounting Policies

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

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

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

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

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

IFRS 11 - Joint Arrangements ("IFRS 11")

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

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

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

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

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

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

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

Future Accounting Policy Changes

IFRS 9 - Financial Instruments ("IFRS 9")

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

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

IFRIC Interpretation 21 - Levies ("IFRIC 21")

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

Disclosure Controls and Procedures and Internal Controls

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

Disclosure Controls and Procedures

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

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

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

Internal Controls over Financial Reporting

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

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

Subsequent Events

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

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, 2013, 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.

Philip Fraser
President and Chief Executive Officer
February 18, 2014

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, 2013 and 2012, 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, 2013 and 2012, 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 18, 2014.

Chartered accountants

Consolidated Statements of Financial Position

in thousands of Canadian dollars

As at December 31,

	Note	2013	2012
ASSETS			
Non-current assets			
Investment properties	[5]	**$1,476,116**	$1,354,665
Investments in joint ventures	[6]	**11,469**	10,289
Property and equipment	[7]	**4,527**	4,574
Other non-current assets		**17**	45
		1,492,129	1,369,573
Current assets			
Cash		**27,678**	56,726
Rent and other receivables	[8]	**2,751**	3,767
Inventory	[9]	**570**	762
Other current assets	[10]	**9,303**	12,300
		40,302	73,555
TOTAL ASSETS		**$1,532,431**	$1,443,128
EQUITY AND LIABILITIES			
Shareholders' equity		**$590,724**	$575,335
Non-controlling interest		**13,336**	13,101
Total Equity		**604,060**	588,436
Non-current liabilities			
Mortgages and loans payable	[12]	**545,541**	519,712
Convertible debentures	[14]	**96,419**	94,924
Other liabilities		**2,171**	2,427
Deferred tax	[21]	**93,221**	83,871
		737,352	700,934
Current liabilities			
Mortgages and loans payable	[12]	**153,589**	105,369
Construction loans	[13]	**14,775**	14,062
Subordinated debentures	[15]	**-**	9,998
Accounts payable and other liabilities	[11]	**22,655**	24,329
		191,019	153,758
Total Liabilities		**928,371**	854,692
TOTAL EQUITY AND LIABILITIES		**$1,532,431**	$1,443,128

See accompanying notes to the consolidated financial statements.

Commitments (Note 26)

Guarantees (Note 27)

Approved on Behalf of the Board

G. W. Watson — Director

Philip Fraser — Director

Consolidated Statements of Income and Comprehensive Income

In thousands of Canadian dollars (except per share amounts)

For the Years Ended December 31,

	Note	2013	2012
Property revenue		**$141,112**	$133,641
Property operating expenses		**(58,072)**	(53,197)
Net operating income		**83,040**	80,444
Other income			
Equity income	[6]	**1,296**	758
Home sales	[18]	**323**	469
Corporate income	[19]	**746**	962
		2,365	2,189
Other expenses			
Financing costs	[20]	**(35,231)**	(34,633)
Depreciation		**(589)**	(540)
Amortization of deferred financing costs		**(1,643)**	(1,605)
Administration		**(7,878)**	(8,832)
		(45,341)	(45,610)
Income before fair value gains, loss on disposition and income taxes		**40,064**	37,023
Fair value gains	[5]	**13,070**	37,726
Loss on disposition		**(1,401)**	(1,286)
Income before income taxes		**51,733**	73,463
Current tax expense	[21]	**(1,451)**	-
Deferred tax expense	[21]	**(9,350)**	(19,234)
Net income and comprehensive income		**$40,932**	$54,229
Net income and comprehensive income attributable to:			
Common shareholders		**39,779**	51,727
Non-controlling interest		**1,153**	2,502
		$40,932	$54,229

Net income per share attributable to common shareholders:	[22]		
-basic		**$0.74**	$1.03
-diluted		**$0.69**	$0.97

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

in thousands of Canadian dollars

For the Years 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**
Comprehensive 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**

2012	Share Capital	Contributed Surplus	Other Paid-in Capital	Retained Earnings	Non-Controlling Interest	Total Equity
At January 1, 2012	$339,178	$2,251	$5,681	$153,895	$11,538	$512,543
Comprehensive income	-	-	-	51,727	2,502	54,229
Dividends	-	-	-	(29,341)	-	(29,341)
Acquisition of non-controlling interest	-	-	-	12	(30)	(18)
Distributions to non-controlling interest	-	-	-	-	(909)	(909)
Issuance of shares for cash	32,877	-	-	-	-	32,877
Dividend reinvestment plan	4,367	-	-	-	-	4,367
Stock options exercised	4,195	(589)	-	-	-	3,606
Tax benefit of share issuance costs	503	-	-	-	-	503
Warrants exercised	10,000	-	-	-	-	10,000
Share-based compensation	-	579	-	-	-	579
At December 31, 2012	$391,120	$2,241	$5,681	$176,293	$13,101	$588,436

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

in thousands of Canadian dollars

For the Years Ended December 31,

		2013	2012
OPERATING ACTIVITIES			
Net income		**$40,932**	$54,229
Add (deduct) items not affecting cash			
Fair value gains	[5]	**(13,070)**	(37,726)
Depreciation and amortization		**2,233**	2,145
Non-cash compensation expense		**385**	579
Equity income		**(1,296)**	(758)
Deferred income taxes		**9,350**	19,234
Loss on disposition		**1,101**	1,029
Financing costs	[20]	**35,231**	34,633
Interest paid	[24]	**(35,156)**	(34,883)
Net change in non-cash operating activities	[24]	**(630)**	7,545
Cash provided by operating activities		**$39,080**	$46,027
FINANCING ACTIVITIES			
Increase in deferred financing		**(3,425)**	(1,260)
Proceeds on issuance of common shares		**869**	46,486
Repayment of subordinated debentures		**(10,000)**	-
Mortgage financing		**190,152**	56,291
Mortgages repaid on maturity		**(70,015)**	(27,237)
Mortgage principal repayments		**(30,043)**	(18,829)
Proceeds from construction loans		**21,223**	14,062
Construction loans repaid on maturity		**(20,511)**	-
Distributions paid to non-controlling interest		**(918)**	(909)
Dividends		**(28,094)**	(24,726)
Cash provided by financing activities		**$49,238**	$43,878
INVESTING ACTIVITIES			
Decrease in restricted cash		**3,160**	(65)
Acquisition of non-controlling interest		**-**	(17)
Investments in joint ventures		**116**	(1,112)
Net proceeds on sale of investment properties		**43,122**	34,326
Acquisition and development of investment properties, net of debt assumed		**(141,154)**	(86,426)
Capital expenditures		**(22,610)**	(23,233)
Cash used in investing activities		**$(117,366)**	$(76,527)
Net (decrease) increase in cash		**(29,048)**	13,378
Cash, beginning of the year		**56,726**	43,348
Cash, end of year		**$27,678**	$56,726

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

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

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 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, 2013**.** 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, 2013, were authorized for issue in accordance with a resolution of the Board of Directors on Tuesday, February 18, 2014.

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 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 when otherwise noted. 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 include the accounts of Killam and its subsidiaries. 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 Statement 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.

The Company’s significant investment in subsidiaries and a joint venture, all of which are incorporated in Canada, are listed in the following table:

Subsidiary	% Interest
Killam Properties Inc.	100%
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	95.92%
Killam KFH (180 Mill St.) Inc.	100%
Killam KFH (Kanata Lakes) Inc.	100%
Killam KFH (1355 Silver Spear Road) Inc.	100%
Killam KFH Sigma GP Inc.	50%
Killam KFH-Sigma Properties LP	25%

2. Significant Accounting Policies (continued)

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.

(ii) Joint Arrangements

The Company has contractual arrangements with other parties which represent joint ventures. These take the form of agreements to share control over the entities.

Where a joint venture is established through an interest in a company (a jointly controlled entity), the Company recognizes an interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the Consolidated Statement of Financial Position at cost plus post acquisition changes in the Company's share of the net assets, less distributions received and less any impairment in the value of individual investments.

(D) Property Asset Acquisitions and Business Combinations

Where property is acquired, management considers the substance of the assets and activities of the acquired entity in determining whether the acquisition represents the acquisition of a business. The basis of this judgmental assessment is set out in Note 3.

Where such acquisitions are not judged to be an acquisition of a business, they are not treated as business combinations. Rather, the cost to acquire the corporate entity is allocated between the identifiable assets and liabilities of the entity based on their relative fair values at the acquisition date and acquisition related transaction costs are capitalized to the property. Accordingly, no goodwill or additional deferred tax balances.

All of Killam's acquisitions have been determined to be asset acquisitions and therefore none are treated as a business combination.

(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. Incentives for lessees to enter into lease agreements are spread evenly over the lease term as a reduction of rental income, even if the payments are not made on such a basis. The lease term is the non-cancelable period of the lease.

(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) 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.

2. Significant Accounting Policies (continued)

(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 development.

(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).

(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.

(G) 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 IT systems. The estimated useful lives, residual values and depreciation method are reviewed at each yearend, 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

(H) 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.

(I) Cash

Cash is comprised of bank balances and interest-earning bank accounts.

(J) 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).

2. Significant Accounting Policies (continued)

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.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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 22).

(K) 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:

2. Significant Accounting Policies (continued)

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.

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:

Financial Asset and Liability	Classification	Subsequent Measurement
Cash	Fair value through Profit and Loss	Fair Value
Rent 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
Subordinated 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.

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) Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder of the guarantee for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the initial amount recognized less cumulative amortization.

(iii) 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.

(L) 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.

2. Significant Accounting Policies (continued)

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 and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, leasing operations, etc.).

Management believes that the majority of the Company's acquisitions will be classified as asset acquisitions. During the acquisition of most properties, Killam buys the asset itself and any short-term leases that are in place. Generally, Killam does not purchase any business systems or processes with a property. Management 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(F). In applying this policy, judgment is applied in determining whether certain costs are additions to the carrying amount of the property and, for properties under construction, identifying the point at which substantial completion of the property occurs and identifying the directly attributable borrowing costs to be included in the carrying value of the development property. Judgment is also applied in determining the extent and frequency of independent appraisals.

Leases

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

Financial Instruments

The Company's accounting policies relating to financial instruments are described in Note 2(K). The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments as 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.

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

Taxes

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

Consolidation and joint arrangements

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

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

Estimates

Valuation of Investment Properties

The fair value of investment property is partially determined by independent real estate valuation experts (the "External Valuator") using recognized valuation techniques and partially by Management. The External Valuator uses the capitalization of net income method to determine the fair market 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 net operating income ("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 net income method.

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

Fair Value of Financial Instruments

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

Changes in Accounting Policies

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

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

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

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

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

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

IFRS 11 - Joint Arrangements ("IFRS 11")

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

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

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

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

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

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

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

4. Future Accounting Policy Changes

IFRS 9 - Financial Instruments ("IFRS 9")

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

IFRIC Interpretation 21 - Levies ("IFRIC 21")

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

5. Investment Properties

The Company has used the following hierarchy for determining the fair value measurement of its investment properties and IPUC:

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

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

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

As at and for the 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**

As at and for the year ended December 31, 2012

Segment	Apartments	MHCs	Other	IPUC	Total
Level	3	3	3	3	
Balance, beginning of year	$1,012,847	$231,747	$2,051	$11,574	$1,258,219
Fair value gains (losses) included in net income					
Fair value gains (losses) on investment property	33,573	6,133	-	(1,980)	37,726
Acquisitions and dispositions					
Acquisitions	60,730	65	-	-	60,795
Dispositions	-	(72,889)	-	-	(72,889)
Other movements					
Capital expenditure on investment property	19,039	3,345	83	-	22,467
Capital expenditure on IPUC	-	-	-	47,284	47,284
Interest capitalized on IPUC	-	-	-	1,063	1,063
Balance, end of year	$1,126,189	$168,401	$2,134	$57,941	$1,354,665

During the year ended December 31, 2013, the Company capitalized salaries of $2.8 million (2012 - $2.0 million), as part of its project improvement, suite renovation and development programs.

5. Investment Properties (continued)

For year ended December 31, 2013, interest costs associated with the general corporate borrowings used to fund development have been capitalized to the respective development using the Company's weighted average borrowing rate of 4.38% (December 31, 2012 - 4.50%). Interest costs associated with construction loans are capitalized to the respective development using the actual borrowing rate associated with the loan.

Investment properties with a fair value of $1,432,731 at December 31, 2013, (December 31, 2012 - $1,294,317) 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 year, the CEO and CFO decide which external valuator to appoint to be responsible for the external valuations of the Company's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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

- whether a property's fair value can be reliably determined (IPUC are valued at cost until such time as fair value becomes reliably determinable);
- which valuation method should be applied for each property; and
- the assumptions made for unobservable inputs that are used in the valuation methods.

Valuations are performed on a quarterly basis at each interim reporting date. Valuations for interim reporting purposes are prepared internally by the Company's finance department using cap-rates provided by the Company's external valuator. 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. For this analysis, the finance department verifies the major inputs applied in the latest valuation 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.

On a quarterly basis, the finance department discusses assumptions used in the valuations, with an emphasis on: (i) properties with fair value changes outside of the relevant threshold set out above; and (ii) IPUC.

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

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

Class of property	Fair value at December 31, 2013	Fair value at December 31, 2012	Valuation technique	Unobservable inputs	2013 Inputs	2012 Inputs
Apartments -Level 3	**$1,334,153**	$1,126,189	Income capitalization approach	- Capitalization rate (weighted average) - Vacancy rate (weighted average) - Management fee rate	**5.88%** **3.50%** **3.50%**	6.02% 3.50% 3.50%
MHCs -Level 3	**$115,414**	$168,401	Income capitalization approach	- Capitalization rate (weighted average) - Vacancy rate - Management fee rate	**6.86%** **1.70%** **3.00%**	7.04% 1.70% 3.00%

5. Investment Properties (continued)

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, 2012 - $2.1 million).

IPUC includes land held for future development, which is recorded at a fair value of $2.8 million (December 31, 2012 - $5.2 million) and properties under construction of $21.6 million (December 31, 2012 - $52.7 million). Fair value cannot be reliably determined for properties under construction as the projects are in the early stages of development and therefore IPUC is recorded at cost.

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, 2013			December 31, 2012		
	Low	**High**	**Effective Weighted Average**	Low	High	Effective Weighted Average
Apartments			**5.88%**			**6.02%**
Halifax	5.15%	7.00%	5.87%	5.30%	7.00%	5.85%
Moncton	5.56%	8.00%	5.94%	6.00%	8.00%	6.30%
Fredericton	5.15%	6.25%	5.93%	5.75%	6.50%	6.30%
Saint John	6.25%	6.75%	6.63%	6.00%	6.75%	6.45%
St. John's	5.15%	6.25%	5.94%	6.25%	7.00%	6.36%
Charlottetown	5.65%	6.00%	5.88%	5.75%	6.50%	6.15%
Ontario	4.50%	5.25%	5.26%	4.50%	5.25%	5.25%
Other Atlantic	6.00%	7.00%	6.76%	6.25%	7.00%	7.31%
MHCs			**6.86%**			**7.04%**
Ontario	7.00%	8.00%	7.09%	7.00%	8.50%	7.34%
Nova Scotia	6.00%	7.50%	6.61%	6.50%	7.50%	6.96%
New Brunswick	8.25%	8.25%	8.25%	6.50%	8.50%	6.87%
Newfoundland and Labrador	7.25%	7.25%	7.25%	7.50%	7.50%	7.50%

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

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

6. Investments in Joint Ventures

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

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

For the years ended December 31,	2013	2012
Balance, beginning of year	**$10,289**	$8,420
Additions	**97**	19,563
Share of net income	**1,296**	758
Distributions	**(213)**	(18,452)
Balance, end of year	**$11,469**	$10,289

As at	2013	2012
Current assets	**$5,920**	$3,293
Long-term assets	**115,425**	112,245
Current liabilities	**(4,979)**	(3,891)
Long-term liabilities	**(70,492)**	(70,492)
Net assets	**45,874**	41,155
Company's share of net assets of associate	**$11,469**	$10,289

For the years ended December 31,	2013	2012
Property revenue	**$11,968**	$6,708
Property operating expenses	**(6,696)**	(2,936)
Net operating income	**5,272**	3,772
Interest and deferred financing expense	**(2,744)**	(857)
Fair value gains	**2,655**	120
Net income and comprehensive income	**5,183**	3,035
Company's share of net income and comprehensive income	**$1,296**	$758

7. Property and Equipment

As at	December 31, 2013		December 31, 2012	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	**$270**	**$-**	$270	$-
Building	**1,824**	**106**	1,763	54
Heavy equipment	**198**	**71**	622	220
Vehicles	**1,191**	**308**	1,076	273
Furniture, fixtures and equipment	**3,588**	**2,451**	3,181	2,052
Leaseholds	**428**	**36**	261	-
	7,499	**2,972**	7,173	2,599
Less: accumulated depreciation	**(2,972)**		(2,599)	
	$4,527		$4,574	

Land and building represents the Company's ownership of a 50% interest in the land and building that its head office occupies. Under IFRS, owner-occupied property is required to be accounted for as property and equipment and not investment property. Property with a fair value of $4.2 million (December 31, 2012 - $4.2 million) is pledged as collateral against the Company's mortgages payable.

For the years ended December 31,	2013	2012
Balance, beginning of year	**$4,574**	$4,457
Disposals	**(420)**	(107)
Capital expenditures	**963**	764
Depreciation	**(590)**	(540)
Balance, end of year	**$4,527**	$4,574

8. Rent and Other Receivables

As at	December 31, 2013	December 31, 2012
Rent receivable	**$879**	$926
Insurance receivable	**337**	254
Other receivables	**1,535**	2,587
	$2,751	$3,767

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.

9. Inventory

Inventory relates to manufactured homes for which sales have not closed at year-end, as well as four stock homes (2012 - eight stock homes) and related expenses. As at December 31, 2013, no amount of the inventory is pledged as collateral related to short-term or long-term financing.

10. Other Current Assets

As at	December 31, 2013	December 31, 2012
Prepaid property tax	**$1,389**	$1,282
Prepaid insurance	**376**	335
Other prepaids	**720**	704
Restricted cash	**6,818**	9,979
	$9,303	$12,300

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

11. Accounts Payable and Other Liabilities

As at	December 31, 2013	December 31, 2012
Accounts payable	**$6,024**	$7,450
Mortgage interest payable	**2,162**	1,924
Accrued payables	**5,015**	7,606
Rent received in advance	**915**	808
Dividends payable	**2,638**	2,609
Taxes payable	**1,451**	-
Security deposits	**4,195**	3,677
Promissory note payable	**255**	255
	$22,655	$24,329

12. Mortgages and Loans Payable

As at	December 31, 2013		December 31, 2012	
	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	**4.05%**	**$694,789**	4.44%	$621,397
Variable rate	**4.18%**	**3,853**	4.13%	2,802
Vendor financing	**7.10%**	**488**	6.85%	882
Total		**$699,130**		$625,081
Current		**153,589**		105,369
Non-current		**545,541**		519,712
		$699,130		$625,081

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

As of December 31, 2013, unamortized deferred financing costs of $11.9 million (December 31, 2012 - $9.6 million) and mark-to-market premiums on mortgages assumed on acquisition of $1.7 million (December 31, 2012 – $1.7 million) are netted against mortgages and loans payable.

12. Mortgages and Loans Payable (continued)

Estimated future principal payments required to meet mortgage obligations as at December 31, 2013 are as follows:

	Principal repayments by year
2014	$153,589
2015	107,321
2016	111,803
2017	55,214
2018	71,132
Subsequent	210,302
	709,361
Unamortized deferred financing costs	(11,936)
Unamortized mark-to-market adjustments	1,705
	$699,130

The Company has credit facilities set out as follows:

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

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

13. Construction Loan

At December 31, 2013, the Company had access to a floating rate non-revolving demand construction loan for the purpose of financing the development of The Plaza and payments are made monthly on an interest-only basis. The construction loan has an interest rate of prime plus 0.75%. The construction loan will be repaid in full and converted into a first mortgage once rental targets have been achieved. As at December 31, 2013, $14.8 million was drawn at an interest rate of 3.75% (December 31, 2012 - $14.1 million at 3.68%).

14. Convertible Debentures

Face Interest Rate %	Effective Interest Rate %	Conversion Price	Face Amount	Maturity	**December 31, 2013**	December 31, 2012
5.65%	7.30%	$13.40	$57,500	November 30, 2017	**$54,395**	$53,733
5.45%	6.30%	$14.60	$46,000	June 30, 2018	**44,576**	44,309
					98,971	98,042
Less: Deferred financing charges					**(2,552)**	(3,118)
					$96,419	$94,924

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%.

14. Convertible Debentures (continued)

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%.

15. Subordinated Debentures

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

Face Interest Rate %	Effective Interest Rate %	Face Amount	**December 31, 2013**	December 31, 2012
5.92%	6.46%	$2,500	**$-**	$2,500
6.06%	6.62%	2,500	**-**	2,500
6.33%	7.10%	5,000	**-**	4,998
			$-	$9,998

16. 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,	**2013**		2012	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**53,801,809**	**$391,120**	49,290,751	$339,178
Issued for cash (i)	**-**	**-**	2,875,000	32,877
Dividend reinvestment plan (ii)	**296,004**	**3,346**	347,473	4,367
Stock options exercised	**144,349**	**1,036**	471,593	4,195
Warrants exercised	**-**	**-**	816,992	10,000
Stock issued for acquisitions	**194,774**	**2,390**	-	-
Restricted share units redeemed	**21,838**	**289**	-	-
Tax benefit of issuance costs	**-**	**-**	-	503
Balance, end of year	**54,458,774**	**$398,181**	53,801,809	$391,120

(i) Net of issue costs of $Nil (2012 - $1,616)

(ii) Net of issue costs of $31 (2012 - $29)

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 $0.58 was paid in 2013. The dividend increased to $0.60 on an annualized basis for the January 2014 dividend payable on February 17, 2014.

16. Capital Stock and Contributed Surplus (continued)

Dividend Reinvestment Plan

Killam's Dividend Reinvestment Plan ("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 preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration.

Contributed Surplus

	2013	2012
Balance, beginning of year	**$2,241**	$2,251
Stock options expensed	**44**	116
Stock options exercised	**(111)**	(589)
Restricted share units issued	**580**	463
Restricted share units redeemed	**(452)**	-
	$2,302	$2,241

17 Share-Based Compensation

For the years ended December 31,	2013	2012
Stock option plan	**$44**	$116
Restricted share unit plan	**421**	463
Total share based compensation expense	**$465**	$579

Killam did not issue stock options during 2013 or 2012.

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

	2013		2012	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**694,756**	**$7.40**	1,180,766	$7.49
Exercised	**(144,349)**	**6.40**	(471,593)	7.65
Forfeited	-	-	(14,417)	7.00
Outstanding, end of year	**550,407**	**$7.66**	694,756	$7.40

The following table summarizes the stock options outstanding:

As at	**December 31, 2013**			December 31, 2012		
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**	186,749	1.35 years	155,502
$8.11	-	-	-	1,250	0.10 years	1,208
$8.16	**452,907**	**1.40 years**	**399,783**	506,757	2.4 years	326,366
	550,407		**497,283**	694,756		483,076

The exercisable options had a weighted average exercise price of $7.60 at December 31, 2013 (December 31, 2012 - $7.25).

17 Share-Based Compensation (continued)

Restricted Share Unit Plan

The Restricted Share Unit ("RSU") Plan gives members of the senior executive team 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	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.

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 date; 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,	**2013**		2012	
	Number of Shares	**Weighted Average Issue Price**	Number of Shares	Weighted Average Issue Price
Outstanding, beginning of year	**100,209**	**$11.89**	48,082	$10.96
Granted	**50,070**	**11.90**	49,265	12.84
Redeemed	**(50,090)**	**11.09**	-	-
Forfeited	**(12,226)**	**11.78**	-	-
Additional restricted share distributions	**6,382**	**12.06**	2,862	11.34
Outstanding, end of year	**94,345**	**$12.34**	100,209	$11.89

18. Home Sales

For the years ended December 31,	**2013**	2012
Home sales revenues	**$2,598**	$2,241
Cost of home sales	**(2,226)**	(1,789)
New home placement fees	**17**	98
Operating expenses	**(66)**	(81)
Income from home sales	**$323**	$469

19. Corporate Income

For the years ended December 31,	**2013**	2012
Property management fees	**$518**	$363
Interest and other revenue	**228**	599
	$746	$962

20. Financing Costs

For the years ended December 31,	2013	2012
Mortgage, loan and construction loan interest	**$30,090**	$28,590
Amortization of fair value adjustments on assumed debt	**(459)**	(229)
Convertible debenture interest	**6,687**	6,632
Subordinated debenture interest	**10**	703
Capitalized interest	**(1,097)**	(1,063)
	$35,231	$34,633

21. Income Taxes

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

For the years ended December 31,	2013		2012	
Net income before income taxes	**$51,733**		$73,463	
Income tax expense at federal statutory rates	**14,977**	**29.0%**	21,069	28.7%
Non-taxable component of fair value gain	**(4,942)**	**(9.6)%**	(3,209)	(4.4)%
Non-deductible share compensation	**181**	**0.3%**	166	0.2%
Impact of change in effective tax rates	**1,608**	**3.1%**	578	0.8%
Other	**(1,023)**	**(2.0)%**	630	0.9%
Tax expense	**$10,801**	**20.9%**	$19,234	26.2%

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	
	2013	2012	**2013**	2012
Real estate properties	**$90,871**	$86,980	**$3,981**	$22,610
Loss carryforwards	**-**	(3,884)	**3,884**	(3,884)
Convertible debentures	**1,324**	1,565	**(241)**	(231)
Other	**1,026**	(790)	**1,726**	739
Net deferred tax expense			**$9,350**	$19,234
Net deferred tax liabilities	**$93,221**	$83,871		

Reconciliation of net deferred tax liabilities		
Balance, beginning of year	**$83,871**	$65,139
Recognized in statement of income	**9,350**	19,234
Recognized in equity on issuance of shares	**-**	(502)
Balance, end of year	**$93,221**	$83,871

The temporary differences associated with investments in subsidiaries for which a deferred tax liability has not been recognized, aggregate to $Nil (December 31, 2012 - $65,186).

22. Per Share Information

The following is the weighted average number of shares outstanding for the years ended December 31, 2013 and 2012. The fully diluted amounts shown below exclude stock options and warrants whose exercise price exceeded the average market price for the year and are considered anti-dilutive.

For the years ended December 31,	2013	2012
Weighted average shares outstanding - basic	**54,142,897**	50,226,973
Unexercised dilutive options	**232,877**	506,233
Restricted share units	**126,014**	63,869
Convertible debentures	**9,875,954**	7,441,730
Weighted average shares outstanding - diluted	**64,377,742**	58,238,805

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,	2013	2012
Net income applicable to common shareholders	**$39,779**	$51,727
Adjustment for dilutive effect of convertible debentures	**4,681**	4,642
Adjusted net income for diluted per share amounts	**$44,460**	$56,369

23. Segmented Information

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

As at and for the year ended December 31, 2013	**Apartments**	**MHCs**	**Other**	**Total**
Property revenue	**$121,305**	**$19,253**	**$554**	**$141,112**
Property operating expenses	**(50,435)**	**(7,336)**	**(301)**	**(58,072)**
Net operating income	**$70,870**	**$11,917**	**$253**	**$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	**$43,634**	**$7,185**	**$(10,755)**	**$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	**$18,100**	**$3,505**	**$42**	**$21,647**

As at and for the year ended December 31, 2012	Apartments	MHCs	Other	Total
Property revenue	$110,463	$22,653	$525	$133,641
Property operating expenses	(44,888)	(8,421)	112	(53,197)
Net operating income	$65,575	$14,232	$637	$80,444
Home sales, equity income & corporate income	-	-	2,189	2,189
Financing costs	(22,954)	(5,035)	(6,644)	(34,633)
Depreciation and amortization	(846)	(559)	(740)	(2,145)
Administration	(1,710)	(461)	(6,661)	(8,832)
Income before fair value gains, loss on disposition and income taxes	$40,065	$8,177	$(11,219)	$37,023
Total assets	$1,244,087	$188,834	$10,207	$1,443,128
Total liabilities	$585,050	$84,148	$185,494	$854,692
Capital expenditures	$19,039	$3,345	$83	$22,467

23. Segmented Information (continued)

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

2013	**Property Revenue**	**Property Operating Expenses**	**Net Operating Income**	**Fair Value of Investment Properties**
Halifax, NS	**$53,733**	**$(20,101)**	**$33,632**	**$593,809**
Moncton, NB	**14,075**	**(7,052)**	**7,023**	**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	**8,168**	**(3,495)**	**4,673**	**91,984**
Ontario	**10,921**	**(4,026)**	**6,895**	**158,914**
Other Atlantic	**4,168**	**(1,810)**	**2,358**	**40,123**
	$121,305	**$(50,435)**	**$70,870**	**$1,334,153**

2012	Property Revenue	Property Operating Expenses	Net Operating Income	Fair Value of Investment Properties
Halifax, NS	$50,554	$(18,612)	$31,942	$555,778
Moncton, NB	13,113	(6,465)	6,648	114,712
Fredericton, NB	12,626	(5,548)	7,078	101,290
Saint John, NB	9,719	(5,104)	4,615	69,481
St. John's, NL	6,692	(2,196)	4,496	81,712
Charlottetown, PE	6,765	(2,855)	3,910	68,778
Ontario	6,926	(2,273)	4,653	109,195
Other Atlantic	4,068	(1,835)	2,233	25,243
	$110,463	$(44,888)	$65,575	$1,126,189

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

24. Supplemental Cash Flow Information

For the years ended December 31,	**2013**	2012
Net income items related to investing and financing activities		
Interest paid on mortgages payable and other	**$29,392**	$28,511
Interest paid on convertible debentures	**5,756**	5,756
Interest paid on subordinated debentures	**8**	616
	$35,156	$34,883
Changes in non-cash operating assets and liabilities		
Rent and other receivables	**$1,016**	$(2,061)
Income tax	**1,487**	53
Inventory	**192**	197
Other current assets	**(200)**	73
Accounts payable and other liabilities	**(3,125)**	9,283
	$(630)	$7,545

25. 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 natural gas and oil swap contracts, to manage the price risk arising from fluctuations in these commodities. The Company did not enter into any derivative transactions in 2013 or 2012. 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. The Company also structures its financings so as to stagger the maturities of its debt, minimizing the Company's exposure to interest rate volatility in any one year.

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

An annualized 100 basis point change in the interest rate on Killam's entire mortgage and vendor debt at December 31, 2013, would affect financing costs by approximately $7.1 million per year. However, only $141.4 million of Killam's fixed mortgage and vendor debt matures in the next twelve months. Assuming these mortgages are refinanced at similar terms, except at a 100 basis point increase in interest rates, financing costs would increase by $1.4 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 year-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.

25. Financial Risk Management Objectives and Policies (continued)

During the year ended December 31, 2013, the Company refinanced $66.7 million of maturing apartment mortgages with new mortgages totaling $96.7 million for net proceeds of $30.0 million. As well, during the year ended December 31, 2013, the Company refinanced $10.7 million of maturing MHC mortgages for net proceeds of $3.2 million.

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

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

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, 2013**	December 31, 2012
Mortgages, loans payables and construction loans	**$713,905**	$639,143
Convertible debentures	**96,419**	94,924
Subordinated debentures	**-**	9,998
Total debt	**$810,324**	$744,065
Total assets	**$1,532,431**	$1,443,128
Total debt as a percentage of total assets	**52.9%**	51.6%

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 weighted average cap-rate as at December 31, 2013, would increase the debt as a percentage of assets by 80 basis points.

25. Financial Risk Management Objectives and Policies (continued)

Fair Value Measurement

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

		December 31, 2013		December 31, 2012	
Classification	Subsequent Measurement	Carrying Value	Fair Value	Carrying Value	Fair Value
Other Financial Liabilities:					
Mortgages (b)	Amortized Cost	**$699,130**	**$748,806**	$625,081	$687,119
Convertible debentures (a)	Amortized Cost	**$96,419**	**$100,461**	$98,042	$102,942
Subordinated debentures (b)	Amortized Cost	**$-**	**$-**	$9,998	$10,104

Cash and cash equivalents are classified as held for trading and carried at their fair values. The Company's short-term financial instruments, comprising accounts receivable, restricted cash, accounts payable and accrued liabilities, security deposits, loans and construction loans are carried at amortized cost which, due to their short-term nature, approximates their fair value.

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

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

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

As at	**December 31, 2013**	December 31, 2012
Mortgages - Apartments	**2.60%**	2.27%
Mortgages - MHCs	**4.45%**	4.02%

As at December 31, 2013, the Company did not have any financial assets or liabilities measured at fair value on the Consolidated Statements of Financial Position.

26. Commitments

As at December 31, 2013, Killam has committed development costs of $16.6 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.

27. Financial Guarantees

Killam Properties Inc. is the guarantor for borrowings held through its three equity investments. As at December 31, 2013, the maximum potential obligation resulting from these guarantees is $70.5 million, all related to long-term mortgage financing (December 31, 2012 – $72.3 million). These loans are secured by a first ranking mortgage over the associated investment property. Management has reviewed the contingent liability associated with its financial guarantee contracts and, at December 31, 2013, determined that a provision is not required to be recognized in the Statement of Financial Position. (December 31, 2012 - $nil).

28. Related Party Transactions

Killam has contracted APM Construction Services Inc. ("APM") to act as Project Manager on the new construction project in St. John's, NL. APM was previously the Project Manager on The Plaza, which was completed in May 2013. APM is an entity controlled by a director of Killam. APM will be paid an industry standard management fee of approximately 4% of the construction costs. For the year ended December 31, 2013, Killam paid APM $0.5 million for construction management services (December 31, 2012 - $0.2 million).

On December 6, 2013, Killam acquired Northgate Apartments from a director of Killam for a purchase price of $3.7 million, the fair value at the acquisition date.

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.

Key management personnel remuneration

The remuneration of directors and other key management personnel which include the Directors, President & Chief Executive Officer, Executive Vice-President and Chief Financial Officer, and Vice-Presidents of Killam during the years ended December 31, 2013, and 2012 was at follows:

	2013	2012
Salaries, board compensation and incentives	**$2,371**	$2,892
Restricted share awards	**847**	633
Total	**$3,218**	$3,525

29. Subsequent Events

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

Five-Year Summary[1]

In thousands (except per share data)

Statement of Income Information	2013	2012	2011	2010	2009
Net operating income	**$83,040**	$80,444	$76,352	$70,460	$62,606
Income from home sales	**$323**	$469	$486	$403	$234
Equity income	**$1,296**	$758	$13	$ -	$ -
Corporate income	**$746**	$962	$94	$547	$424
Financing costs	**($35,231)**	($34,633)	($34,891)	($31,610)	($30,699)
Administration	**($7,878)**	($8,832)	($7,672)	($7,765)	($7,045)
Gain on debt settlement	**$ -**	$ -	$ -	$ -	$638
Depreciation and amortization	**($2,232)**	($2,145)	($1,711)	($2,114)	($28,831)
Fair value gains	**$13,070**	$37,726	$52,070	$39,098	$ -
Loss on disposition	**($1,401)**	($1,286)	$ -	$ -	$ -
Future tax recovery	**$ -**	$ -	$ -	$ -	$830
Current tax expense	**($1,451)**	$ -	$ -	$ -	$ -
Deferred tax expense	**($9,350)**	($19,234)	($17,920)	($14,611)	$ -
Net income (loss)	**$40,932**	$54,229	$66,821	$54,408	($1,843)
Net income (loss) attributable to common shareholders	**$39,779**	$51,727	$65,965	$53,786	($1,843)
Net income (loss) per share - basic	**$0.74**	$1.03	$1.45	$1.24	($0.05)
Net income (loss) per share - diluted	**$0.69**	$0.97	$1.34	$1.19	($0.05)
Funds From Operations (FFO) [2]					
FFO	**$38,770**	$36,096	$31,757	$29,036	$24,283
FFO per share	**$0.72**	$0.72	$0.70	$0.67	$0.67
Balance Sheet Information					
Total assets	**$1,532,431**	$1,443,128	$1,329,531	$1,116,333	$739,373
Total liabilities	**$928,371**	$854,692	$816,988	$689,292	$562,171
Total equity	**$604,060**	$588,436	$512,543	$427,041	$177,202
Statement of Cash Flow Information					
Cash provided by operating activities	**$39,080**	$46,027	$39,291	$34,280	$26,226
Cash provided by (used in) financing activities	**$49,238**	$43,878	$92,813	$68,855	($300)
Cash used in investing activities	**($117,366)**	($76,527)	($105,673)	($97,887)	($19,299)
Share Information					
Weighted average number of shares - basic	**54,143**	50,227	45,523	43,393	36,247
Weighted average number of shares - fully diluted	**64,378**	58,239	52,090	47,201	36,341
Shares outstanding at December 31	**54,459**	53,802	49,291	44,972	38,519
Share price at December 31	**$10.48**	$12.49	$11.57	$10.45	$8.80

(1) Financial results for 2010 to 2013 are based on IFRS. Results for 2009 are based on previous Canadian GAAP.

(2) Killam changed its definition of FFO with the adoption of IFRS in 2011. FFO and FFO per share for 2009 and 2010 have been adjusted to reflect this definition.

Corporate Information

Board of Directors

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

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

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

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

Arthur G. Lloyd[2]
Executive Vice President Investments,
Western North America,
Ivanhoé Cambridge
Calgary, Alberta

Karine L. MacIndoe
Corporate Director,
Toronto, Ontario

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

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

G. 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

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,
Property Management (MHCs)

Jeremy Jackson
Vice President, Marketing

Michael McLean
Vice President, Development

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

Investor Inquiries

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902.442.0388

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Halifax, NS

Solicitors

Bennett Jones, LLP
Calgary, AB

Stewart McKelvey
Halifax, NS

Registrar and Transfer Agent

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Share Listing

Toronto Stock Exchange (TSX)
Trading Symbol: KMP

Monthly Dividend

$0.05 per share

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Annual General Meeting

The Annual General Meeting of Shareholders will be held on Wednesday, May 7, 2014, at 2:00 pm Atlantic Time at the Halifax Marriott Harbourfront Hotel, 1919 Upper Water Street, Halifax, Nova Scotia.

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