



Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2015 and 2014

(Unaudited)

Condensed Consolidated Interim Statements of Financial Position

*In thousands of Canadian dollars,
(Unaudited)*

	Note	September 30, 2015	December 31, 2014
ASSETS			
Non-current assets			
Investment properties	[3]	\$1,822,090	\$1,733,895
Property and equipment	[4]	4,852	4,854
Loans receivable		4,950	4,000
Other non-current assets		18	-
		1,831,910	1,742,749
Current assets			
Cash		15,740	18,847
Rent and other receivables		5,141	1,954
Inventory		300	139
Other current assets		16,868	11,545
		38,049	32,485
TOTAL ASSETS		\$1,869,959	\$1,775,234
EQUITY AND LIABILITIES			
Shareholders' equity		\$669,755	\$648,029
Accumulated other comprehensive loss ("AOCL")	[16]	(167)	(198)
Non-controlling interest		14,853	14,852
Total Equity		684,441	662,683
Non-current liabilities			
Mortgages and loans payable	[6]	796,834	729,474
Convertible debentures	[8]	99,199	97,967
Other liabilities		5,582	1,916
Deferred tax		116,764	105,958
		1,018,379	935,315
Current liabilities			
Mortgages and loans payable	[6]	120,235	115,248
Construction loans	[7]	19,977	31,944
Accounts payable and accrued liabilities		26,927	30,044
		167,139	177,236
Total Liabilities		1,185,518	1,112,551
TOTAL EQUITY AND LIABILITIES		\$1,869,959	\$1,775,234

See accompanying notes to the condensed consolidated interim financial statements.

Approved on Behalf of the Board

(signed) "G. Wayne Watson"
Director

(signed) "Philip D. Fraser"
Director

Condensed Consolidated Interim Statements of Income and Comprehensive Income

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

	Note	Three months ended		Nine months ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Property revenue		\$43,193	\$37,777	\$124,181	\$109,360
Property operating expenses		(16,015)	(14,004)	(51,152)	(46,526)
Net operating income		27,178	23,773	73,029	62,834
Other income					
Equity income	[5]	-	166	-	500
Home sales	[11]	19	40	29	76
Corporate income		359	363	1,076	746
		378	569	1,105	1,322
Other expenses					
Financing costs	[12]	(9,396)	(8,618)	(27,718)	(25,908)
Depreciation		(196)	(169)	(566)	(467)
Amortization of deferred financing costs		(480)	(430)	(1,409)	(1,261)
Administration		(2,474)	(1,980)	(7,356)	(6,028)
		(12,546)	(11,197)	(37,049)	(33,664)
Income before fair value gain, gain (loss) on disposition and income taxes		15,010	13,145	37,085	30,492
Fair value gain	[3]	1,368	13,382	1,548	21,582
Gain (loss) on disposition		74	-	(109)	94
Income before income taxes		16,452	26,527	38,524	52,168
Current tax recovery		-	-	-	327
Deferred tax expense		(4,831)	(5,061)	(10,793)	(11,274)
Net income		\$11,621	\$21,466	\$27,731	\$41,221
Other comprehensive loss					
Item that may be reclassified subsequently to net income					
Amortization of loss in AOCL to finance costs (net of tax - \$5 and \$14)	[16]	10	-	31	-
Unrealized loss on forward interest rate hedge (net of tax - \$16 and \$86)	[16]	-	(40)	-	(209)
Comprehensive income		\$11,631	\$21,426	\$27,762	\$41,012
Net income attributable to:					
Common shareholders		11,462	20,491	27,137	39,031
Non-controlling interest		159	975	594	2,190
		\$11,621	\$21,466	\$27,731	\$41,221
Comprehensive income attributable to:					
Common shareholders		11,472	20,451	27,168	38,822
Non-controlling interest		159	975	594	2,190
		\$11,631	\$21,426	\$27,762	\$41,012
Net income per share attributable to common shareholders:					
-basic	[13]	\$0.18	\$0.37	\$0.44	\$0.71
-diluted	[13]	\$0.17	\$0.33	\$0.42	\$0.66

Condensed Consolidated Interim Statements of Changes in Equity

In thousands of Canadian dollars,
(Unaudited)

Nine months ended September 30, 2015

	Share Capital	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non-Controlling Interest	Total Equity
At January 1, 2015	\$459,138	\$2,417	\$5,681	\$180,793	\$ (198)	\$14,852	\$662,683
Net income	-	-	-	27,137	-	594	27,731
Amortization of loss on forward interest rate hedge	-	-	-	-	31	-	31
Dividends	-	-	-	(28,013)	-	-	(28,013)
Distributions to non-controlling interest	-	-	-	-	-	(593)	(593)
Dividend reinvestment plan	4,858	-	-	-	-	-	4,858
Stock options exercised	3,458	(486)	-	-	-	-	2,972
Restricted share units issued	-	662	-	-	-	-	662
Issuance of shares for acquisitions	14,489	-	-	-	-	-	14,489
Repurchase through normal course issuer bid	(167)	(48)	-	-	-	-	(215)
Restricted share units redeemed	157	(322)	-	-	-	-	(165)
At September 30, 2015	\$481,933	\$2,223	\$5,681	\$179,917	\$ (167)	\$14,853	\$684,440

Nine months ended September 30, 2014

	Share Capital	Contributed Surplus	Other Paid-in Capital	Retained Earnings	AOCL	Non-Controlling Interest	Total Equity
At January 1, 2014	\$398,181	\$2,302	\$5,681	\$184,560	\$-	\$13,336	\$604,060
Net income	-	-	-	39,031	-	2,190	41,221
Other comprehensive loss	-	-	-	-	(209)	-	(209)
Dividends	-	-	-	(24,728)	-	-	(24,728)
Distributions to non-controlling interest	-	-	-	-	-	(675)	(675)
Acquisition of non-controlling interest	-	-	-	12	-	(469)	(457)
Dividend reinvestment plan	1,923	-	-	-	-	-	1,923
Stock options exercised	849	(101)	-	-	-	-	748
Restricted share units issued	-	632	-	-	-	-	632
Issuance of shares for cash	7,000	-	-	-	-	-	7,000
Issuance of shares for acquisitions	800	-	-	-	-	-	800
Restricted share units redeemed	85	(101)	-	-	-	-	(16)
At September 30, 2014	\$408,838	\$2,732	\$5,681	\$198,875	\$ (209)	\$14,382	\$630,299

See accompanying notes to the condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

*In thousands of Canadian dollars,
(Unaudited)*

		Three months ended		Nine months ended	
		September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
OPERATING ACTIVITIES					
Net income		\$11,621	\$21,466	\$27,731	\$41,221
Add (deduct) items not affecting cash					
Fair value (gain)	[3]	(1,368)	(13,382)	(1,548)	(21,582)
Depreciation and amortization		676	599	1,975	1,729
Non-cash compensation expense		128	121	265	260
Equity income		-	(166)	-	(500)
Deferred income taxes		4,831	5,061	10,793	11,274
Current tax recovery		-	-	-	(327)
(Gain) loss on disposition		(74)	-	109	(94)
Financing costs	[12]	9,396	8,618	27,718	25,908
Interest paid	[15]	(7,802)	(7,291)	(26,356)	(23,339)
Net change in non-cash operating activities	[15]	(3,909)	2,874	(12,836)	(2,196)
Cash provided by operating activities		\$13,499	\$17,900	\$27,851	\$32,354
FINANCING ACTIVITIES					
Increase in deferred financing		(603)	(1,459)	(3,167)	(4,963)
Proceeds on issuance of common shares		-	7,022	2,941	7,830
Repurchase common shares through normal course issuer bid		(162)	-	(162)	-
Mortgage financing		52,312	56,921	157,658	181,096
Mortgages repaid on maturity		(32,919)	(31,701)	(77,014)	(101,330)
Mortgage principal repayments		(7,323)	(5,884)	(21,496)	(17,232)
Proceeds from construction loans		4,090	8,589	13,242	13,982
Construction loans repaid on maturity		-	-	(25,206)	-
Distributions paid to non-controlling interest		(186)	(225)	(593)	(675)
Dividends		(7,404)	(7,730)	(22,996)	(22,651)
Cash provided by financing activities		\$7,805	\$25,533	\$23,207	\$56,057
INVESTING ACTIVITIES					
Increase in restricted cash		(296)	(428)	(214)	764
Acquisition of non-controlling interest		-	(457)	-	(457)
Increase in loan receivable		-	-	-	(4,000)
Increase in investment in joint venture, net of distributions		-	(281)	-	(131)
Net proceeds on sale of land		-	-	50	134
Acquisition and development of investment properties, net of debt assumed		(9,177)	(34,011)	(30,383)	(83,806)
Capital expenditures		(9,873)	(9,555)	(23,618)	(21,280)
Cash used in investing activities		\$(19,346)	\$(44,732)	\$(54,165)	\$(108,776)
Net increase (decrease) in cash		1,958	(1,299)	(3,107)	(20,365)
Cash, beginning of the period		13,782	8,612	18,847	27,678
Cash, end of period		\$15,740	\$7,313	\$15,740	\$7,313

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited)

For the three and nine months ended September 30, 2015 and 2014

1. Corporate Information

Killam Properties Inc. ("Killam" or the "Company") is a real estate company specializing in the acquisition, management and development of multi-residential apartment buildings and manufactured home communities ("MHCs") in Canada. Killam is incorporated under the Canada Business Corporations Act. Killam's common shares are publicly traded and listed on the Toronto Stock Exchange under the symbol "KMP". The condensed consolidated interim financial statements comprise the financial statements of Killam and its subsidiaries as at September 30, 2015. The Company's head office operations are located at 3700 Kempt Road, Halifax, Nova Scotia, B3K 4X8 and the Company's registered office is located at 2571 Windsor Street, Halifax, Nova Scotia, B3K 5C4.

The condensed consolidated interim financial statements of the Company for the period ended September 30, 2015, were authorized for issue in accordance with a resolution of the Board of Directors on November 3, 2015.

2. Significant Accounting Policies

(A) Statement of Compliance

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

(B) Basis of Presentation

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

The condensed consolidated interim financial statements should be read in conjunction with the most recently issued Annual Report of Killam, which includes information necessary or useful to understanding the Company's business and financial statement presentation. In particular, the Company's significant accounting policies were presented in Note 2 to the consolidated financial statements for the year ended December 31, 2014, and, after the changes described in Note 2(c), have been consistently applied in the preparation of these condensed consolidated interim financial statements.

The operating results for the three and nine months ended September 30, 2015, are not necessarily indicative of results that may be expected for the full year ended December 31, 2015, due to seasonal variations in property expenses and other factors.

(C) Basis of Consolidation

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

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended September 30, 2015 and 2014

3. Investment Properties

As at and for the nine month period ended September 30, 2015

Segment	Apartments	MHCs	Other	IPUC	Total
Level	3	3	3	3	
Balance, beginning of period	\$1,568,203	\$122,629	\$2,223	\$40,840	\$1,733,895
<u>Fair value gain (loss) included in net income</u>					
Fair value gain (loss) on investment property	2,032	(484)	-	-	1,548
<u>Acquisitions and dispositions</u>					
Acquisitions	10,791	-	28,924	10,700	50,415
Dispositions	-	-	-	(1,143)	(1,143)
<u>Other movements</u>					
Transfer from IPUC	36,147	-	-	(36,147)	-
Transfer to IPUC	(2,300)	-	-	2,300	-
Capital expenditure on investment property	20,403	1,705	946	-	23,054
Capital expenditure on IPUC	-	-	-	13,396	13,396
Interest capitalized on IPUC	-	-	-	925	925
Balance, end of period	\$1,635,276	\$123,850	\$32,093	\$30,871	\$1,822,090

As at and for the year ended December 31, 2014

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

During the three and nine months ended September 30, 2015, the Company capitalized salaries of \$0.8 million and \$2.2 million (three and nine months ended September 30, 2014 - \$0.8 million and \$2.3 million), as part of its project improvement, suite renovation and development programs.

For the three and nine months ended September 30, 2015, interest costs associated with the general corporate borrowings used to fund development have been capitalized to the respective development using the Company's weighted average borrowing rate of 3.65% (December 31, 2014 - 3.93%). Interest costs associated with construction loans are capitalized to the respective development using the actual borrowing rate associated with the loan.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited)

For the three and nine months ended September 30, 2015 and 2014

3. Investment Properties (continued)

Investment properties with a fair value of \$1,783.8 million at September 30, 2015, (December 31, 2014 - \$1,683.4 million) are pledged as collateral against the Company's mortgages payable.

Class of property	Fair value at September 30, 2015	Fair value at December 31, 2014	Valuation technique	Unobservable inputs	2015 Inputs	2014 Inputs
Apartments -Level 3	\$1,635,276	\$1,568,203	Capitalization of stabilized net income approach	- Capitalization rate (weighted average) - Vacancy rate (weighted average) - Management fee rate	5.58% 3.60% 3.50%	5.63% 3.60% 3.50%
MHCs -Level 3	\$123,850	\$122,629	Capitalization of stabilized net income approach	- Capitalization rate (weighted average) - Vacancy rate - Management fee rate	6.64% 1.70% 3.00%	6.69% 1.70% 3.00%

The investment property segment defined as Other (level 3) consists of three commercial properties.

IPUC includes properties under construction and land held for future development and is recorded at cost of \$30.9 million (December 31, 2014 - \$40.8 million) as fair value cannot be reliably determined.

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:

	September 30, 2015			December 31, 2014		
	Low	High	Effective Weighted Average	Low	High	Effective Weighted Average
Apartments			5.58%			5.63%
Halifax	5.00%	7.06%	5.59%	5.00%	7.00%	5.60%
Moncton	5.15%	8.00%	5.91%	5.15%	8.00%	5.95%
Fredericton	5.15%	6.25%	5.89%	5.15%	6.25%	5.89%
Saint John	6.00%	6.75%	6.42%	6.25%	6.75%	6.53%
St. John's	5.00%	6.00%	5.75%	5.15%	6.00%	5.83%
Charlottetown	5.50%	6.20%	5.93%	5.50%	6.20%	5.89%
Ontario	4.50%	5.00%	4.85%	4.50%	5.10%	4.96%
Alberta	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Other Atlantic	5.75%	7.00%	6.50%	5.75%	7.00%	6.83%
MHCs			6.64%			6.69%
Ontario	7.00%	8.00%	7.21%	7.00%	8.00%	7.25%
Nova Scotia	5.75%	7.00%	6.18%	5.75%	7.50%	6.25%
New Brunswick	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Newfoundland	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited)

For the three and nine months ended September 30, 2015 and 2014

3. Investment Properties (continued)

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

Class of property	Capitalization rate		Vacancy rate	Management fee rate
	10 basis points increase	10 basis points decrease	1% increase/decrease in vacancy	1% increase/decrease in management fees
Apartments	\$(28,816)	\$29,869	\$22,708	\$25,999
MHCs	\$(1,838)	\$1,894	\$1,602	\$2,080

4. Property and Equipment

As at	September 30, 2015		December 31, 2014	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$270	\$ -	\$270	\$ -
Building	1,824	192	1,824	156
Heavy equipment	225	89	222	81
Vehicles	1,314	435	1,271	399
Furniture, fixtures and equipment	4,519	3,315	4,080	2,885
Leaseholds	882	151	803	95
	9,034	4,182	8,470	3,616
Less: accumulated depreciation	(4,182)		(3,616)	
	\$4,852		\$4,854	

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

Property with a carrying value of \$1.9 million (December 31, 2014 - \$1.9 million) is pledged as collateral against the Company's mortgage payable.

5. Investments in Joint Venture

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

Notes to the Condensed Consolidated Interim Financial Statements

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6. Mortgages and Loans Payable

As at	September 30, 2015		December 31, 2014	
	Weighted Average Interest	Debt Balance	Weighted Average Interest	Debt Balance
Mortgages and loans payable				
Fixed rate	3.32%	\$904,470	3.60%	\$839,813
Variable rate	4.27%	7,445	4.14%	4,760
Vendor financing	3.03%	5,154	6.81%	149
Total		\$917,069		\$844,722
Current		120,235		115,248
Non-current		796,834		729,474
		\$917,069		\$844,722

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

As of September 30, 2015, unamortized deferred financing costs of \$19.4 million (December 31, 2014 - \$17.2 million) and mark-to-market premiums on mortgages assumed on acquisitions of \$0.9 million (December 31, 2014 - \$1.2 million) are netted against mortgages and loans payable.

Estimated future principal payments required to meet mortgage obligations as at September 30, 2015, are as follows:

	Principal repayments by 12 month periods ended September 30,
2016	\$120,235
2017	139,562
2018	116,310
2019	154,282
2020	190,757
Subsequent	214,438
	935,584
Unamortized deferred financing costs	(19,416)
Unamortized mark-to-market adjustments	901
	\$917,069

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

I. A \$2.0 million revolving demand facility that can be used for the Company's acquisition program and general business purposes. The interest rate on the debt is prime plus 125 bps on prime rate advances or 225 bps over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. As at September 30, 2015, the Company had assets with a carrying value of \$1.9 million pledged to the line and a balance outstanding of \$Nil (December 31, 2014 - \$Nil). The agreement includes certain covenants and undertakings of which the Company is in compliance.

II. A \$1.5 million revolving demand facility that can be used for the Company's acquisition program and for general business purposes. The interest rate on the debt is prime plus 175 bps on advances and 135 bps on issuance of letters of credit in addition to 50 bps per annum. As at September 30, 2015, the Company had assets with a carrying value of \$1.8 million pledged as collateral and letters of credit totaling \$1.5 million outstanding against the facility (December 31, 2014 - \$1.5 million). The agreement includes certain covenants and undertakings of which the Company is in compliance.

Notes to the Condensed Consolidated Interim Financial Statements

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7. Construction Loans

At September 30, 2015, the Company had access to two floating rate non-revolving demand construction loans totaling \$28.1 million for the purpose of financing the development projects. Payments are made monthly on an interest only basis. The construction loans have interest rates ranging from prime to prime plus 0.75%. Once construction has been completed and rental targets achieved, the construction loans will be repaid in full and converted into conventional mortgages. As at September 30, 2015, \$20.0 million (December 31, 2014 - \$31.9 million) was drawn at a weighted average interest rate of 3.60% (December 31, 2014 - 3.84%).

8. Convertible Debentures

Face Interest Rate %	Effective Interest Rate %	Conversion Price	Face Amount	Maturity	September 30, 2015	December 31, 2014
5.65%	7.30%	\$13.40	\$57,500	November 30, 2017	\$55,678	\$55,108
5.45%	6.30%	\$14.60	\$46,000	June 30, 2018	45,082	44,859
					100,760	99,967
Less: Deferred financing charges					(1,561)	(2,000)
					\$99,199	\$97,967

Notes to the Condensed Consolidated Interim Financial Statements

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9. Capital Stock and Contributed Surplus

Capital Stock

Authorized:

Unlimited number of common shares, with no par value

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

Issued:

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

	2015		2014	
	Number of Shares	Value	Number of Shares	Value
Balance, January 1	60,475,978	\$459,138	54,458,774	\$398,181
Dividend reinvestment plan	96,438	1,010	64,575	671
Stock options exercised	234,917	2,191	102,500	561
Stock issued for acquisitions	1,092,548	12,000	75,330	800
Restricted share units redeemed	12,566	147	2,733	32
Balance, March 31	61,912,447	\$474,486	54,703,912	\$400,245
Dividend reinvestment plan	174,157	1,839	72,539	746
Stock options exercised	132,990	1,267	31,250	260
Restricted share units redeemed	-	-	1,401	17
Balance, June 30	62,219,594	\$477,592	54,809,102	\$401,268
Dividend reinvestment plan	198,846	2,009	48,775	506
Stock options exercised	-	-	3,000	28
Stock issued for acquisitions	249,311	2,489	-	-
Restricted share units redeemed	6,316	10	3,668	36
Issued for cash	-	-	691,488	7,000
Repurchase through normal course issuer bid	(21,000)	(167)	-	-
Balance, September 30	62,653,067	\$481,933	55,556,033	\$408,838

Normal Course Issuer Bid

In July 2015, the Company announced that the Toronto Stock Exchange (the "TSX") had accepted Killam's notice of intention to make a normal course issuer bid for its common shares. Under the normal course issuer bid, Killam may acquire up to 1,500,000 common shares commencing on July 30, 2015, and ending July 29, 2016. All purchases of common shares will be made through the facilities of the TSX at the market price of the shares at the time of the acquisition. Daily repurchases by Killam are limited to 23,698 common shares, other than block purchase exemptions. Any shares acquired will be cancelled.

For the three and nine months ended September 30, 2015, 21,000 common shares were purchased and cancelled. The shares were purchased at an average price of \$9.98.

Notes to the Condensed Consolidated Interim Financial Statements

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

For the three and nine months ended September 30, 2015 and 2014

9. Capital Stock and Contributed Surplus (Continued)

Contributed Surplus

	2015	2014
Balance, January 1	\$2,417	\$2,302
Stock options expensed	-	3
Stock options exercised	(274)	(67)
Restricted share units issued	409	390
Restricted share units redeemed	(229)	(32)
Balance, March 31	\$2,323	\$2,596
Stock options expensed	-	1
Stock options exercised	(212)	(31)
Restricted share units issued	125	117
Restricted share units redeemed	-	(23)
Balance, June 30	\$2,236	\$2,660
Stock options exercised	-	(3)
Restricted share units issued	128	121
Restricted share units redeemed	(93)	(46)
Normal course issuer bid	(48)	-
Balance, September 30	\$2,223	\$2,732

10. Share-Based Compensation

Share-based compensation expense for the three and nine months ended September 30, 2015 and 2014 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Stock option plan	\$-	\$-	\$-	\$4
Restricted share unit plan	128	121	361	347
Total share-based compensation expense	\$128	\$121	\$361	\$351

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited)

For the three and nine months ended September 30, 2015 and 2014

10. Share-Based Compensation (Continued)

Options exercised during the three and nine months ended September 30 are as follows:

	2015		2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding, January	367,907	\$8.16	550,407	\$7.66
Exercised	(234,917)	8.16	(102,500)	5.71
Outstanding, March 31	132,990	\$8.16	447,907	\$8.10
Exercised	(132,990)	8.16	(31,250)	7.34
Outstanding, June 30	-	-	416,657	\$8.16
Exercised	-	-	(3,000)	8.16
Outstanding, September 30	-	-	413,657	\$8.16

The following table summarizes the stock options outstanding:

As at	September 30, 2015			December 31, 2014		
	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
Exercise Price						
\$8.16	-	-	-	367,907	0.40 years	367,907
	-		-	367,907		367,907

All outstanding stock options were exercised as of May 28, 2015.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited)

For the three and nine months ended September 30, 2015 and 2014

10. Share-Based Compensation (Continued)

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

	2015		2014	
	Number of RSUs	Weighted Average Issue Price	Number of RSUs	Weighted Average Issue Price
Outstanding, January 1	140,513	\$11.01	94,345	\$12.29
Granted	61,228	10.87	62,672	10.37
Redeemed	(20,420)	12.64	(2,847)	12.14
Additional restricted share distributions	1,937	10.74	1,428	10.42
Outstanding, March 31	183,258	\$10.78	155,598	\$11.53
Granted	6,000	10.41	5,918	10.56
Redeemed	-	-	(2,044)	12.68
Additional restricted share distributions	2,604	10.60	2,272	10.32
Outstanding, June 30	191,862	\$10.77	161,744	\$11.46
Granted	7,920	10.15	6,016	10.39
Redeemed	(9,084)	11.78	(4,644)	11.54
Additional restricted share distributions	2,867	10.11	2,338	10.43
Outstanding, September 30	193,565	\$10.60	165,454	\$11.41

11. Home Sales

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Home sales revenues	\$193	\$396	\$506	\$1,216
Cost of home sales	(164)	(343)	(448)	(1,094)
New home placement fees	-	-	8	-
Operating expenses	(10)	(13)	(37)	(46)
Income from home sales	\$19	\$40	\$29	\$76

12. Financing Costs

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Mortgage, loan and construction loan interest	\$7,991	\$7,391	\$23,905	\$21,957
Amortization of fair value adjustments on assumed debt	(153)	(125)	(429)	(376)
Amortization of loss on interest rate hedge	15	-	45	-
Convertible debenture interest	1,706	1,691	5,122	5,059
Capitalized interest	(163)	(339)	(925)	(732)
	\$9,396	\$8,618	\$27,718	\$25,908

Notes to the Condensed Consolidated Interim Financial Statements

*Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)
(Unaudited)*

For the three and nine months ended September 30, 2015 and 2014

13. Per Share Information

The following is the weighted average number of shares outstanding for the three and nine months ended September 30, 2015, and 2014.

For the three months ended September 30,	2015	2014
Weighted average number of shares outstanding - basic	62,469,801	54,916,532
Unexercised dilutive options	-	92,034
Restricted share units	192,177	163,476
Convertible debentures	10,402,010	10,000,000
Weighted average number of shares outstanding - diluted	73,063,988	65,172,042
For the nine months ended September 30,	2015	2014
Weighted average number of shares outstanding - basic	61,874,398	54,759,217
Unexercised dilutive options	109,621	125,434
Restricted share units	176,887	145,769
Convertible debentures	10,402,010	10,000,000
Weighted average number of shares outstanding - diluted	72,562,916	65,030,420

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

For the three months ended September 30,	2015	2014
Net income applicable to common shareholders	\$11,462	\$20,491
Adjustment for dilutive effect of convertible debentures	1,195	1,184
Adjusted net income for diluted per share amounts	\$12,657	\$21,675
For the nine months ended September 30,	2015	2014
Net income applicable to common shareholders	\$27,137	\$39,031
Adjustment for dilutive effect of convertible debentures	3,585	3,541
Adjusted net income for diluted per share amounts	\$30,722	\$42,572

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited)

For the three and nine months ended September 30, 2015 and 2014

14. Segmented Information

The Company operates in two rental segments of the multi-family residential industry: apartments and MHCs, all located in Canada. The Other segment includes three commercial properties and head office administration costs. The accounting policies of these segments are the same as those described in Note 2 of the consolidated financial statements for the year ended December 31, 2014. The segments are analyzed based on net operating. The operating results, assets and liabilities, and capital expenditures of the segments are as follows:

For the three months ended September 30, 2015	Apartments	MHCs	Other	Total
Property revenue	\$37,459	\$4,629	\$1,105	\$43,193
Property operating expenses	(13,865)	(1,599)	(551)	(16,015)
Net operating income	\$23,594	\$3,030	\$554	\$27,178
Home sales & corporate income	-	-	378	378
Financing costs	(6,959)	(624)	(1,813)	(9,396)
Depreciation and amortization	(314)	(51)	(311)	(676)
Administration	(472)	(87)	(1,915)	(2,474)
Income before fair value gain, gain (loss) on disposition and income taxes	\$15,849	\$2,268	\$(3,107)	\$15,010
Capital expenditures on investment properties	\$8,459	\$707	\$577	\$9,743

For the three months ended September 30, 2014	Apartments	MHCs	Other	Total
Property revenue	\$33,232	\$4,407	\$138	\$37,777
Property operating expenses	(12,378)	(1,512)	(114)	(14,004)
Net operating income	\$20,854	\$2,895	\$24	\$23,773
Home sales, equity income & corporate income	-	-	569	569
Financing costs	(6,452)	(632)	(1,534)	(8,618)
Depreciation and amortization	(282)	(46)	(271)	(599)
Administration	(366)	(83)	(1,531)	(1,980)
Income before fair value gain and income taxes	\$13,754	\$2,134	\$(2,743)	\$13,145
Capital expenditures on investment properties	\$8,564	\$792	\$7	\$9,363

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited)

For the three and nine months ended September 30, 2015 and 2014

14. Segmented Information (continued)

For the nine months ended September 30, 2015	Apartments	MHCs	Other	Total
Property revenue	\$110,819	\$11,092	\$2,270	\$124,181
Property operating expenses	(45,786)	(4,193)	(1,173)	(51,152)
Net operating income	65,033	6,899	1,097	73,029
Home sales, equity income & corporate income	-	-	1,105	1,105
Financing costs	(20,861)	(1,868)	(4,989)	(27,718)
Depreciation and amortization	(924)	(148)	(903)	(1,975)
Administration	(1,239)	(278)	(5,839)	(7,356)
Income before fair value gain, loss on disposition and income taxes	\$42,009	\$4,605	\$(9,529)	\$37,085
Capital expenditures on investment properties	\$20,403	\$1,705	\$946	\$23,054
For the nine months ended September 30, 2014	Apartments	MHCs	Other	Total
Property revenue	\$98,096	\$10,835	\$429	\$109,360
Property operating expenses	(42,232)	(4,000)	(294)	(46,526)
Net operating income	55,864	6,835	135	62,834
Home sales, equity income & corporate income	-	-	1,322	1,322
Financing costs	(19,300)	(1,927)	(4,681)	(25,908)
Depreciation and amortization	(792)	(148)	(788)	(1,728)
Administration	(1,089)	(262)	(4,677)	(6,028)
Income before fair value gain, gain on disposition and income taxes	\$34,683	\$4,498	\$(8,689)	\$30,492
Capital expenditures on investment properties	\$18,836	\$1,539	\$16	\$20,391
As at September 30, 2015	Apartments	MHCs	Other	Total
Total assets	\$1,623,507	\$153,996	\$92,456	\$1,869,959
Total liabilities	\$884,150	\$59,497	\$241,871	\$1,185,518
As at December 31, 2014	Apartments	MHCs	Other	Total
Total assets	\$1,572,049	\$149,058	\$54,127	\$1,775,234
Total liabilities	\$842,283	\$58,395	\$211,873	\$1,112,551

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

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited)

For the three and nine months ended September 30, 2015 and 2014

15. Supplemental Cash Flow Information

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income items related to investing and financing activities				
Interest paid on mortgages payable and other	\$7,802	\$7,291	\$23,478	\$21,591
Interest paid on convertible debentures	-	-	2,878	1,748
	\$7,802	\$7,291	\$26,356	\$23,339
Changes in non-cash operating assets and liabilities				
Rent and other receivables	\$(596)	\$(207)	\$(3,187)	\$(154)
Income tax receivable	-	-	-	(1,450)
Inventory	(142)	109	(161)	337
Other current assets	1,436	1,314	(5,115)	(5,160)
Accounts payable and accrued liabilities	(4,607)	1,658	(4,373)	4,231
	\$(3,909)	\$2,874	\$(12,836)	\$(2,196)

16. Accumulated Other Comprehensive Loss

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Balance, beginning of period	\$(177)	\$-	\$(198)	\$-
Amortization of loss in AOCL to finance costs (net of tax \$5 and \$14) ⁽¹⁾	10	-	31	-
Unrealized loss of forward interest rate hedge (net of tax \$16 and \$86)	-	(40)	-	(209)
Balance, end of period	\$(167)	\$(40)	\$(167)	\$(209)

(1) The cumulative aggregate loss of \$198 thousand on the forward interest rate hedge will be amortized into net income as financing costs over the mortgage term, which ends in September 2020.

Notes to the Condensed Consolidated Interim Financial Statements

Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)
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17. Financial Risk Management Objectives and Policies

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

The Company may also enter into derivative transactions, primarily interest rate swap contracts to manage interest rate risk arising from fluctuations in bond yields, as well as natural gas and oil swap contracts to manage price risk arising from fluctuations in these commodities. The Company entered into one derivative contract during 2014 and has not entered into any derivative transactions in 2015. It is, and has been, the Company's policy that no speculative trading in derivatives shall be undertaken.

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

(i) Interest rate risk

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

As at September 30, 2015, no mortgages or vendor debt had floating interest rates except for four demand loans totaling \$7.4 million and two revolving demand facilities. These loans and facilities have interest rates of prime plus 1.0% - 2.0% (December 31, 2014 - prime plus 1.0% - 2.0%). Killam also has two construction loans totaling \$20.0 million with floating interest rates ranging from prime to prime plus 0.75% and consequently, Killam is exposed to short-term interest rate risk on these loans.

An annualized 100 bps change in the interest rate on Killam's entire mortgage and vendor debt at September 30, 2015, would affect financing costs by approximately \$9.3 million per year. However, only \$93.0 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 bps increase in interest rates, financing costs would increase by \$0.9 million per year.

(ii) Credit risk

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

Notes to the Condensed Consolidated Interim Financial Statements

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

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17. Financial Risk Management Objectives and Policies (continued)

(iii) Liquidity risk

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

During the three and nine months ended September 30, 2015, the Company refinanced \$32.0 million and \$74.7 million of maturing apartment mortgages with new mortgages totaling \$43.8 million and \$109.4 million for net proceeds of \$11.8 million and \$34.7 million. As well, during the three and nine months ended September 30, 2015, the Company refinanced \$1.0 million and \$2.4 million of a maturing MHC mortgage for net proceeds of \$1.1 million and \$2.6 million.

The following table presents the principal payments and maturities of the Company's liabilities over the next five years as at September 30, 2015:

For the twelve months ended September 30,	Mortgage and loans payable	Construction loans	Convertible debentures	Total
2016	\$120,235	\$19,977	\$ -	\$140,212
2017	139,562	-	-	139,562
2018	116,310	-	57,500	173,810
2019	154,282	-	46,000	200,282
2020	190,757	-	-	190,757
Thereafter	214,438	-	-	214,438
	\$935,584	\$19,977	\$103,500	\$1,059,061

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 for its total debt to total assets ratio to not exceed 65%. The calculation of the total debt to total assets is summarized as follows:

As at	September 30, 2015	December 31, 2014
Mortgages, loans payables and construction loans	\$937,046	\$876,666
Convertible debentures	99,199	97,967
Total debt	\$1,036,245	\$974,633
Total assets	\$1,869,959	\$1,775,234
Total debt as a percentage of total assets	55.4%	54.9%

The above calculation is sensitive to changes in the fair value of investment properties, in particular, cap-rate changes. A 10 bps increase in the weighted average cap-rate as at September 30, 2015, would increase the debt as a percentage of assets by 90 bps.

Notes to the Condensed Consolidated Interim Financial Statements

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

(Unaudited)

For the three and nine months ended September 30, 2015 and 2014

17. Financial Risk Management Objectives and Policies (continued)

Fair Value Measurement

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

Classification	Subsequent Measurement	September 30, 2015		December 31, 2014	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:					
Loans receivable (a)	Amortized cost	\$4,950	\$4,980	\$4,000	\$4,027
Financial Liabilities:					
Mortgages (b)	Amortized cost	\$917,069	\$975,242	\$844,722	\$941,158
Convertible debentures (c)	Amortized cost	\$99,199	\$103,669	\$97,967	\$103,996

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

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

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

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

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	September 30, 2015	December 31, 2014
Mortgages - Apartments	1.63%	2.11%
Mortgages - MHCs	3.43%	3.91%

As at September 30, 2015, and December 31, 2014, the Company did not have any financial assets or liabilities measured at fair value on the consolidated statements of financial position.

Notes to the Condensed Consolidated Interim Financial Statements

*Tabular amounts in thousands of Canadian dollars (except share, per share or as noted amounts)
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18. Related Party Transactions

Killam contracted APM Construction Services Inc. ("APM") to act as Project Manager on a development project in St. John's, NL, which was completed in March 2015. APM is an entity controlled by a director of Killam. APM was paid an industry standard management fee of approximately 4% of the construction costs. For the three and nine months ended September 30, 2015, Killam paid APM \$18 thousand and \$0.1 million for construction management services (September 30, 2014 - \$0.1 million and \$0.2 million). As of September 30 2015, Killam does not have any construction projects on-going with APM.

Killam has a 50% interest in a commercial complex that houses its head office. The remaining 50% interest is owned by a company controlled by an executive and director of Killam. In addition, the property manager for the commercial complex is controlled by the executive and director and is paid an industry standard property management fee. Occasionally, Killam will also pay market leasing placement fees, to the company controlled by an executive and director of Killam, for placement of a commercial tenant in a property owned by Killam. Killam paid \$90 thousand in project manager fees during Q3-2015 related to leasehold improvements completed for a commercial tenant.

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

During Q3-2015, Killam and Halkirk commenced development of a 240-unit building on the vacant land adjacent to the Brewery Market. Construction of the development is managed by Killam and cost of construction will be funded 50/50 by each partner.

19. Subsequent Events

On October 15, 2015, the Company announced a dividend of \$0.05 per share, payable on November 16, 2015, to shareholders of record on October 31, 2015.

On October 6, 2015, Killam's Board of Directors unanimously approved the proposed reorganization of Killam into a real estate investment trust. The reorganization will be accomplished by way of plan of arrangement, and among other approvals, will be subject to shareholder approval at a special meeting to be held on or about December 8, 2015.