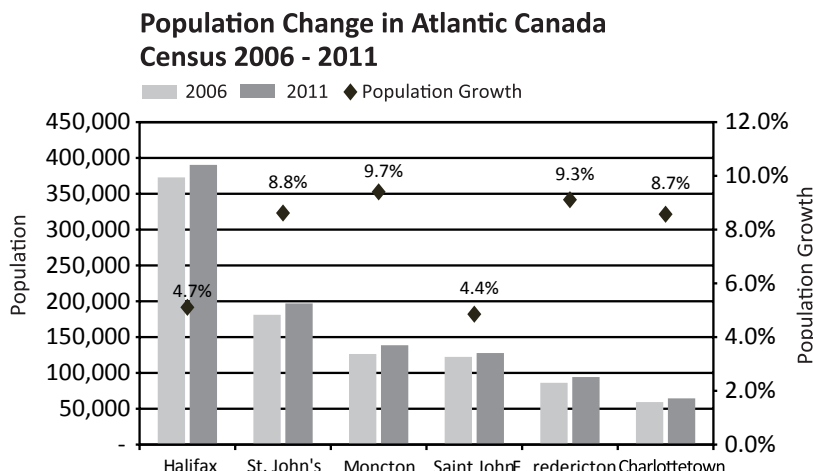


Management's Discussion and Analysis

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

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.