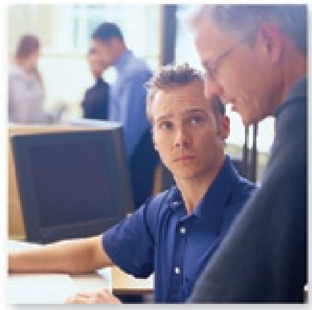

2005 ANNUAL REPORT

KILLAM
PROPERTIES INC

2005 Highlights

$200 million in acquisitions

154% increase in revenue to $48.4 million

158% increase in funds from operations to $10.9 million

Killam Properties Inc. is a publicly traded real estate company, which is focused on the acquisition and ownership of multi-family residential apartments and Manufactured Home Communities (MHCs) throughout Canada. During 2005, the Company continued its consolidation strategy with the acquisition of an additional $200 million of assets representing 5,296 units. The Company expanded its geographic diversification with the acquisition of an MHC in Saskatoon, SK as well as acquiring 12 communities throughout Ontario.

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Mr. Joseph Bernier (right), Project Manager and Head of Maintenance for Saint John, NB led the team of 62 full time employees to restore the Woodward Gardens buildings (far right). Through his hard work and dedication these formerly neglected buildings have been completely redeveloped.

Better management equals better returns

Vision is essential to successful property management. Killam has been able to capitalize on opportunities through prudent redevelopment strategies that have created greater value in our portfolio. Woodward Gardens in Saint John, NB, offered Killam a unique opportunity. The buildings had a great location, but required upgrading and modernization. Their potential could only be recognized though a major repositioning.

President's Message to Shareholders

On behalf of the Board of Directors, I am pleased to present to our shareholders the 2005 Annual Report.

We exceeded our acquisition target in 2005 by acquiring 5,296 units compared to 4,333 units in 2004. During the year, we made excellent progress executing our strategic plan to consolidate the multi-family rental market in Atlantic Canada, increase our investment in manufactured housing communities (MHCs) throughout Canada, and continue to refine our property management platform. We are pleased to report that during 2005 we acquired 2,406 apartment units, 14 MHCs throughout Ontario and Atlantic Canada, and made our first acquisition in Saskatchewan – and all the while successfully growing our operations to accommodate this tremendous growth.

Welcome Home, Welcome to Killam

Last year in our Annual Report, we emphasized our commitment to becoming the best landlord in the business. To do this we know we must invest in our properties and our people and throughout 2005, we did both. We invested in capital improvements in the form of upgraded common areas, roofs, windows, suite renovations, appliances and new heating systems. These capital expenditures are diligently managed by our staff, two of whom are pictured in this year's annual report. Joe Bernier, our Project Manager and Head of Maintenance in Saint John and Dan Sampson, our Director of Property Management, located in head office, are just two examples of the committed staff that ensure the job gets done on time and on budget.

Killam staff now totals 230 dedicated personnel that welcome home our estimated 18,000 tenants. We increased the percentage of maintenance work done by in-house staff in 2005 to better assure availability of skilled labour and quality control. Further, we have invested in a dedicated marketing group to improve our tenants' leasing experience and have hired two new Vice Presidents, one to manage marketing and another to manage MHC operations. We will continue to focus on the human side of our business as we grow in 2006.

Business Initiatives

Last year we signed a marketing agreement with Aliant, Atlantic Canada's leading information and communication technology provider, which provides our tenants with increased benefits at a lower cost, while providing a financial incentive to Killam.

We also established our Killam Furnished Suites brand (killamfurnishedsuites.com) in three markets and we will expand it into other markets over the coming months. We see the opportunity to service the medium to long-term furnished suites market and have the locations and product to meet this demand.

We expanded our MHC business by developing new sites in our existing portfolio. We completed 29 new sites in Glen Aire Estates, Antigonish, during 2005, as well as the redevelopment of parks like Parkside in Saint John with Prestige Homes. We are presently working on expansion plans for numerous parks and expect to add 200 additional sites in 2006.

In keeping with the ability to add additional density to our existing portfolio of apartments and MHCs, we continued to advance a number of our apartment sites through the planning and approval process to finalize the expansion capacity of the surplus land. While the majority of this land will be held by us for future development, a number of new lots will be sold off to third parties.

Looking Forward to the Future

We were successful in acquiring $200 million of real estate in 2005, which doubled the size of our company. We acquired many Class "A" properties such as Spring Garden Terrace, Quinpool Court, and Maplehurst Apartments in Halifax, and Pine Tree Estates MHC in Moncton. All are great additions to our portfolio that would be a welcome addition to any company's holdings.

We are excited about 2006 as opportunity still exists to acquire quality assets that are accretive. We look forward to actively managing our existing portfolio now that we have amassed the properties to become a dominant force in the market. We see the MHC business as key to our growth and success and one of our goals is to become the largest owner in Canada in this exciting real estate sector. Fundamentally, our business is simple – we own and manage apartment buildings and land lease communities. However, consolidating a market adds real value and allows us to effectively manage revenue increases and cost reductions. Killam will continue to do this throughout 2006.

I would like to thank all of the people who helped to contribute to our financial results last year. We look forward to further growth and exceeding our financial objective this year.

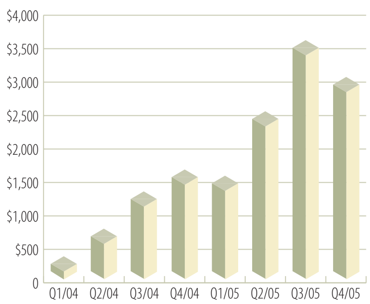
Philip Fraser
President & CEO
Killam Properties Inc.

Sitting L–R:
Pam Crowell, VP Property Management
Keith Foster, VP Finance
Ruth Buckle-McIntosh, VP Property Management
Jeremy Jackson, VP Marketing
Standing L–R:
Ed Beazley, VP Acquisitions
Philip Fraser, President & CEO
Robert Richardson, EVP & CFO

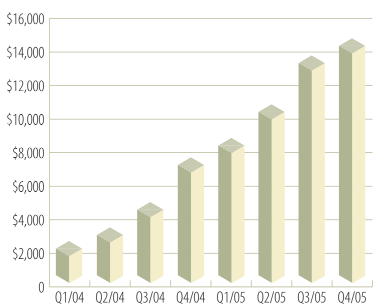
Financial and Corporate Highlights

	2005	2004	2003
Revenues	48,356,382	19,023,166	5,175,505
Earnings from property operations	28,165,228	11,034,817	3,072,737
Funds from operations	10,922,731	4,232,529	575,933
Total assets	469,516,525	242,845,701	76,190,396
Mortgages and loans payable	302,821,105	159,900,874	44,402,770
Shareholders' equity	94,843,668	77,974,544	30,619,723
Shares outstanding at December 31	81,333,537	74,856,631	48,038,674
Number of units	11,429	6,133	1,800

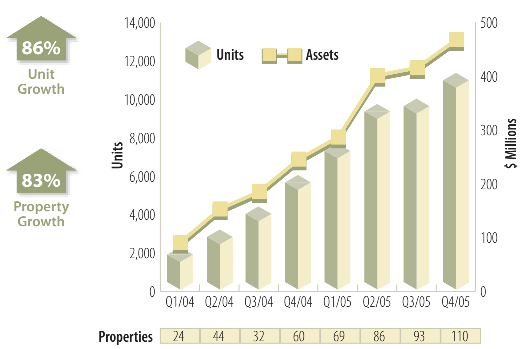
Funds From Operations (in 000's)



Revenue Growth (in 000's)



Growth in Rental Units and Total Asset Growth



Portfolio Growth

- $200 million of acquisitions during 2005.
- 5,296 units acquired, bringing total portfolio to 11,429 units at December 31, 2005.
- Expansion of geographic presence with the acquisition of MHCs in Saskatoon, SK and Gander, NL as well as expansion of MHC portfolio in Ontario.
- Increased apartment market share in Atlantic Canada to 7.5% from 5.0%.
- During 2005, expanded into the seasonal resort market in Ontario, thereby further diversifying our portfolio.

Equity and Financing

- Completed a private placement in May 2005 of 6 million common shares at $2.55 for gross proceeds of $15.3 million.
- $42.2 million raised though the issuance of convertible subordinated debentures. The debentures bear an interest rate of 6.5% and are convertible into common stock at $3.10 per share.
- Renewed and increased our acquisition credit facility to $40 million for an additional two years.
- Weighted average mortgage interest rate fell to 5.6% from 5.9%.

The Quinpool Towers lobby in Halifax, NS is a centerpiece of our commitment to providing only the best for our tenants. Dan Sampson, Director of Property Management (left), was responsible for the lobby enhancement. His keen attention to detail is seen through the elegant mixture of modern furniture, lush greenery and tenant services. The LCD panel delivers news, weather and bus reports to help our tenants feel more at home.

Turning Buildings into Homes

















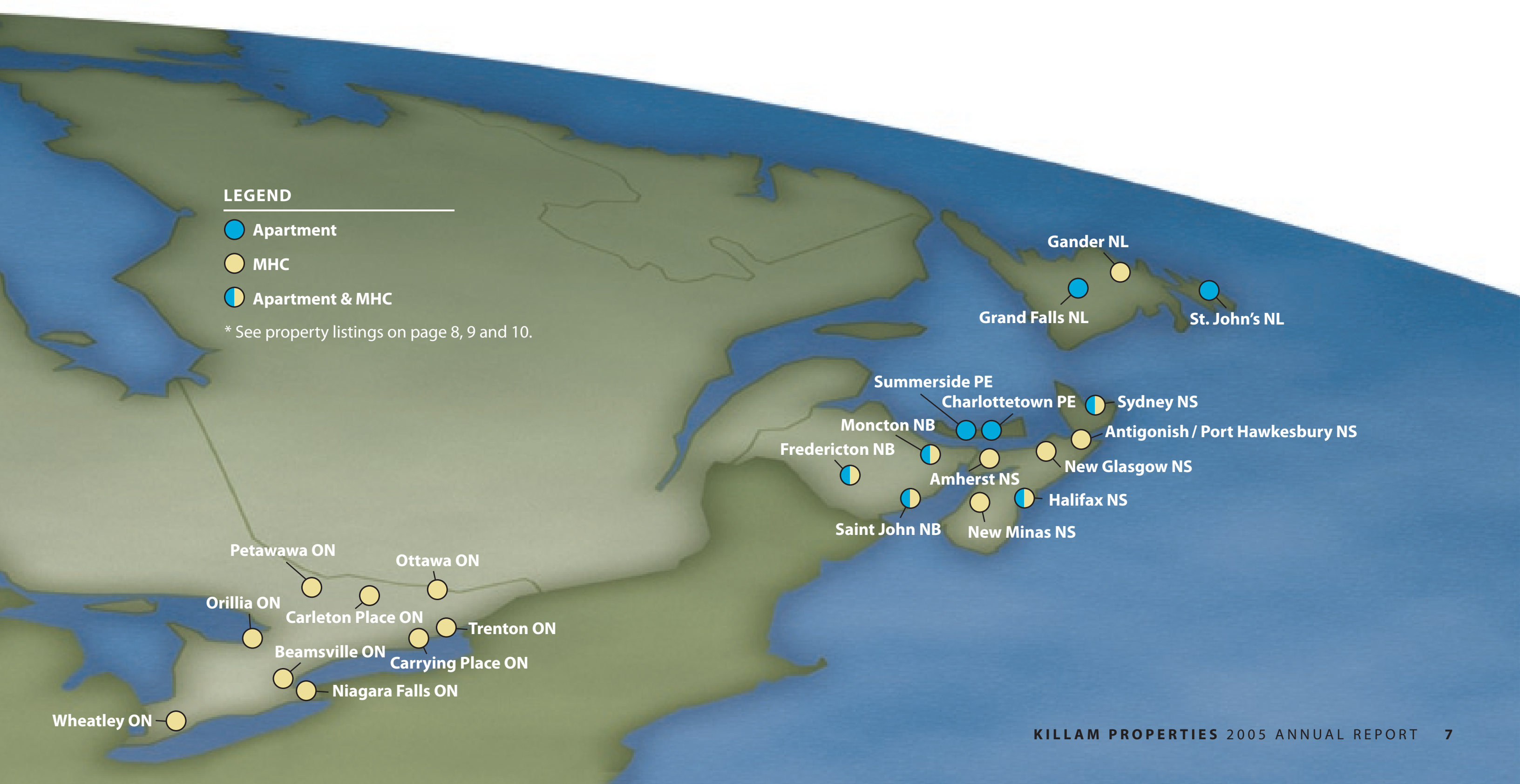
Killam in the Community

As part of its "Home Away from Home" community program, Killam recently donated to Ronald McDonald House a fully furnished two bedroom apartment for patient families of the IWK Health Centre.

Executive Director of Halifax's Ronald McDonald House, Shauna MacLennan stated, "Killam Properties donated an incredible apartment for families to use. The entire family is paramount in the healing process of sick children – with the donation of this amazing apartment from Killam, our families are able to have a 'Home Away from Home.'"

A family that recently stayed in the Killam apartment said, "When our daughter is well enough to get a few hours away from the IWK, she just wants to come back here and enjoy our 'own' space. It is truly our salvation."

Killam is very committed to the communities where we work and live. Our 'Home Away from Home' program was created to help formalize that commitment and will be expanded in 2006.



Property Portfolio

Portfolio Expansion

Killam's mandate of purchasing quality apartment assets in strategic locations continued during 2005. This focus has ensured that Killam can bring an efficiency of scale to the portfolio and apply a standard look to each of its properties. This attention to quality is continued through the choice of suite finishes, common area upgrades and improving the property's curb appeal – all of which enrich our tenants' feeling of being home.

Apartment Buildings

PROPERTY		CITY	UNITS	YEAR BUILT	AVERAGE MONTHLY RENT ($)
1	294–300 Main	Halifax	58	1969–1970	590
2	59 Glenforest/21 Plateau	Halifax	153	1978	609
3	75 Knightsridge	Halifax	41	1986	716
4	95 Knightsridge	Halifax	46	1984	760
5	26 Alton Drive & 36 Kelly Street	Halifax	80	1969	532
6	3565 Connaught	Halifax	19	1958	649
7	Parkridge Place	Halifax	76	2002	860
8	Glenforest	Halifax	80	1969–1970	782
9	Glenmoir Terrace	Halifax	28	1972	567
10	175–211 Harlington	Halifax	60	1978	645
11	10–214 Harlington	Halifax	60	1978	645
12	6 Jamieson	Halifax	24	1965	599
13	Kent Street	Halifax	139	late 1950s	766
14	Lakefront Apartments	Halifax	396	1954	622
15	Quinpool Towers	Halifax	233	1978	860
16	Shaunslieve	Halifax	147	1978	711
17	Victoria Gardens	Halifax	198	1954	629
18	Waterview Place	Halifax	82	1971	624
19	57 Westgrove Place	Halifax	41	1969	619
20	3 Veronica Drive	Halifax	70	1983	708
21	Quinpool Court	Halifax	198	1978	892
22	85–127 Harlington	Halifax	60	1978	645
23	Maplehurst Houses	Halifax	15	1965	689
24	Maplehurst Apartments	Halifax	268	1965	666
25	Parker Street Apartments	Halifax	239	1960's–1975	625
26	Spring Garden Terrace	Halifax	201	1964	892
27	159 Radcliffe Drive	Halifax	25	1992	804
28	9 Sybyl Court	Halifax	22	1975	583
29	5206 Tobin Street	Halifax	47	1993	823
30	Linden Lea & Pleasant Street	Halifax	28	1950s	561
31	50 Barkton Lane	Halifax	63	1991	664
32	Bedford Apartments	Halifax	53	1987	572
33	Garden Park	Halifax	26	1980	929
34	67–141 Harlington	Halifax	60	1978	625
35	3 Dillman	Halifax	60	1970s	573
36	Cabot House	Sydney	88	1974	728
37	Moxham Court	Sydney	51	1998	805
38	552 Kings Road	Sydney	17	1955	424

Apartment Buildings (continued)

PROPERTY	CITY	UNITS	YEAR BUILT	AVERAGE MONTHLY RENT ($)
39 100 Archibald	Moncton	60	2003	738
40 101 Archibald	Moncton	60	1993	664
41 1111 Main	Moncton	16	1957	1407
42 Gordon/Bonnacord Street	Moncton	41	1984/pre1950	632
43 Cambridge Court	Moncton	45	1994	777
44 Cambridge Place	Moncton	63	1995	950
45 Cameron Street	Moncton	81	1966/1967	540
46 276–350 Gauvin Road	Moncton	84	1991–1996	597
47 Lakeview Estates	Moncton	48	1980/1981	551
48 Lorentz	Moncton	101	1969	620
49 Pine Glen Apartments	Moncton	54	1974	562
50 108–118 Archibald	Moncton	10	N/A	558
51 Carleton Towers	Saint John	60	1968	564
52 Cedar Glen	Saint John	204	1977	501
53 Fort Howe	Saint John	153	1970	700
54 Parkwood	Saint John	205	1947	547
55 Woodward Gardens	Saint John	99	1962	684
56 Sydney Arms	Saint John	54	1961	602
57 The Anchorage	Saint John	51	2003	827
58 Woodhaven	Saint John	24	1977	480
59 Ellerdale Apartments	Saint John	154	1975	560
60 Rocky Hill Apartments	Saint John	42	2004	861
61 53 Somerset Place	Saint John	16	1973	575
62 969 Regent	Fredericton	62	1997/2001	741
63 Venus Apartments	Fredericton	54	1965	737
64 166 & 126 Wilsey	Fredericton	48	1975	602
65 260 Wetmore Road	Fredericton	38	1978	615
66 Forest Manor	St. John's	65	1978	545
67 Mount Pleasant Manor	St. John's	100	1976	552
68 Village Manor	St. John's	40	1978	559
69 Cornwall Manor	St. John's	31	1976	544
70 Blackshire Court	St. John's	52	1981	642
71 Ridgeview Terrace	Grand Falls	59	1975	444
72 Terrace Apartments	Grand Falls	89	1970s–1990s	660
73 DesBarres House	Charlottetown	51	1978	490
74 Country Place	Charlottetown	39	1998–2002	740
75 Kensington Court	Charlottetown	105	1990	643
76 Queen Street	Charlottetown	48	1978	540
77 Browns Court	Charlottetown	52	1997–2004	934
78 Burns/University	Charlottetown	95	1997–2003	893
79 27 Longworth Avenue	Charlottetown	24	1983	554
80 Horton Park	Charlottetown	69	1987–1996	646
81 Shakespeare	Charlottetown	22	2004	730
82 Nevada Court	Summerside	48	1995	658

Property Portfolio

Creating Value in our MHC Portfolio

Killam is one of Canada's largest owner, operator and developer of land lease residential communities, and at the end of 2005 owned a portfolio of 28 communities totaling in excess of 4,961 sites and expansion capacity to add more than 1,000 sites. One of Killam's key business objectives is to become the national leader in the ownership, operation and development of land lease communities in Canada through the combination of internally generated growth and acquisitions.

Manufactured Home Communities

NAME	CITY	PROV.	ACRES	OPERATIONAL SITES (1)	DEVELOPED SITES (2)	FUTURE EXPANSION SITES(3)	GROWTH	YEAR OF ORIGINAL DEVELOPMENT	PURCHASE DATE
Amherst	Amherst	NS	67	307	–	–	–	1970s	5/17/04
Glen Aire Estates	Antigonish	NS	130	254	20	350	80 Acres	1985	5/22/03
Greenhill Estates	Antigonish	NS	30	62	45	–	15 Acres	1993	6/21/05
Fairview	Halifax	NS	15	131	–	–	–	1962	11/24/04
Maple Ridge	Halifax	NS	18	160	–	–	–	1961	10/29/04
Cowan Place	New Glasgow	NS	50	27	34	140	40 Acres	2001	12/31/05
Valley View Hills	New Minas	NS	50	195	–	15	2 Acres	1971	3/26/03
Cairdeil Estates	Port Hawkesbury	NS	37	159	–	–	–	1965	5/22/03
Heather Estates	Sydney	NS	72	217	–	150	40 Acres	1966–1992	3/31/04
Crown & Currie Park	Fredericton	NB	140	176	–	10	3 Acres	1973 & 1990	11/29/04
Riverview Estates	Moncton	NB	72	109	–	150	45 Acres	1974	4/1/03
Pine Tree	Moncton	NB	260	820	43	–	–	1986	3/31/05
White Frost Estates	Moncton	NB	51	211	–	–	16 Acres	1971	3/11/03
Pine Valley	Quispamsis	NB	16	100	–	–	–	1975	5/31/04
Golden Horseshoe	Beamsville	ON	33	241	41	–	5 Acres	1960	05/20/05
Lynnwood Gardens	Edwards (Ottawa)	ON	54	64	–	75	37 Acres	1975	6/24/05
Pine Tree Village	Niagara Falls	ON	38	70	–	–	14 Acres	1955	11/30/04
Fergushill Estates	Orillia	ON	49	152	–	–	–	1967	6/10/05
Parkside Estates	Orillia	ON	18	144	–	–	–	1973	6/10/05
Silver Creek Estates	Orillia	ON	80	234	–	200	40 Acres	1975	3/23/05
Pinehurst Estates	Petawawa	ON	16	82	–	10	2 Acres	1975	6/24/05
Bayview Estates	Trenton	ON	60	146	–	104	26 Acres	1975	2/18/05
Sunny Creek Estates	Trenton	ON	53	160	–	70	19 Acres	2001	3/31/05
Holiday Harbour	Wheatley	ON	15	143	–	–	–	1953	11/17/05
Lakewood Estates	Carleton Place	ON	13	60	–	–	–	1960s	12/1/05
Cedardale	Carrying Place	ON	25	204	–	–	–	1932	12/15/05
Lakeview Court	Gander	NL	13	86	–	–	–	1970s	12/16/05
Sunset Estates	Saskatoon	SK	77	247	–	75	20 Acres	1977	12/2/05
Total			1,551	4,961	183	1,349	404		

(1) Sites currently occupied with manufactured homes.
(2) Sites currently being developed or serviced and ready for new homes.
(3) Sites that can be serviced and developed for new homes.

Management's Discussion and Analysis

Overview of the Structure of the MD&A

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 other parts of the Annual Report and the Company's audited consolidated financial statements for the years ended December 31, 2005 and 2004. These documents along with the Company's Annual Information Form are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available at March 7, 2006. The MD&A will be presented in the following structure:

Corporate Overview provides an overview of the Company as well as a discussion of the significant developments of 2005.

Financial Performance Summary provides a high-level overview of the Company and its financial performance in 2005. Please note that a more detailed discussion of the results is provided in latter sections of the MD&A.

Financial Statement Analysis provides a detailed discussion and analysis of the Company's financial performance for 2005 and financial position as at December 31, 2005. The results of the Company's fourth quarter of 2005 are also presented and discussed.

Liquidity and Capital Resources provides a discussion of the Company's financing needs and our plans to source these funds.

Risk Management provides a detailed look at the Company's significant risks and our management of these risks.

Accounting Estimates and Policies provides a brief discussion on the Company's critical accounting estimates and policies.

Controls and Procedures provides a description of management's evaluation of the effectiveness, design and operation of its disclosure controls and procedures.

Future Objectives provides an overview of the Company's key performance targets for 2006.

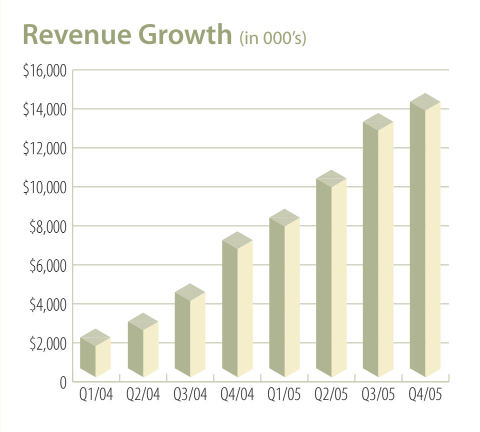
Forward-looking Statements

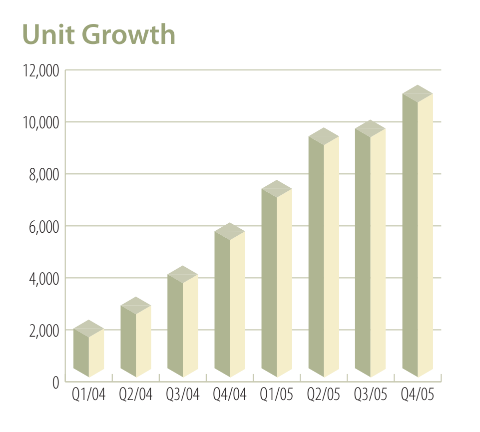
Certain statements in this MD&A constitute "forward-looking statements". You can identify forward-looking statements by our use of the words "believe", "expect", "anticipate", "intend", "estimate", "assume", "project", and other similar terms that predict or indicate future events and trends that do not relate to historical matters. Such statements are based on Killam management's assumptions and beliefs in light of the information currently available to them. Readers are cautioned not to place undue reliance on forward-looking statements. A number of important factors could cause actual results to differ materially from those expressed in such forward-looking statements. A number of these factors are set out in the Risk Management section of this MD&A.

Non-GAAP Measures

There are measures included in this MD&A that do not have a standardized meaning under Generally Accepted Accounting Principles (GAAP) 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.

- Earnings from property operations are calculated as revenue less property operating expenses.
- Funds from operations (FFO) are calculated as net income plus amortization, stock compensation, non-cash debenture interest, and future income taxes.
- Same store results are rental revenues and property operating expenses for properties the Company has owned for equivalent periods in 2004 and 2005.





Corporate Overview

Killam Properties Inc. ("Killam") is a publicly traded real estate company focused on the acquisition, redevelopment and management of multi-family apartments and manufactured home communities (MHCs). Killam's corporate strategy is based on the principles of bringing professional management to a fragmented industry coupled with a portfolio diversified by two asset classes operating in multiple regions.

Killam continued to consolidate the rental market during 2005 with the acquisition of 50 properties representing 5,296 units to bring the Company's total portfolio to 11,429 units, an increase of 86% since December 31, 2004.

Portfolio Summary

By Unit Type and Location

	Apartments	MHCs	Total
Halifax	3,396	291	3,687
Moncton	663	1,160	1,823
Saint John	1,062	100	1,162
Fredericton	202	176	378
St. John's/Grand Falls	436	86	522
Sydney	156	217	373
PEI	553	–	553
Other NS	–	984	984
Ontario	–	1,700	1,700
Saskatchewan	–	247	247
Total	6,468	4,961	11,429
Percentage by units	56.6%	43.4%	
Percentage by dollar value	81.7%	18.3%	

Financial Performance Summary

For the year ended December 31

	2005	2004	2003
Total assets	**$469,516,525**	$242,845,701	$76,190,396
Mortgages payable	**302,821,105**	159,900,874	44,402,770
Shareholders' equity	**94,843,668**	77,974,544	30,619,723
Total revenue	**48,356,382**	19,023,166	5,158,147
Net income (loss)	**4,847**	234,133	(96,377)
Funds from operations	**10,922,731**	4,232,529	575,933
Net income (loss) per share			
– basic	**0.0001**	0.0040	(0.003)
– diluted	**0.0001**	0.0040	(0.003)

Total Assets increased to $469.5 million (93%) over December 31, 2004 as a result of completing 50 acquisitions during 2005. These acquisitions added 5,296 units to our rental portfolio.

Total Revenue for 2005 increased $29.3 million (154%) over 2004 driven by the unit growth during 2005 and the effects of a full year of revenue for properties acquired in 2004.

Net Income of $4,847 for 2005 is lower than 2004 as a result of a number of factors including share capital compensation and non-cash debenture interest totaling $292,473 (see detailed discussion later in the MD&A).

Funds from Operations (FFO) increased by $6.7 million (158%) over 2004 as a result of the increase in the rental portfolio during 2005 and the effects of a full year of results for properties acquired in 2004.

Revenues Per Acquisition Year

(In $000s)

	2004				**2005**			
	Q1	Q2	Q3	Q4	**Q1**	**Q2**	**Q3**	**Q4**
Revenue from 2002 acquisitions	$ 632	$ 634	$ 656	$ 652	**$ 632**	**$ 646**	**$ 652**	**$ 657**
Revenue from 2003 acquisitions	1,645	1,616	1,642	1,685	**1,683**	**1,690**	**1,690**	**1,647**
Revenue from 2004 acquisitions	431	1,226	2,664	5,343	**6,339**	**6,319**	**6,498**	**6,644**
Revenue from 2005 acquisitions	–	–	–	–	**200**	**2,114**	**4,917**	**5,761**
	$2,708	$3,476	$4,962	$7,680	**$8,854**	**$10,769**	**$13,757**	**$14,709**

The above revenue excludes corporate revenues.

Financial Statement Analysis

Consolidated Statement of Income

Revenue

	2005	2004	% change
Rental income	**$47,764,779**	$18,774,676	154%
Interest income	**165,813**	193,317	(14.4)%
Other income	**425,790**	55,173	672%
	$48,356,382	$19,023,166	154%

Rental revenue increased $29.0 million or 154% over 2004 driven by Killam's unit growth during 2005 and the effects of a full year of revenue for properties acquired in 2004.

The annualized rental revenue of the properties the Company owned as at December 31, 2005 is approximately $60 million based on the rental and vacancy rates as at year-end. Killam, as with all real estate rental operators, is sensitive to vacancy rates. However, Killam believes its portfolio is quite defensive given our diversification in terms of multiple locations and two asset classes. Based on our current rents, a 1% change in vacancy rates would impact the annualized rental revenues by $0.60 million.

Other income includes a gain on the sale of a home acquired as part of a larger transaction in 2005 as well as income from the sale of manufactured homes, commissions on the placement of homes by retailers, commissions on the Company's exclusivity agreement with Aliant Inc. and other sundry revenue from tenants. Killam will increase its participation in the sale of manufactured homes in 2006 with the expansion of its Pine Tree, Green Hill and Cowan Place Manufactured Home Communities.

The following table presents our revenues by operating segment:

	2005	2004	% change
Apartments	**$39,267,338**	$16,424,809	139%
Manufactured Home Communities	**8,822,121**	2,401,678	267%
Corporate	**266,923**	196,679	36%
	$48,356,382	$19,023,166	154%
Weighted average rent per unit			
Apartments	**$704**	$645	
Manufactured Home Communities	**$188**	$170	

Weighted average rent per unit increased for both apartments and MHCs in 2005 over 2004. Both of these increases are primarily a result of new acquisitions in the relatively more expensive sub-markets of Halifax for apartments and southwestern Ontario for MHCs.

Property Operating Expenses

	2005	2004	% change
Apartments	**$17,001,309**	$7,133,453	138%
Manufactured Home Communities	**3,189,845**	854,896	273%
	$20,191,154	$7,988,349	153%
As a Percentage of Rental Revenue	**42.3%**	42.5%	

Property operating expenses include property taxes, utilities, salaries and benefits for employees at the property level, repair and maintenance, insurance, advertising and other expenses directly associated with a property. Property operating expenses were higher on a gross dollar basis due to the increase in the size of the portfolio.

Property operating expenses as a percentage of rental revenue decreased slightly to 42.3% in 2005 from 42.5% in 2004. This decrease was obtained through effective cost management even with large increases in the following costs and other factors:

- Oil increased 32% in 2005 versus 2004 while natural gas spiked in Q4 2005 by 92% over the same quarter of the previous year. Natural gas has leveled out in the first quarter of 2006.
- In many of our markets, water and electricity rates increased 5 – 6% and property taxes have increased 10 – 15%.
- Killam had not actively pursued rental increases to offset these rising operating costs as it continued to consolidate the marketplace. Increases in rent likely would have the effect of raising the cost of acquiring other buildings within those markets. However, during the third quarter of 2005 the Company has initiated rental increases in those markets where we have a significant presence.

At year-end 2005, Killam heated 24% of its apartment portfolio by electricity which is paid directly by the tenants. The balance of the apartment portfolio is heated by a combination of natural gas (26.5%) and oil (49.5%).

The property operating expense percentage is a key performance indicator for Killam as it represents the Company's ability to effectively manage its portfolio. However, the Company believes that the better analysis of operating effectiveness is the comparison of results for properties which it has owned for at least twenty-four months, as it takes approximately a year to stabilize these properties. A comparison of these "same store" results is presented later in this MD&A.

Same Store Results

In 2004 we began to analyze property results on a "same store" basis. The following table sets out the results of operations for 17 properties (1,800 units) we have owned for equivalent periods in 2005 and 2004.

	2005	2004	% change
Rental revenues	**$9,297,503**	$9,161,545	1.5%
Property operating expenses	**3,900,063**	3,883,488	0.4%
Earnings from property operations	**$5,397,440**	$5,278,057	2.3%
Operating expenses as a percentage of rental revenue	**41.9%**	42.4%	

Earnings from property operations increased $119,383 or 2.3% compared to the prior year. Rental revenues increased 1.5% as a result of beginning to lease units which had been undergoing renovations as well as increased rents at re-leasing. Property operating expense as a percentage of revenue for 2005 decreased even with the significant increases in energy and utility costs which occurred in 2005.

For the year ended December 31, 2006 this same store analysis will be expanded to 60 properties representing 6,133 units.

Mortgage and Loan Interest

Financing expenses were higher in 2005 on a gross dollar basis compared to the prior year due to the increase in the mortgage portfolio related to acquisitions. Mortgage and loan interest on a gross dollar basis is expected to continue to increase in 2006 as the Company continues to expand its portfolio. However, Killam expects to continue to finance properties at favorable rates throughout 2006. Please see further discussion in the Mortgages Payable section of this MD&A.

Killam is sensitive to interest rate changes. However, the Company manages this risk by entering into fixed-rate mortgages and staggering the maturity dates of the mortgages. The reader should review the section on debt discussed later in the MD&A. An annualized 1% change in the interest rate on Killam's mortgages at December 31, 2005 would affect financing costs by approximately $3.0 million per year were all of Killam's debt due within one year. However, only $65 million of Killam's mortgages are due within the next three years. Therefore, that same interest rate change would only affect Killam by $0.6 million.

Amortization Expense

Amortization expense increased $6.6 million compared to 2004. The increase in amortization is a result of the increased portfolio as well as Killam's capital improvement program.

General and Administrative Expenses

	2005	2004	% change
Total	**$2,013,776**	$1,273,388	58%
As a percentage of rental revenue	**4.2 %**	6.8%	

General and administrative expenses include expenses which are not specific to an individual property. These expenses include TSX related costs, management salaries and benefits, office rent, communication costs, office equipment leases and other head office expenses. The general and administrative percentage has decreased from 2004 as there is a relatively fixed component of these expenses which continues to be spread over increased revenue as Killam continues to grow its portfolio.

Provincial Large Corporation Tax (Capital Tax)

The Company is required to pay provincial capital tax in certain provinces based on the total taxable capital invested in those provinces at year-end. Total taxable capital invested includes share capital and mortgages on properties held outside the Company's internal trusts and is not a function of the time the capital is invested. These taxes are deductible for provincial and federal income tax purposes and the tax benefit of this deduction is included in Income Tax as discussed below. The increase in provincial capital tax from $100,000 in 2004 to $209,250 in 2005 is largely the result of the Company's private equity and debt placement completed in May 2005.

Income Tax

	2005	2004	% change
Current	**$ 59,028**	$ –	N/A
Future	**212,855**	144,234	48%
	$271,883	$144,234	89%

Current income tax expense represents federal large corporation's tax. The increase over 2004 is largely the result of the Company's May 2005 private equity and debt placement. In addition, the Company has booked a future income tax expense representing the future tax expense on Killam's 2005 net income at an effective rate of approximately 77%. The Company's statutory rate of approximately 37% is affected by the Company's non-cash compensation expense and non-cash debenture interest totaling $292,473 which are considered permanent differences for tax purposes.

Consolidated Balance Sheet

Capital Assets

	2005	2004	% change
Net book value	$452,076,153	$235,199,298	92%

Capital assets increased to $452.1 million from $235.2 million, as a result of 50 acquisitions totaling 5,296 units in 2005. In addition, Killam invested approximately $18.4 million in suite renovation and project improvements during 2005 to improve its buildings and begin to expand certain MHC properties.

The following table is a summary of the Company's acquisitions for 2004 and 2005. The acquisition value set out below excludes third party costs such as legal, environmental and other costs paid as part of the acquisition process.

	2005	2004	% change
Apartment Acquisitions			
Value of acquisitions	$145,353,000	$144,792,400	0.4%
Units acquired	2,406	3,063	(21)%
Average price per unit	$ 60,413	$ 47,271	28%
MHC Acquisitions			
Value of acquisitions	$ 54,757,000	$ 18,075,000	203%
Units acquired	2,890	1,270	128%
Average price per unit	$ 18,947	$ 14,232	33%

The average cost to purchase both apartment units and MHC sites increased in 2005 versus 2004. This is due, in part, to a general capitalization rate compression in the marketplace, plus the fact that Killam's 2005 purchases were focused in its relatively more expensive sub-markets of Halifax for apartments and southwestern Ontario for MHCs.

During 2005, Killam continued to expand its geographic reach with the acquisition of additional MHCs in Ontario and the purchase of a 247 unit MHC in Saskatchewan. In addition, Killam completed its largest single acquisition to date with the acquisition of the 723 unit Maplehurst Portfolio in Halifax, NS. Many of Killam's 2005 acquisitions are adjacent to Killam's existing buildings and MHCs which enables the Company to better control the neighborhood, provide our tenants with a more consistent level of service and achieve efficiency cost savings.

Capital Improvements

In addition to property acquisitions, Killam invested $18.4 million in property improvements during 2005, including $4.3 million in renovations related to the Company's Woodward Gardens repositioning project that was completed in the fourth quarter of 2005. Killam's capital improvement program is focused on improving the portfolio's curb appeal, including landscaping and parking lots, plus common area upgrades and suite finishes.

Energy and life safety issues are also a priority – for example, we have replaced over 20 heating systems in 2005 totaling $1.9 million, converting from oil to natural gas in each case. Further, Killam installs energy efficient lighting as well as motion and light activated sensors in all of its properties.

Capital Improvements and Energy Upgrades (By Quarter)

	Q1	Q2	Q3	Q4	Total YTD
Project improvements	$1,281,827	$2,912,169	$3,302,752	$4,649,389	$12,146,137
Suite improvements	411,847	1,403,020	1,532,779	1,763,418	5,111,064
Equipment	25,609	71,372	57,032	1,793,680	1,947,693
Parking lots	3,035	19,596	126,477	150,593	299,701
Appliances	44,808	138,104	136,611	211,232	530,755
Furniture & Fixtures	14,766	103,924	121,748	29,498	269,936
Total	$1,781,892	$4,648,185	$5,277,399	$8,597,810	$20,305,286

Deferred Financing

	2005	2004	% change
Deferred financing costs	**$5,872,356**	$1,533,939	283%
Less: accumulated amortization	**(1,104,360)**	(511,010)	116%
	$4,767,996	$1,022,929	366%

Deferred financing costs (net of amortization) increased $3.7 million, largely as a result of the May 2005 private debt placement ($2.1 million) with the remainder due to the increase in the portfolio. The costs related to mortgage assumption; application fees and legal 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 term of the debentures.

Other Assets

	2005	2004	% change
Property taxes	**$ 514,368**	$ 295,780	74%
Insurance	**282,353**	230,616	22%
Other	**406,814**	159,940	154%
Deferred charges	**354,485**	37,241	852%
Goodwill	**4,500,000**	–	– %
	$6,058,020	$ 723,577	737%

The large increase in prepaid property taxes over the 2004 balance is due to the increased size of the portfolio as well as the timing of these payments in various provinces. Other prepaids include prepaid utility costs, annual maintenance contracts and other miscellaneous items. Deferred charges include costs associated with the Company's expansions on certain vacant lands. Goodwill is the tax effect of the Company's acquisition of two properties through share purchase transactions.

Mortgages and Loans Payable

	2005	2004	% change
Mortgages	**$291,760,750**	$154,085,874	89%
Vendor financing	**11,060,355**	5,815,000	90%
	$302,821,105	$159,900,874	89%
Weighted average years to maturity	**5.5**	6.1	
Mortgage debt as a percentage of GBV	**65.0%**	66.8%	
Weighted average interest rate	**5.6%**	5.9%	

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize vendor-take-back 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. The increase in mortgages payable is due to the continued growth of the Company.

Killam's 2005 weighted average interest rate fell to 5.6% compared to 5.9% as at December 31, 2004. It is anticipated that Killam will continue to benefit from the low interest rate environment throughout 2006. The Company's weighted average years to maturity fell from the previous year as a result of the assumption of mortgages during the second and third quarter of 2005 which have a shorter term to maturity than the Company's usual financing terms. In addition, the Company's mortgage debt to gross book value fell slightly from 66.8% to 65.0% as the Company assumed a number of mortgages during 2005 which were less than the conventional 75% financing Killam would place on acquisitions.

The Company continually reviews the maturity dates of its mortgages to reduce the overall interest rate risk. The following table sets out the maturity dates and average interest rates of debt by the year of maturity:

Fiscal Year	Mortgage Balance 2005 ($000's)	Average Int. Rate %
2006	13,083	6.11
2007	8,078	5.25
2008	43,601	6.12
2009	68,055	5.34
2010	49,907	5.26
2011	3,406	6.34
2012	4,796	6.17
2013	10,809	6.16
2014	32,360	5.89
2015	55,505	5.42
Thereafter	13,221	5.64

Convertible Debenture

	2005	2004	% change
Convertible debentures	**$40,718,111**	$Nil	– %

During the second quarter of 2005 the Company completed the private placement of $42.2 million convertible subordinated debentures. The debentures bear interest at a rate of 6.5% payable semi-annually to their maturity at May 5, 2012. The debentures are convertible into common shares of the Company at a share price of $3.10 at any time after May 2007. At the time of issuance, the fair value of the Company's obligation to make principal and interest payments was $40.6 million and the fair value of the holders' conversion option was calculated at $1.6 million (which is reflected in "other paid-in capital"). The effective rate of interest on the liability component has been calculated at 7.2%.

Shareholders' Equity

	2005	2004	% change
Capital stock	**$92,900,223**	$77,809,075	19%
Contributed surplus	**405,420**	233,984	73%
Other paid-in capital	**1,601,693**	–	–
Deficit	**(63,668)**	(68,515)	7%
	$94,843,668	$77,974,544	22%

During the second quarter of 2005 the Company completed the private placement of 6 million common shares for gross proceeds of $15.3 million. Other paid-in capital represents the fair value of the holders' conversion option of the Company's May 2005 issuance of convertible subordinated dentures. The change in the contributed surplus account is a result of the expensing of stock options which have vested during 2005.

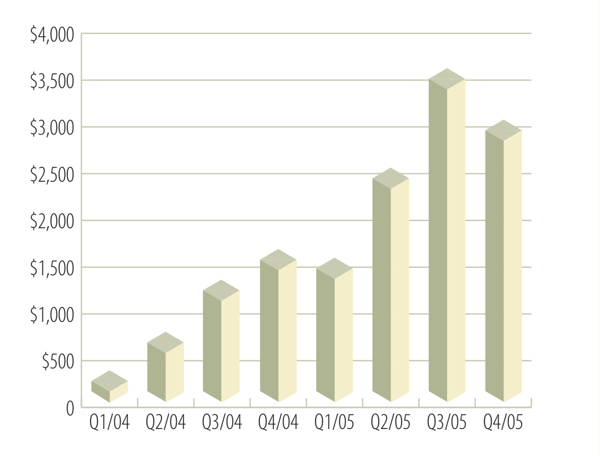
Consolidated Statement of Cash Flows

Operating Activities

	2005	2004	% change
Funds from operations	**$10,922,731**	$4,232,529	158%
FFO/share	**$ 0.14**	$ 0.07	100%

The Company's funds from operations continued to grow on a total dollar and per share basis during 2005 largely as a result of the expanded portfolio during 2005 and the effects of a full year of contribution from 2004 acquisitions. Had a couple key acquisitions closed in Q4 – 2005 instead of Q1 – 2006, net income and FFO would have been higher. As noted in the following graph, Killam's results are affected by seasonality. Quarter 1 and Quarter 4 show a decline in FFO due to the increased consumption of fuel, utilities and snow removal in the winter months.

Funds From Operations (in 000's)



Financing Activities

Issuance of Common Shares & Convertible Subordinated Debentures

As discussed earlier in this MD&A, during 2005, the Company completed a private placement consisting of 6 million common shares at a price of $2.55 per share and $42.2 million convertible subordinated debentures. The amounts shown in the cash flow statement for common shares are net of costs incurred on the issuance. In addition, the Company utilized shares to partially fund acquisitions during 2005 and 2004, as the issuance of these shares is considered a non-cash transaction, they are excluded from the cash flow statement.

Deferred Financing

Deferred financing costs are costs incurred when mortgage debt is obtained, as well as the costs of issuing the convertible subordinated debentures, and drawing on Killam's credit facilities. These costs are amortized over the term of the associated debt.

Credit Facility

As at December 31, 2005, Killam has drawn $16.9 million on its Credit Facility associated with its continued acquisitions.

Financing of Capital Assets

During 2005, the financing of new acquisitions and the re-financing of existing properties totaled $108.9 million compared to $83.8 million during 2004. These amounts exclude mortgages assumed on acquisition. See the section on Mortgages Payable elsewhere in the MD&A for a further discussion of financing.

Investing Activities

As discussed earlier in this MD&A, the Company completed the acquisition of 50 properties representing 5,296 units during 2005. The purchase of capital assets amount in the cash flow statement is shown net of the value of shares issued to complete the acquisitions and debt assumed. In addition the Company completed approximately $20.3 million of capital improvements to its properties during 2005.

Quarterly Results & Discussion of Q4 Operations

(In $000's except per share amounts)

	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total revenue	$2,745	$3,497	$5,070	$7,711	**$8,871**	**$10,888**	**$13,778**	**$14,819**
Rental revenue	2,670	3,470	4,947	7,688	**8,832**	**10,722**	**13,710**	**14,501**
Operating expenses	1,232	1,274	1,906	3,576	**4,231**	**4,297**	**5,130**	**6,533**
Net income (loss)	(144)	18	186	175	**(62)**	**108**	**252**	**(293)**
Per share basic	(0.0030)	0.0004	0.0026	0.0024	**(0.0008)**	**0.0014**	**0.0031**	**(0.0036)**
Per share diluted	(0.0028)	0.0003	0.0025	0.0023	**(0.0008)**	**0.0013**	**0.0031**	**(0.0036)**
Funds from operations	367	803	1,369	1,694	**1,597**	**2,561**	**3,627**	**3,138**
Per share basic	0.0076	0.0162	0.0191	0.0231	**0.0213**	**0.0326**	**0.0448**	**0.0387**
Per share diluted	0.0072	0.0150	0.0182	0.0222	**0.0209**	**0.0315**	**0.0436**	**0.0377**
Total assets	88,143	149,983	182,343	242,846	**283,751**	**398,575**	**412,742**	**469,517**
Shareholders' equity	31,091	71,494	75,286	77,975	**77,914**	**94,473**	**95,002**	**94,844**

Revenue increased 91% in Q4 2005 versus the same quarter of 2004 as a result of 17 acquisitions totaling 1,335 units in the fourth quarter 2005 as well as a full quarter of revenue from the 33 acquisitions completed in the first nine months of 2005. Property operating expenses as a percentage of rental revenue decreased to 45.8% in Q4 2005 versus 46.5% in the same period of 2004.

Liquidity and Capital Resources

The Company intends to meet its short-term liquidity requirements (defined as monthly mortgage payments of principal and interest and ongoing operating costs) through net cash flow provided by operating activities.

Killam's business plan requires an ample supply of capital resources. Capital resources are defined as mortgage debt, vendor mortgages and share capital equity. As at December 31, 2005 the Company had available $1.2 million of cash. Subsequent to year-end the Company completed two $5 million private placements of unsecured subordinated debentures and warrants. The debentures and warrants have a term of seven years and the debentures bear a coupon of 5.92 and 6.06%. The warrants are convertible into common shares of the Company at exercise prices of $3.60 and $3.80 per share.

The Company has credit facilities totaling $40 million of which the Company has drawn $16.9 million on these facilities as at December 31, 2005. The cash on hand and credit facilities provide the Company with sufficient capital to acquire approximately $120 million in additional properties. Killam will continue to finance new properties at 75% of their value through new mortgages or placing second mortgages where available. The Company continuously reviews existing mortgages to ensure the properties are appropriately leveraged to maximize access to historically low mortgage rates.

Risk Management

Killam, like most real estate companies, is exposed to a variety of risk areas. These are classified between general and specific risk areas. General risks are associated general economic conditions in the real estate sector. Specific risks focus more on credit risk, market risk, interest risk and utility and property tax risk. The following will address each of these risks in more detail.

General Risks

Real Estate Industry Risk: 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.

Environmental Risk: Killam is not aware of any material non-compliance with environmental laws at any of its properties. The Corporation 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 Corporation may become subject to more stringent environmental laws and regulations in the future.

Competition Risk: Each segment of the real estate business is competitive. Numerous other residential developers and apartment owners compete for potential tenants. Although it is Killam's strategy to own multi-family residential properties in premier locations in each market in which it operates, some of the apartments or MHCs of Killam's competitors may be newer, better located or better capitalized. The existence of alternative housing could have a material adverse effect on Killam's ability to lease space in its properties and in the rents charged and could adversely affect Killam's revenues and ability to meet its obligations.

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 not economically insurable.

Specific Risks

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. Thorough credit assessments are conducted with respect to all new leasing and the Company also obtains a security deposit to assist in potential recovery requirements.

Supply Risk is the risk that the Corporation would be negatively affected by the new supply of, and demand for, multi-family residential units in its major market areas. Key drivers of demand include employment levels, population growth, demographic trends and consumer confidence. Any significant amount of new construction will typically result in an imbalance in supply and cause downward price pressure on rents. No signs of significant new rental construction are currently evident in any of Killam's existing markets.

Interest Rate Risk is the combined risk that the Company would experience a loss as the result of its exposure to a higher interest rate environment (Interest Rate Risk) and the possibility that at the term of maturity of a mortgage the Company would be unable to renew the maturing debt either with the existing lender or with a new lender (Renewal Risk). The Company manages this risk through a periodic review of its mortgage portfolio. The Company will renegotiate existing debt to take advantage of lower interest rates and structures its debt so as to stagger the maturity dates.

Rent Control Risk is the risk of the implementation or amendment of new or existing legislative rent controls in the markets in which Killam operates, which may have an adverse impact on the Company's operations. Currently Ontario and PEI are the only provinces in which the Company operates that have rent controls. The Company believes that rent controls are not an increasing trend in its markets.

Utility and Property Tax Risk relates to the potential loss the Company may experience as a result of higher natural resource prices as well as its exposure to significant increases in property taxes. Over the past few years, property taxes have increased as a result of an increase in reassessments and/or tax rates. To address this risk, Killam along with the assistance of outside authorities, constantly reviews property tax assessments and, where warranted, appeals them.

Utility expenses, mainly consisting of oil, water and electricity charges have been subject to considerable price fluctuations over the past several years. Killam's tenant leases are typically one year; therefore, Killam has the ability to raise rents, subject to the overall rental market conditions, to offset rising energy and utility costs. In addition the Company locks in rates through hedge or pricing contracts for a portion of its oil consumption to reduce the fluctuations in price.

Critical Accounting Estimates

The Company's accounting policies are described in Note 2 of the consolidated financial statements. The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions.

Impairment of Long-lived Assets

Under Canadian GAAP, Killam is required to write down to fair value any capital assets that are determined to have been permanently impaired. Impairment is calculated as the net undiscounted cash-flows from the property over the anticipated holding period. This calculation requires subjective assumptions on general economic conditions, occupancies, rental rates and residual value. In the event these assumptions result in the sum of the undiscounted cash flows exceeding the assets carrying value an impairment loss would be recognized. To calculate this impairment loss would then require management to determine an appropriate discount rate, which is subjective. There were no impairment losses recorded for the years ended December 31, 2005 or 2004.

Building Amortization

The key estimate that management makes is regarding the depreciation of its building assets. Since January 1, 2004 the Company has used the straight-line method of amortization in accordance with Section 1100 of the Canadian Institute of Chartered Accountants (CICA) Handbook. If management's assumptions of estimated useful life or allocation of purchase price to building assets proves incorrect, the computation of depreciation could be materially different than recorded amounts.

Property Acquisitions

Under EIC 140 the purchase price of an acquisition must be allocated to land, building and intangible assets. This allocation of the components involves substantial estimates and judgment by management. The Company frequently purchases properties requiring capital improvements. This often involves the replacement of tenants occupying buildings at the time of acquisition. Upon review of the leases and the tenants' relationships relating to the acquired buildings, the Company has established that there is little or no value associated with the above and below market value leases.

Stock-based Compensation

Effective January 1, 2004 the Company retroactively adopted, without restatement, CICA Handbook section 3870, Stock Based Compensation and Other Stock Based Payments which requires the expensing of the fair value of stock options. The Company determines the fair value of the options at the date of grant using the Black-Scholes option pricing model and recognizes the fair value over the vesting period as compensation expense and contributed surplus. This option pricing model requires the Company to make assumptions about the risk-free interest rate, expected term, expected volatility and dividend yield of Killam's common shares.

Disclosure Controls

As of December 31, 2005, the Company's management evaluated the effectiveness of the design and 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 are procedures 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.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company's Disclosure 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.

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.

Future Objectives

With our current acquisition facilities and pre-arranged debenture financing arrangements, Killam is well positioned to continue its growth strategy. Subsequent to year-end we closed 8 properties representing 664 units and have a number of additional properties under contract, which we anticipate will close over the next few months.

2006 Goals and Objectives

- Continue to grow our portfolio through accretive acquisitions.
- Increase rental incomes from existing properties at tenant turnover or renewal.
- Lower costs through operating efficiencies.
- Maximize potential in our current portfolio through increases in occupancy rates and having properties such as Woodward Gardens back on line in 2006.
- Grow our MHC business through park expansions utilizing our existing vacant land in the parks.
- Crystallize the value of our apartment surplus land through development agreements or sales.

Management is confident that Killam is well positioned to continue its accretive growth and effectively manage its portfolio.

Management's Report

To the Shareholders of Killam Properties Inc.

The accompanying financial statements and all information in the Annual Report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the financial statements.

Management maintains systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board carries out this responsibility principally through the Audit Committee.

The Audit Committee is appointed by the Board and consists of three independent directors. The committee meets periodically with management and the external auditors to satisfy itself that it has properly discharged its responsibilities, and to review financial statements. The external auditors have full and free access to the Audit Committee at any time. The committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to shareholders.

Philip Fraser
President & CEO

Robert Richardson, CA
EVP and CFO

March 7, 2006

Auditors' Report

To the Shareholders of Killam Properties Inc.

We have audited the consolidated balance sheets of Killam Properties Inc. as at December 31, 2005 and 2004 and the consolidated statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Halifax, Canada, March 7, 2006
(Except for Note 16 which is as of March 28, 2006)

Consolidated Balance Sheets

As at December 31

	2005	2004
Assets		
Capital assets *(note 4)*	$452,076,153	$235,199,298
Cash and cash equivalents *(note 3)*	4,885,126	4,168,071
Accounts receivable	544,683	189,320
Income tax receivable	–	214,897
Other assets *(note 5)*	6,058,020	723,577
Deferred financing costs (net)	4,767,996	1,022,929
Future income taxes *(note 11)*	1,184,547	1,327,609
	$469,516,525	$242,845,701
Liabilities and Shareholders' Equity		
Mortgages and loans payable *(note 6)*	$302,821,105	$159,900,874
Convertible debentures *(note 7)*	40,718,111	–
Credit facility *(note 8)*	16,943,000	–
Accounts payable & accrued liabilities	7,057,797	2,967,334
Income tax payable	173,139	–
Security deposits	1,349,199	644,943
Future income taxes *(note 11)*	5,610,506	1,358,006
	374,672,857	164,871,157
Shareholders' Equity		
Capital stock *(note 9)*	92,900,223	77,809,075
Contributed surplus *(note 9)*	405,420	233,984
Other paid-in capital *(note 7)*	1,601,693	–
Deficit	(63,668)	(68,515)
	94,843,668	77,974,544
	$469,516,525	$242,845,701

See accompanying notes

On behalf of the Board

G. Wayne Watson
Director

Philip Fraser
Director

Consolidated Statements of Income and Deficit

For the year ended December 31

	2005	2004
Revenue		
Rental income	$47,764,779	$18,774,676
Interest income	165,813	193,317
Other income	425,790	55,173
	48,356,382	19,023,166
Property expenses		
Property operating expenses	20,191,154	7,988,349
	28,165,228	11,034,817
Mortgage and loan interest	12,989,928	5,196,286
Convertible debenture interest	1,912,038	–
Depreciation	9,864,194	3,502,271
Amortization of deferred financing	548,362	351,891
General and administrative	2,013,776	1,273,388
Professional fees	256,984	186,923
Provincial capital taxes	209,250	100,000
Interest and bank charges	93,966	45,691
	27,888,498	10,656,450
Income before income taxes	276,730	378,367
Provision for income taxes *(note 11)*		
– current	(59,028)	–
– future	(212,855)	(144,234)
Net income	4,847	234,133
Deficit, beginning of year	(68,515)	(67,372)
Adjustment to opening balance *(note 2)*	–	(235,276)
Deficit, end of year	$ (63,668)	$ (68,515)
Net income per share *(note 13)*		
– basic	$ 0.0001	$ 0.0040
– diluted	$ 0.0001	$ 0.0040

See accompanying notes

Consolidated Statements of Cash Flows

For the year ended December 31

	2005	2004
Operating Activities		
Net income	$ 4,847	$ 234,133
Add items not affecting cash		
Depreciation and amortization	10,412,556	3,854,162
Non-cash debenture interest	119,804	–
Non-cash compensation expense	172,669	–
Future income taxes	212,855	144,234
Funds from operations	10,922,731	4,232,529
Net change in non-cash working capital items related to operations	3,992,949	1,699,489
Cash provided by operating activities	14,915,680	5,932,018
Financing Activities		
Issue of common shares for cash (net of issue costs)	14,549,924	42,752,508
Issuance of convertible subordinated debentures	42,200,000	–
Increase in deferred financing	(4,293,429)	(976,963)
Increase in credit facility	16,943,000	–
Issuance of long-term debt	108,927,109	83,790,860
Repayment of long-term debt	(8,386,193)	(8,505,483)
Cash provided by financing activities	169,940,411	117,060,922
Investing Activities		
Purchase of capital assets	(184,139,036)	(132,008,429)
Cash used in investing activities	(184,139,036)	(132,008,429)
Net increase (decrease) in cash and cash equivalents	717,055	(9,015,489)
Cash and cash equivalents, beginning of year	4,168,071	13,183,560
Cash and cash equivalents, end of year	$ 4,885,126	$ 4,168,071
Cash interest paid	$ 14,301,365	$ 4,815,016
Cash taxes paid	$ 4,905	$ 385,834

Notes to Consolidated Financial Statements

1. Incorporation

Killam Properties Inc. (the "Company") is a real estate corporation specializing in the acquisition and management of multi-residential apartment buildings and manufactured home communities. The Company is incorporated under the Canada Business Corporations Act.

2. Summary of Significant Accounting Policies

Basis of presentation

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

Use of accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents consist of cash, restricted cash and short-term investments. Short-term investments consist of short-term monetary investments with maturities not exceeding three months and are recorded at cost which approximates fair market value.

Revenue recognition

Revenue from rental properties is recognized when a tenant commences occupancy of a rental suite and rent is due. The Company retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes rent, laundry, parking and other sundry revenues.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets and liabilities are expected to be realized or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

Capital assets

Revenue producing real estate properties held as ongoing investments are recorded at cost less accumulated amortization and net of any impairment loss. Cost includes all expenditures incurred in connection with the acquisition of real estate property including all direct costs. All costs associated with capital improvements, other than ordinary repairs and maintenance, are capitalized and amortized over terms appropriate to the expenditure.

2. Summary of Significant Accounting Policies (continued)

Amortization

Capital assets are amortized at rates designed to amortize the cost of the properties over their useful lives as follows:

Buildings	2% – 2.5%	straight-line, 40 – 50 years
Roads & driveways	4%	declining balance
Water & sewer	6%	declining balance
Suite renovations	20%	declining balance
Project improvements	10%	declining balance
Other assets	5% – 30%	declining balance

Deferred financing costs

Financing fees and other costs incurred in connection with debt financing are amortized on a straight-line basis over the term of such financing. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Canadian Mortgage and Housing insurance premiums are amortized over the mortgage amortization period.

Stock-based compensation

Effective January 1, 2004 the Company retroactively adopted, without restatement, CICA Handbook section 3870, Stock Based Compensation and Other Stock Based Payments which requires the expensing of the fair value of stock options. The impact of adopting the Handbook section was a charge to January 1, 2004 opening retained earnings of $235,276 and a corresponding increase in contributed surplus representing the fair value of options granted subsequent to January 1, 2002 and vested as of January 1, 2004. The Company determines the fair value of the options at the date of grant using the Black-Scholes option pricing model and recognizes the fair value over the vesting period as compensation expense and contributed surplus. When stock options are exercised, the corresponding contributed surplus is transferred to capital stock.

Net income per share

Diluted net income per share is calculated using the treasury stock method which recognizes the use of proceeds that could be obtained upon exercise of stock options. This method assumes that any proceeds would be used to purchase common shares at the average market price during the period.

Convertible subordinated debentures

On issuance of subordinated debentures convertible into common shares of the Company, the fair value of the holders' conversion option is reflected as "Other paid-in capital". The Company's obligation to debenture holders for future interest and principal payments is reflected as a liability carried at amortized cost. If the holders exercise their conversion option, common shares issued on conversion will be recorded at an amount equal to the aggregate carrying value of the liability and conversion option extinguished, with no gain or loss recognized.

Derivative instruments

Periodically, the Company enters into oil futures contracts to hedge its exposure to rising oil prices. Hedge accounting is applied in accordance with CICA Accounting Guideline 13 "Hedging Relationships" and any realized gains or losses resulting from the settlement of these contracts are expensed in the period of settlement.

3. Cash and Cash Equivalents

	2005	2004
Cash	$1,211,738	$2,006,934
Tenant security deposits	539,589	397,788
Restricted cash	3,133,799	1,763,349
	$4,885,126	$4,168,071

Restricted cash includes deposits on real estate properties and property tax reserves.

4. Capital Assets

	2005		2004	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$ 45,525,506	$ –	$ 23,905,349	$ –
Buildings	319,637,430	8,499,728	185,521,711	2,727,714
Roads and driveways	36,924,444	1,303,561	11,941,998	314,694
Water and sewer	36,950,269	1,947,734	11,969,000	472,306
Suite renovations	6,819,881	1,003,152	1,708,817	252,691
Project improvements	14,690,865	714,438	2,544,731	148,530
Other assets	5,473,155	476,784	1,688,895	165,268
	$466,021,550	$13,945,397	$239,280,501	$4,081,203
Less: accumulated amortization	(13,945,397)		(4,081,203)	
	$452,076,153		$235,199,298	

During the year ended December 31, 2005, the Company capitalized indirect costs of $1.3 million (2004 – $0.3 million) as part of its project improvement and suite renovation program. In addition, $0.1 million of interest expense was capitalized as part of the Company's repositioning project of two properties (2004 – $Nil).

5. Other Assets

	2005	2004
Prepaid	$1,203,535	$686,336
Deferred charges	354,485	37,241
Goodwill	4,500,000	–
	$6,058,020	$723,577

Goodwill presented above is the tax effect of the Company's acquisition of two properties through share purchase transactions. The offsetting liability is presented in Note 11, income taxes.

6. Mortgages and Loans Payable

Mortgages payable of $291,760,750 (December 2004 – $154,085,874) bear interest at fixed rates from 3.32% to 8.47% with maturity dates ranging from May 2006 to July 2019. Vendor mortgages and loans payable of $11,060,355 (December 2004 – $5,815,000) bear interest at fixed rates from 0.00% to 7.25% with maturity dates ranging from April 2006 to September 2010. Mortgages are secured by a first or second charge on the properties of the Company and vendor mortgages are secured by either a second charge on the property or a general corporate guarantee.

The weighted average mortgage rate at December 31, 2005 was 5.6% (2004 – 5.9%).

Principal repayments of mortgages and loans are due as follows:

Year	
2006	$ 20,063,909
2007	14,170,936
2008	48,088,869
2009	65,072,172
2010	47,571,955
Thereafter	107,853,264
	$302,821,105

7. Convertible Subordinated Debentures

The Company's $42.2 million convertible subordinated debentures bear interest at a fixed rate of 6.5% payable semi-annually to their maturity at May 2012. The debentures are convertible into common shares of the Company at a share price of $3.10 at any time after May 2007. At the time of issuance, the fair value of the Company's obligation to make principal and interest payments was $40.6 million and the fair value of the holders' conversion option was $1.6 million (which is reflected in "other paid-in capital"). The effective rate of interest on the liability component is calculated at 7.2%.

8. Credit Facilities

The Company has negotiated credit facilities set out as follows:

Operating Facility

Consists of a $500,000 revolving demand facility for general business purposes, bearing interest at the lender's prime plus 1%. As at December 31, 2005 the Company had a $Nil balance (2004 – $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

Acquisition Bridge Facility

This agreement consists of two facilities:

(a) $20,000,000 senior revolving facility to fund asset acquisitions, bearing interest at the greater of prime plus 3.75% or 8.0% plus a 0.6% fee on undrawn amounts (expensed monthly). As at December 31, 2005 the Company had a $16,943,000 balance outstanding (2004 – $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

(b) $20,000,000 revolving senior secured facility to fund asset acquisitions bearing interest at the greater of prime plus 5.0% or 9.25%. As at December 31, 2005, the Company had a $Nil balance outstanding (2004 – $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

9. Capital Stock and Contributed Surplus

Capital Stock

Authorized:

Unlimited number of common shares.

Unlimited number of preferred shares, issuable in series.

Issued:

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

	2005		2004	
	Number of Shares	Value	Number of Shares	Value
Balance, beginning of year	74,856,631	$77,809,075	48,038,674	$30,687,095
Issued for cash (i)	6,000,000	14,476,668	22,080,000	39,277,383
Issued on property acquisitions (ii)	84,906	223,931	1,616,457	3,338,738
Stock options exercised (iii)	392,000	73,256	330,000	90,730
Warrants exercised (iv)	–	–	2,791,500	3,384,395
Tax benefit of issuance costs	–	317,293	–	1,030,734
Balance, end of year	81,333,537	$92,900,223	74,856,631	$77,809,075

(i) Net of issuance costs of $823,332 (2004 – $2,674,617)
(ii) Net of issuance costs of $1,070 (2004 – $11,490)
(iii) Net of issuance costs of $10,577 (2004 – $Nil)
(iv) Net of issuance costs of $Nil (2004 – $122,055)

The shares issued on property acquisitions formed a portion of the total purchase price of the acquisition negotiated with third parties. The amount allocated to share capital was the residual of the total purchase price less cash considerations.

Contributed Surplus

	2005	2004
Balance, beginning of year	$233,984	$ –
Adjustment (i)	–	235,276
Stock options expensed	172,669	2,938
Stock options exercised	(1,233)	(4,230)
Balance, end of year	$405,420	$233,984

(i) Adjustment upon adoption of CICA Handbook Section 3870, see Note 2.

10. Stock Options and Warrants

Under the terms of the stock option plan:

(i) the Company designates from time to time eligible participants to whom options will be granted, and the number of shares to be optioned to each;

(ii) eligible participants are persons who are employees, officers, directors and consultants of the Company;

(iii) shares to be optioned shall not exceed 5,500,000 (December 31, 2004 – 2,525,000) and the total number of shares to be optioned to any eligible participant shall not exceed 10% of the issued and outstanding shares of the class as at the date such option is granted;

(iv) the option price for the shares is determined at the time of granting of the option but cannot be less than the fair market value of the shares at the time the option is granted less any applicable discount permitted by the Toronto Stock Exchange; and

(v) the term during which any option granted may be exercised is determined by the Company at the time the option is granted but may not exceed the maximum period permitted from time to time by the Toronto Stock Exchange.

10. Stock Options and Warrants (continued)

Options granted and exercised during the year are as follows:

	2005		2004	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	1,732,000	$0.47	2,052,000	$0.43
Granted	1,779,500	2.05	10,000	2.00
Exercised	(392,000)	0.21	(330,000)	0.26
Expired/cancelled	(11,000)	1.92	–	–
Outstanding, end of year	3,108,500	$1.40	1,732,000	$0.47

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants:

	2005	2004
Expected volatility	29.1%	53.5%
Risk-free interest rate	2.5%	3.5%
Expected lives	5 Years	1–5 Years
Expected dividend yield	Nil	Nil

The following table summarizes the stock options outstanding at December 31:

	2005		2004	
Exercise prices	Number of Options Outstanding	Remaining Contractual Life	Number of Options Outstanding	Remaining Contractual Life
$0.20	–	–	350,000	.95 years
$0.30	471,000	1.40 years	513,000	2.40 years
$0.30	10,000	1.44 years	10,000	2.44 years
$0.56	200,000	2.44 years	200,000	3.44 years
$0.65	608,500	2.44 years	609,500	3.44 years
$1.30	10,000	2.92 years	10,000	3.92 years
$1.69	29,500	2.96 years	29,500	3.96 years
$2.00	10,000	3.92 years	10,000	4.92 years
$2.05	1,769,500	4.42 years	–	–
	3,108,500		1,732,000	

Included in the above figures are 1,528,052 options at an average exercise price of $2.04, that were not exercisable at December 31, 2005, as they had not vested (2004 – 15,600 options at an average exercise price of $1.50).

Warrants

The Company has issued warrants as part of certain financing and equity arrangements as follows:

	2005		2004	
Exercise price	Number of Options Outstanding	Remaining Contractual Life	Number of Options Outstanding	Remaining Contractual Life
$0.95	500,000	2.66 years	500,000	3.66 years

The outstanding warrants consist of 500,000 warrants at $0.95 issued upon obtaining the credit facility which expire August 27, 2008.

11. Income Taxes

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

	2005		2004	
Net income before income taxes	$276,730		$378,367	
Income taxes at statutory rates	$102,943	37.2%	$139,996	37.0%
Non-deductible share compensation	64,233	23.2%	–	–
Non-deductible debenture interest	44,567	16.1%	–	–
Other differences	1,112	0.4%	4,238	1.1%
Future tax expense	212,855	76.9%	144,234	38.1%
Federal large corporation tax	59,028		–	
	$271,883		$144,234	

Future 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 future income tax assets and liabilities are as follows:

	2005	2004
Share issue costs	$ 1,184,547	$1,327,609
Capital assets	(1,110,506)	(1,358,006)
Goodwill	(4,500,000)	–
Net future income tax liability	$(4,425,959)	$ (30,397)

12. Segmented Information

The Company operates in two segments of the multi-family residential industry; multi-family apartments and manufactured home communities.

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 earnings from property operations before amortization. The operating results and capital assets of the segments as at and for the years ended December 31, 2005 and 2004 are set out as follows:

As at and for the year ended December 31, 2005

	Multi-family Apartments	Manufactured Home Communities	Corporate	Total
Revenue	$39,267,338	$8,822,121	$266,923	$48,356,382
Property operating expenses	17,001,309	3,189,845	–	20,191,154
Earnings from property operations	$22,266,029	$5,632,276	$266,923	$28,165,228
Capital assets (net)	$369,791,124	$81,562,201	$722,828	$452,076,153

As at and for the year ended December 31, 2004

	Multi-family Apartments	Manufactured Home Communities	Corporate	Total
Revenue	$16,424,809	$2,401,678	$196,679	$19,023,166
Property operating expenses	7,133,453	854,896	–	7,988,349
Earnings from property operations	$9,291,356	$1,546,782	$196,679	$11,034,817
Capital assets (net)	$208,544,930	$26,283,045	$371,323	$235,199,298

13. Per Share Information

Net income per share has been calculated based on the weighted average number of shares outstanding as follows:

	2005	2004
Basic	78,862,486	60,680,934
Fully diluted	81,064,082	63,968,302

The diluted share amounts presented above exclude the convertible debentures as the effect would have been anti-dilutive.

14. Financial Instruments

The Company is exposed to financial risk that arises from, among other factors, fluctuation in interest rates and the credit quality of its tenants. These risks are managed as follows:

(i) Interest rate risk

Interest rate risk is minimized through management's periodic review of its mortgage portfolio. If market conditions warrant, the Company will renegotiate its existing debt to take advantage of lower interest rates. The Company will also structure its debt so as to stagger the debt maturities, thereby minimizing the Company's exposure to interest rate fluctuations.

(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.

Fair Value

Financial instruments are defined as a contractual right to receive or deliver cash or another financial asset. The fair values of the Company's financial instruments, except for long-term debt, approximate their recorded values at December 31, 2005 and December 31, 2004 due to their short-term nature and or the credit terms of those instruments.

The fair value of the mortgages payable has been determined by discounting the cash flows using current market rates of similar investments. These estimates are subjective in nature and therefore cannot be determined with precision. The fair value of long-term debt is approximately $313,950,000 (2004 – $162,165,500) compared to its book value of $302,821,105 (2004 – $159,900,874).

As at December 31, 2005, the Company had $167,729 worth of oil futures contracts outstanding.

15. Related Party Transactions

During 2005 the Company paid real estate commissions of $103,750 and construction and management fees of $47,995 to a Company controlled by a Director (2004 – real estate commissions of $39,000 and construction management fees of $67,400). The commissions and management fees were based on market rates and there is no continuing contractual obligation to use the service of the related party.

16. Subsequent Events

During the period of January 1 to March 7, 2006 the Company completed 8 property acquisitions representing 664 units. The total purchase price of $32.5 million was satisfied through mortgages totaling $23.2 million and $9.3 million from the Company's cash and acquisition facilities. In addition, the Company has increased financing on certain properties by $0.7 million.

On January 5 and March 17, 2006 the Company completed $5 million private placements of unsecured subordinated debentures and warrants. The debentures and warrants have terms of seven years. The debentures bear coupon rates of 5.92% and 6.06% respectively. The warrants are convertible into common shares of the Company at exercise prices of $3.60 and $3.80 per share respectively.

17. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for 2005.

Corporate Information

Board of Directors

Timothy R. Banks (2)
Charlottetown, Prince Edward Island
President, APM Group of Companies

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

Robert G. Kay (1)
Moncton, New Brunswick
Chairman, Springwall Group International and Springwall Sleep Products Inc.

James C. Lawley (1) (3)
Halifax, Nova Scotia
General Manager, Scotia Fuels Ltd.

Arthur G. Lloyd (2)
Calgary, Alberta
Corporate Director

Barry Reichmann
Toronto, Ontario
President, Reichmann International Development Corporation

George J. Reti (2) (3)
Calgary, Alberta
Chairman of the Board, Killam Properties Inc.
Corporate Director

Robert G. Richardson, CA
Dartmouth, Nova Scotia
Executive Vice President & CFO, Killam Properties Inc.

G. Wayne Watson, CA (1) (3)
Dartmouth, Nova Scotia
Vice President of Finance, Can Jam Trading Limited

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

Senior Management Team

Philip Fraser
President & CEO

Robert Richardson, CA
Executive Vice President & CFO

Ed Beazley
Vice President, Acquisitions

Ruth Buckle-McIntosh
Vice President, Property Management

Pam Crowell
Vice President, Property Management (Manufactured Home Communities)

Keith Foster, CA
Vice President, Finance

Jeremy Jackson
Vice President, Marketing

Ronald Barron
Corporate Secretary

Auditors

Ernst & Young, LLP
Halifax, NS

Solicitors

Bennett Jones, LLP
Calgary, AB

Stewart McKelvey Sterling Scales
Halifax, NS

Registrar and Transfer Agent

Computershare Trust Company of Canada
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Share Listing

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KMP: DB

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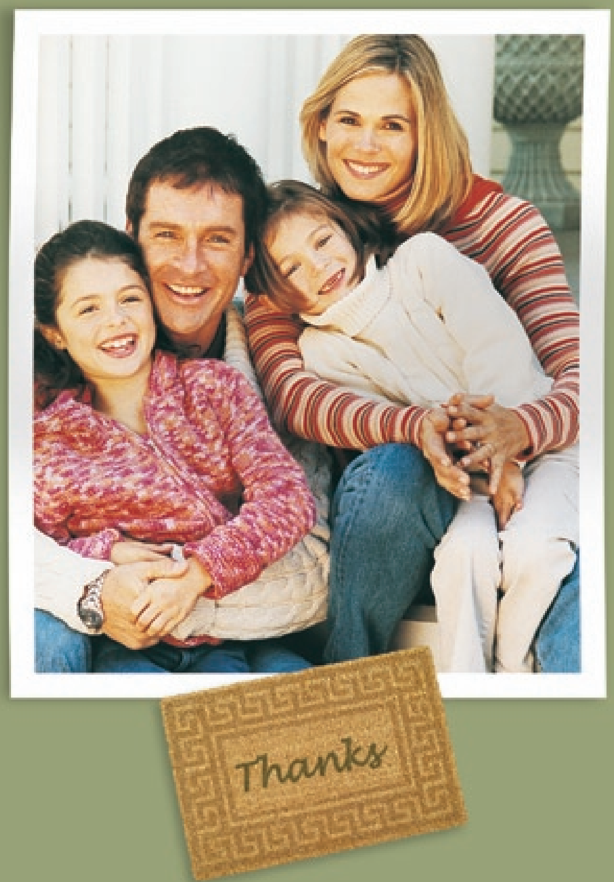
The Annual Meeting of Shareholders of Killam Properties Inc. will be held on Wednesday, May 3, 2006 at 11 AM (Atlantic Time) at the World Trade and Convention Centre, 1800 Argyle Street, Halifax, Nova Scotia.



To all our dedicated managers, employees and tenants.

Killam Properties Inc.
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