KILLAM PROPERTIES INC.

2003 ANNUAL REPORT

Corporate *Profile:*

Killam Properties Inc. is a publicly traded real estate company focused on the acquisition, re-development and management of multi-family residential properties and manufactured home communities in Atlantic Canada and adjacent markets. Killam's long-term strategy is to create and enhance shareholder value by becoming the dominant owner of residential real-estate properties and manufactured home communities in Eastern Canada.

table of **contents**

The Annual and Special General Meeting of Shareholders of Killam Properties Inc. will be held on Tuesday, April 27, 2004, at 11:00 a.m. (Atlantic Time) at the Four Points Sheraton, 1496 Hollis Street, Halifax, Nova Scotia.

Financial & Corporate *Highlights:*

	2003 $	2002 $	2001 $
Revenue	**5,175,505**	1,460,392	15,718
Net (loss) income	**(96,377)**	83,443	(46,305)
Funds from operations	**575,933**	138,021	(43,129)
Total assets	**76,190,396**	20,136,098	553,935
Long-term debt	**44,402,770**	11,299,601	--
Shareholders' equity	**30,619,723**	8,529,395	541,743
Weighted average number of shares outstanding	**29,226,195**	13,396,825	4,750,000

Portfolio Growth

· Acquisitions totaled over $45 million on a highly accretive basis.

· Increased portfolio by 1,489 units to total 1,800 units by year-end.

· Entered the manufactured home community sector.

· Expanded geographic diversification through acquisition of our first Newfoundland properties.

Equity

· On April 4, 2003 Killam's shares were posted and listed for trading on the Toronto Stock Exchange.

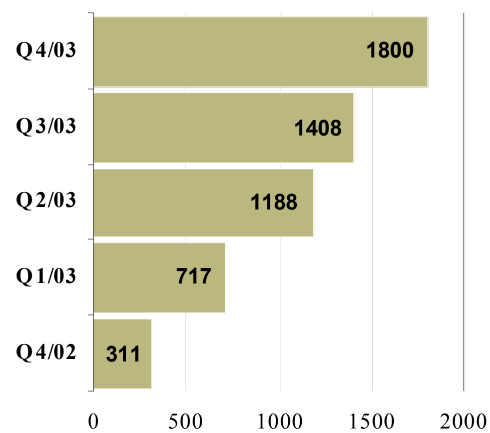
· In November 2003 Killam completed a private placement of 21,000,000 common shares at a price of $1.05 per share.

· As at December 31, 2003 the Company had 48,038,674 shares outstanding.

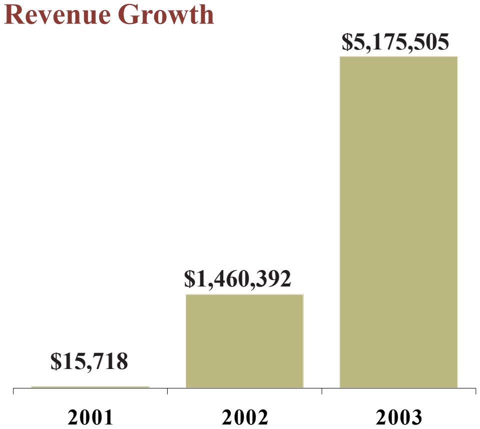
Financing

· Successfully negotiated $15 million of credit facilities with Brascan Financial Corporation.

Unit Growth



Revenue Growth



Report to ***Shareholders***

Killam has made great progress over the past twelve months towards our long-term strategy of becoming the dominant owner of multi-family residential real-estate properties and manufactured home communities in Eastern Canada.

On behalf of the Board of Directors, I am pleased to present the 2003 Annual Report and a review of the last 12 months. We began the year as a TSX Venture Exchange Company and on April 4, 2003 Killam's common shares were posted and listed for trading on the Toronto Stock Exchange. In my report last year I indicated our goal was to grow our portfolio by a minimum of 1,000 units per year, with a long-term target of 5,000 units within five years. We exceeded our target in 2003 by acquiring 1,489 units during the year. In addition, we have acquired 372 units within the first two months of 2004 and are well on the way to our long-term goals.

Our 2002 annual report also discussed our desire to explore opportunities in the manufactured home community (MHC) sector in Atlantic Canada. During 2003 Killam completed the acquisition of four manufactured home communities containing a total of 801 rental sites which accounted for 18.9% of our 2003 revenues. The management and stability of the financial returns on our manufactured home community assets have exceeded management's expectations. We will continue to explore opportunities to acquire additional units in this sector of the residential market.

We have expanded our geographic reach and at December 31, 2003 own properties in Halifax, Nova Scotia, Moncton and Saint John, New Brunswick, St. John's Newfoundland as well as MHC properties in smaller centers in Nova Scotia. Subsequent to year-end we entered the Charlottetown, Prince Edward Island market and Fredericton, New Brunswick market, thereby establishing a presence in all of the major markets in Atlantic Canada.

In November 2003 we were successful in completing a private placement of 21 million shares for gross proceeds of approximately $22 million. Once again we were successful in raising equity late in the fourth quarter with the one negative being the increase in large corporation tax because of the increase in assets, without having time to produce earnings to offset the increase in taxation. This is short-term pain for securing a profitable long-term

Report to ***Shareholders***

future. In addition, during 2003 we secured a $15 million acquisition facility with Brascan Financial Corporation. These two items provided the Company with sufficient capacity to acquire additional assets going into the first half of 2004.

We have made great progress in building a solid management team with a number of key additions. We recognize the necessity for the Company to attract quality employees to enable us to execute our strategies. We are also working hard to upgrade our properties and to be known as the landlord of choice in all of our markets.

I would like to acknowledge our new Chairman of the Board, Mr. George Reti, and thank him for all of his guidance and leadership. As well, I would like to recognize and thank the entire Board of Directors for the tremendous support and commitment each one has shown throughout the year.

In closing, I would like to thank all of our shareholders for their continued support of Killam Properties Inc. Killam is a vibrant company that is well positioned to capitalize on the opportunities in the Canadian multi-family market, and we are poised for strong growth in 2004.

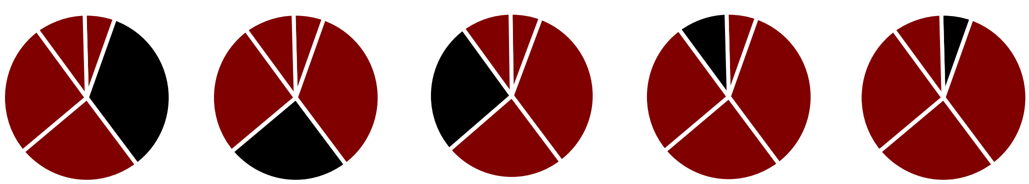
Philip D. Fraser
President and CEO

2003 Property ***Portfolio:***

Focused on Growth

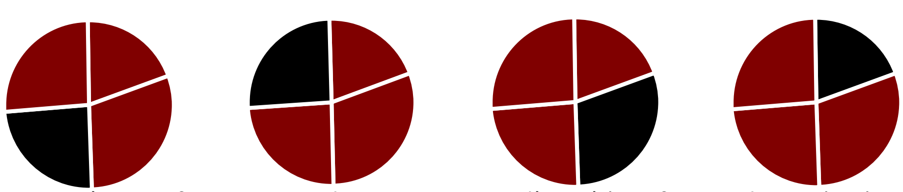
2003 Property *Portfolio*

Location	Property	Building Style	Number Of Units
APARTMENT BUILDINGS			
Halifax, NS	75 Knightsridge Drive	Garden	41
	Kent Street	Garden	139
	Glenbourne Gardens	Garden	76
	Glenforest Apartments	Garden	80
Moncton, NB	Cambridge Court	Garden	45
	Cambridge Place	Garden	63
	Cameron Street	Highrise	81
	Lakeview Estates	Garden	48
Saint John, NB	Carleton Towers	Highrise	60
	Fort Howe	Highrise	153
	Sydney Arms	Highrise	54
St. John's, NL	Mount Pleasant Manor	Garden	100
Grand Falls, NL	Ridgeview Terrace	Garden	59
Total Apartment Units			**999**



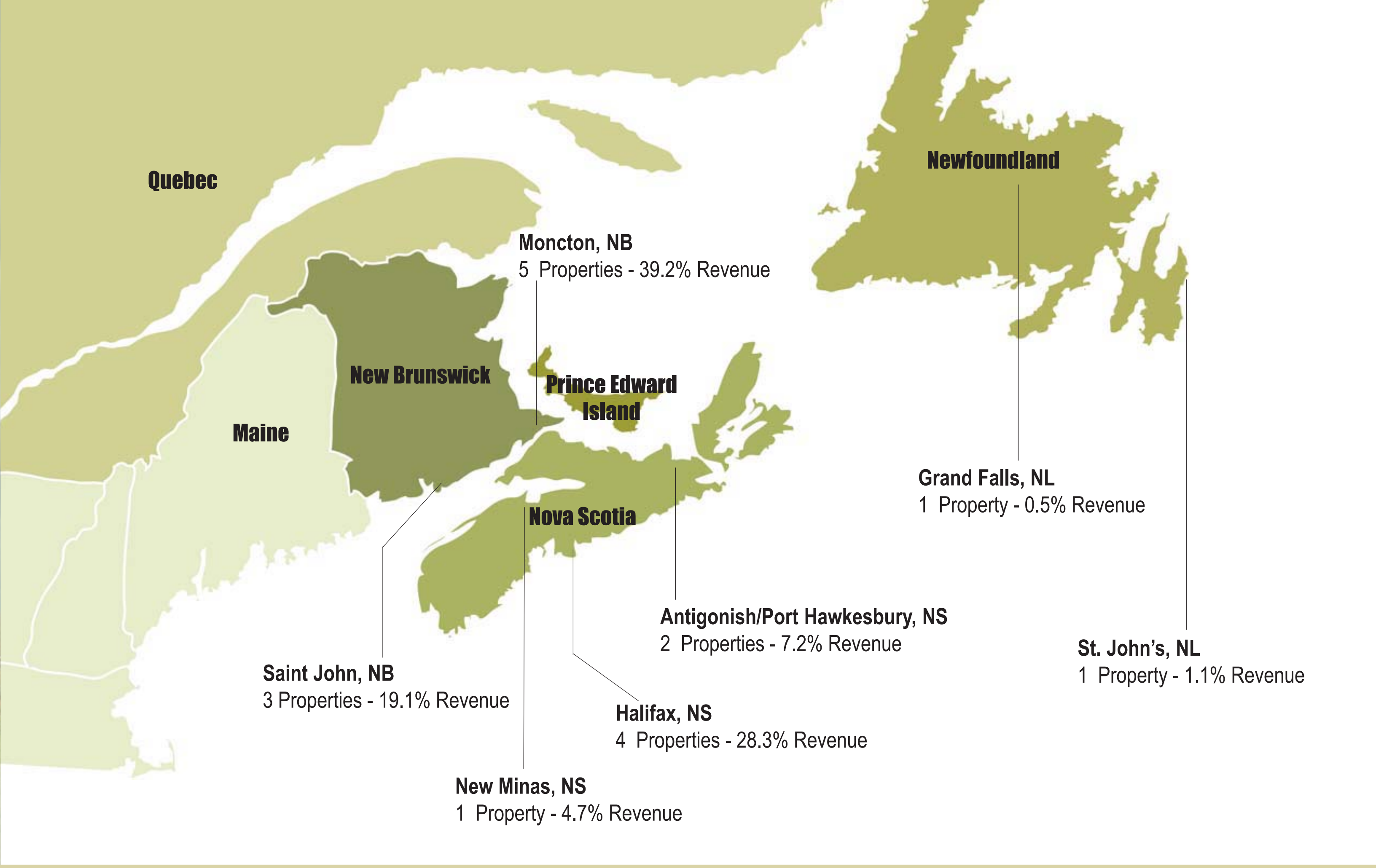
Halifax, NS 33% | Moncton, NB 24% | Saint John, NB 27% | St. John's, NL 10% | Grand Falls, NL 6%

MANUFACTURED HOME COMMUNITIES		
Port Hawkesbury, NS	Cardeil Estates	159
Antigonish, NS	Glen Aire Estates	236
New Minas, NS	Valley View Hills	195
Moncton, NB	White Frost Estates	211
Total MHC Units		**801**



New Minas, NS 24% | Moncton, NB 26% | Antigonish, NS 30% | Port Hawkesbury, NS 20%

"We have exceeded our target in 2003 by acquiring 1,489 units during the year."



1800 Wholly Owned Units in 17 Communities

**% Revenue is the location's contribution to the 2003 Revenue*

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 discussion should be read in conjunction with material contained in other parts of the Annual Report, the Company's audited consolidated financial statements for the years ended December 31, 2003 and 2002 and the Annual Information Form. The discussions in this MD&A are based on information available at March 5, 2004.

The MD&A will be presented in the following structure:

Corporate Mandate and Overview provides an overview of the Company, as well as discussion of the significant developments during 2003.

Financial Performance Summary provides a high-level overview of the Company's performance in 2003. Please note that a more detailed discussion of the results is provided in latter sections of the MD&A.

Financial Statement Analysis provides an analysis of the financial performance of the Company for 2003.

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.

Future Objectives provides an overview of the Company's key performance targets for 2004.

Forward-looking Statements

Certain statements in this Annual Report 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.

Readers are cautioned not to place undue reliance on forward-looking statements. A number of important factors, as discussed herein, and in our other continuous disclosure documents, could cause actual results to differ materially from those expressed in such forward-looking statements. Such factors include, but are not limited to, the following:

- *We may be unsuccessful in managing our current growth in the number of properties acquired and the related growth of our business operations.*
- *Our existing and possible future expansion into new geographic market areas may not produce financial results that are consistent with our historical performance.*
- *We may not be able to locate suitable property acquisitions.*
- *We may have additional compliance costs due to changes in any municipal or other laws and regulations that govern the acquisition or sale of real estate or our failure to comply with any law or regulation.*
- *Renovation costs may exceed our original estimates or we may not lease-up properties under renovation on schedule, resulting in a lower than expected return on assets and return on equity.*
- *Occupancy rates and market rents may be adversely affected by local economic and market conditions, which are beyond our control.*
- *We may be unable to continue to locate external sources of liquidity on favorable terms to support our operations and acquisition and renovation strategies.*

We disclaim any intent or obligation to update or revise forward-looking statements.

Management's Discussion ***and Analysis:***

Corporate Mandate & Overview

Corporate Mandate

Killam Properties Inc. ("Killam") is a publicly traded real estate company focused on the acquisition, re-development and management of multi-family apartments and manufactured home communities in Atlantic Canada and Quebec. Killam's plan is to increase shareholder value by becoming the dominant owner of multi-family apartments and manufactured home communities, thereby growing earnings. Our employees and tenants are integral to achieving our mission. We endeavor to provide our employees with a challenging and fulfilling work environment that recognizes, attracts, and fosters highly motivated, high performing team members. For our tenants, we will provide a high–quality living environment and promptly address their needs with thoughtfulness and concern.

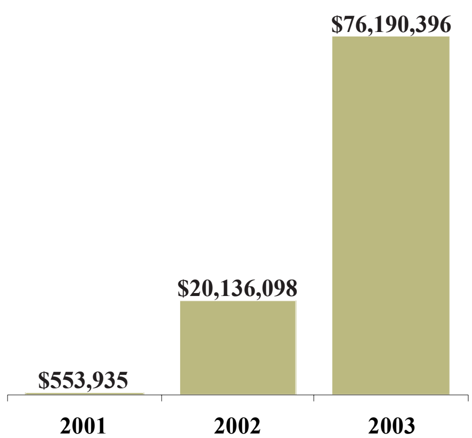
2003 Overview

2003 was a significant year for Killam. On April 4, 2003 Killam's shares were listed and posted for trading on the Toronto Stock Exchange. In November 2003 we completed a private placement of 21,000,000 shares for gross proceeds of $22,050,000 and had 48,038,674 shares issued and outstanding at December 31, 2003.

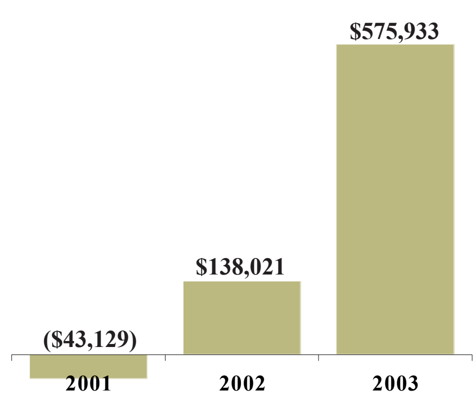
We have made significant progress in executing our growth and property management strategies over the past twelve months and owned a total of 1,800 multi-family units at year-end. Killam has grown from 311 apartment units at the start of the year to owning 999 apartment units as at December 31, 2003. In addition, during the first quarter of 2003 the Company entered the manufactured home community (MHC) sector and by year-end had completed 4 acquisitions representing 801 units.

We have also expanded our geographic reach during 2003 and own properties in our primary target markets of Halifax, Nova Scotia; Moncton and Saint John, New Brunswick; and St. John's, Newfoundland and Labrador. Subsequent to year-end we entered the Charlottetown, Prince Edward Island and Fredericton, New Brunswick markets.

Asset Growth



Funds From Operations



Management's Discussion *and Analysis:*

Financial Performance Summary

For the years ended December 31

	2003	2002	2001
Total assets	$76,190,396	$20,136,098	$553,935
Long-term debt	44,402,770	11,299,601	—
Shareholders' equity	30,619,723	8,529,395	541,743
Total revenue	5,175,505	1,460,392	15,718
Net (loss) income	(96,377)	83,443	(46,305)
Funds from operations	575,933	138,021	(43,129)
Net (loss) income per share - basic	(0.0033)	0.0062	(0.01)
- fully diluted	(0.0031)	0.0056	(0.01)

Total Assets increased by 278% as a result of completing 11 acquisitions in 2003. These acquisitions added 1,489 units to our rental portfolio.

Total Revenue increased by 254% driven by the unit growth during 2003.

Net Loss of $96,377 is largely caused by *(i)* a one-time charge of approximately $114,000 to obtain our Toronto Stock Exchange listing *(ii)* the Company's $22 million equity offering in November 2003 resulted in an additional $44,000 of large corporation tax; and *(iii)* additional management personnel hired in the last quarter of 2003 to support our growth in the first half of 2004.

Funds from Operations (FFO) increased by $437,900 as a result of the increase in rental portfolio. Excluding the one-time TSX listing costs, FFO for 2003 was approximately $689,900.

For the periods ended

(unaudited)

	2003				2002			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Total Revenue	1,976,424	1,436,843	1,079,056	683,182	493,384	425,727	381,875	159,406
Net (Loss) Income	(154,146)	81,885	28,619	(52,735)	(22,595)	43,343	26,495	36,200
Per share basic	(0.0041)	0.0031	0.0011	(0.0020)	(.0016)	.0038	.0026	.0045
Per share fully diluted	(0.0038)	0.0029	0.0010	(0.0017)	(.0014)	.0034	.0023	.0041
Funds from Operations	178,009	245,801	155,904	(3,781)	(5,349)	56,334	40,712	46,324
Per share basic	0.0048	0.0092	0.0058	(0.0001)	(.0004)	.0049	.0040	.0057
Per share fully diluted	0.0044	0.0086	0.0055	(0.0001)	(.0003)	(.0044)	.0035	.0052
Total Assets	76,190,396	44,524,865	33,013,421	24,357,213	20,136,098	12,396,045	10,748,055	10,406,851
Shareholders' Equity	30,619,723	9,116,143	9,000,236	8,771,617	8,529,395	3,140,767	2,967,423	2,517,612

Management's Discussion *and Analysis:*

Financial Statement Analysis

Consolidated Statement of Income

Revenue

The revenue amounts discussed in the MD&A exclude interest income. As the Company raises capital it will have, from time to time, excess funds invested. These funds are invested in low-risk interest-bearing investments or bank deposits. Rental revenue for the year ended December 31, 2003, was $5,081,691 compared to 2002 revenue of $1,445,926, an increase of 251%. The increase is due primarily to the completion of accretive acquisitions over the past twelve months.

The number of months that each property contributed to revenue in 2003 is noted below.

Property	Units	Months Contributed to Revenue
Cambridge Court	45 units	12 months
Cambridge Place	63 units	12 months
75 Knightsridge Drive	41 units	12 months
Carleton Towers	60 units	12 months
Sydney Arms	54 units	12 months
Lakeview Estates	48 units	12 months
White Frost Estates	211 units	9.3 months
Valley View Hills	195 units	9 months
Glenbourne Gardens	76 units	8.5 months
Glen Aire Estates	236 units	7.3 months
Cardeil Estates	159 units	7.3 months
Kent Street	139 units	5 months
Cameron Street	81 units	4 months
Fort Howe	153 units	2 months
Mount Pleasant Manor	100 units	1 month
Ridgeview Terrace	59 units	1 month
Glenforest Apartments	80 units	0.5 months

The annualized rental revenue of the above noted properties is approximately $9 million based on the rental and vacancy rates as at December 31, 2003. Killam, as with all real estate rental operators, is sensitive to vacancy rates. Based on our current rents, a 1% increase in all vacancy rates would impact the annualized rental revenues by $90,000.

Management's Discussion ***and Analysis:***

Financial Statement Analysis (continued)

Property Operating Expenses

Property operating expenses were $2,102,768 in 2003 compared to $574,983 in 2002. Operating expenses include property taxes, utilities, salaries and benefits for employees at the property level, repair and maintenance, insurance and advertising.

Property operating expenses were higher year-to-date compared to the same period in 2002, due primarily to the increase in the size of the portfolio. Property operating expenses as a percentage of rental revenue were 41.4% in 2003 versus 39.8% in 2002. This percentage has increased in 2003 due largely to a particularly harsh winter in the first quarter of 2003 that saw energy costs increase significantly.

Mortgage and Loan Interest

Killam's strategy is to finance 75% of the purchase price of properties it acquires. Financing expenses were higher in 2003 compared to the prior year due to the increase in the mortgage portfolio related to acquisitions. Financing costs on the Corporation's debt totaled $1,643,788 in 2003, compared to $445,908 in 2002. Killam's weighted average cost of debt at December 31, 2003 and 2002 was 6.4%. Financing costs as a percentage of rental revenue were 32.3% in 2003 compared to 30.8% last year.

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 all of Killam's debt at December 31, 2003 would increase financing costs by approximately $440,000 per year.

Amortization Expense

Generally, multi-family residential property assets have appreciated in value over time. However, generally accepted accounting principles (GAAP) require that an annual charge for amortization be estimated. Killam amortizes its building assets using the sinking fund method whereby an increasing amount is charged to income over the estimated life of the building. Other assets are amortized over their useful lives on the declining balance method as described in Note 2 to the consolidated financial statements. Amortization in 2003 was $654,797 compared to $72,578 in 2002. The increase in the amortization expense of buildings and other assets is largely the result of acquisitions over the last year.

General and Administrative Expenses

General and administrative expenses include expenses which are not specific to an individual property. These expenses include management salaries and benefits, office rent, communication costs, office equipment leases and other head office expenses. Salaries and benefits for head office personnel increased $148,356 over 2002. The significant increase was a result of hiring additional personnel in 2003 to handle the management and accounting for the additional properties added in 2003 and our anticipated 2004 acquisitions. As noted previously, the Company obtained its TSX listing in 2003 and the cost incurred of $113,996 was required under GAAP to be expensed versus charged to share capital. This cost was in addition to the annual fees paid to maintain Killam's listing.

Management's Discussion *and Analysis:*

Financial Statement Analysis (continued)

Professional Fees

Professional fees for 2003 were $140,954 compared to $31,606 for 2002. Professional fees include all legal and accounting fees (including audit fees) not associated with the acquisition of properties. In 2004 it is anticipated that much of the work previously performed by outside professionals will be completed by Killam staff.

Provincial Large Corporation Tax (Capital Tax)

The Company is required to pay provincial capital tax in Nova Scotia and New Brunswick based on the total taxable capital invested in those provinces. Total taxable capital invested includes mortgages and share capital as at December 31, 2003 and is not a function of the time the capital is invested. As a result of the Company's November 2003 share offering which totaled $22 million, its capital tax base increased and this resulted in approximately $24,000 of additional provincial capital tax being paid in 2003. These taxes are deductible for provincial and federal income tax purposes and the benefit of this deduction is included in Income Tax as discussed below.

Income Tax

Included in income tax expense for 2003 is current tax expense of $41,500 representing federal large corporation's tax. The increase from 2002 is a result of the increased capital tax base discussed previously. This expense is expected to decrease in 2004 as the federal government's large corporation's tax exemption will increase effective January 1, 2004. In addition, the Company has booked a future income tax expense of $17,513 in 2003.

Consolidated Balance Sheet

Capital Assets

Capital assets increased to $61,691,185 from $15,835,761, as a result of 11 acquisitions totaling 1,489 units in 2003. The following table sets out a summary of those acquisitions:

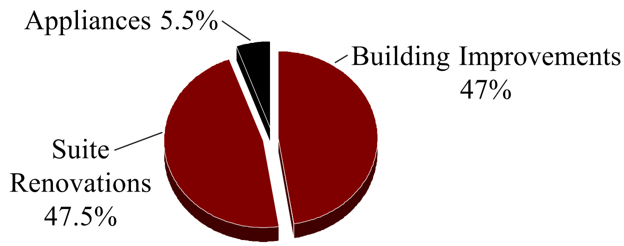
Property	Type	Location	Units
White Frost	MHC	Moncton, NB	211
Valley View	MHC	New Minas, NS	195
Glenbourne	Apartment	Halifax, NS	76
Cardiel	MHC	Port Hawsbury,NS	159
Glen Aire	MHC	Antigonish, NS	236
Kent	Apartment	Halifax, NS	139
Cameron	Apartment	Moncton, NB	81
Fort Howe	Apartment	Saint John, NB	153
Mount Pleasant	Apartment	St. John's, NL	100
Ridgeview	Apartment	Grand Falls, NL	59
Glenforest	Apartment	Halifax, NS	80

Management's Discussion *and Analysis:*

Financial Statement Analysis (continued)

Capital Assets (continued)

The Company has invested significantly in capital improvements to the properties. During 2003 the Company spent approximately $1,197,000 on building and suite improvements and well as appliances and other equipment.



Deferred Financing

Deferred financing are costs associated with obtaining financing for the properties. These costs are deferred and amortized over the term of the mortgages. The significant increase in 2003 is a result of the increased portfolio.

Mortgages Payable

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. All debts are secured by a first or second charge against the individual properties. Mortgages and vendor-take-back mortgages totaled $44,402,770 at December 31, 2003 versus $11,299,601 at December 31, 2002. The significant increase is due to the continued growth of the Company.

The Company reviews the maturity dates of its mortgages to reduce the overall interest rate risk. Killam's weighted average interest rate of 6.4% has remained steady as at December 31, 2003 and 2002. However, the Company has a number of mortgages due in early 2004 which it expects to refinance at a reduced rate of interest. In addition, new acquisitions in 2004 are being financed at rates of approximately 5 - 5.5%.

Debt Maturity Schedule

Fiscal Year	Mortgage Balance Dec. 31, 2003 (000's)	Average Int. Rate %
2004	6,711	6.37
2005	1,824	6.92
2006	2,000	7.14
2007	2,101	6.61
2008	15,141	5.86
2009	1,700	7.51
2010	2,778	7.14
2011	—	—
2012	—	—
2013	7,954	6.29
Thereafter	4,194	6.94

Management's Discussion *and Analysis:*

Financial Statement Analysis (continued)

Consolidated Statement of Cash Flows

Operating Activities

Funds from Operations

The Company uses funds from operations (FFO) as a basis for measuring operating performance. The reader is cautioned that FFO is not a defined term under generally accepted accounting principles (GAAP). This measure is not a cash flow from operations as defined by GAAP and is not necessarily indicative of cash available to fund cash needs. A number of multi-family real estate companies use this measure however; the reader is cautioned that Killam's calculation of FFO may be different from other companies. Killam calculates FFO as net income plus amortization of capital assets and future income tax expense (recovery).

For the year ended December 31, 2003 the Company's FFO was $575,933 compared to $138,021 for the year ended December 31, 2002. The increase is due to the expanded portfolio in 2003. Excluding the Company's initial TSX listing costs, FFO would have been 689,929.

Financing Activities

Capital Stock

On November 14, 2003 the Company completed a private placement agreement whereby the Company issued 21,000,000 common shares for proceeds of $22,050,000 less issuance costs of approximately $1,595,000. In addition, the Company issued 920,000 common share warrants to the private placement agent as part of the agreement at an exercise price of $1.15. These warrants expire December 31, 2004. The Company also utilizes shares to fund portions of certain acquisitions and during 2003 the Company issued 685,300 shares to fund $742,420 worth of acquisition price for properties. As the issuance of these shares is considered a non-cash transaction they are excluded from the cash flow statement.

Financing of Capital Assets

During 2003 the financing of new acquisitions and the re-financing of existing properties totaled $33,786,790 compared to $11,426,733 in 2002. See the discussion regarding Mortgages Payable elsewhere in the MD&A for a further discussion of financing.

Investing Activities

As discussed earlier in the MD&A, the Company completed the acquisition of 11 properties representing 1,489 units in 2003. This compares to 6 properties representing 311 units in 2002. In addition, the Company completed approximately $1,197,000 of capital improvements in the year. As discussed in the financing activities section above, the purchase of capital assets amount in the cash flow statement is shown net of the value of shares issued to complete the acquisitions.

Management's Discussion *and Analysis:*

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 flows 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, 2003, the Company had available approximately $12.3 million in cash remaining from its November 2003 private placement. The Company also has an acquisition bridge facility available that consists of a $5 million revolving secured facility bearing interest at the greater of prime plus 4.5%, or 9.5%. As well, it has a $10 million non-revolving term facility to fund one-time, strategic portfolio acquisitions, bearing interest at the greater of prime plus 7%, or 12%. These facilities provide the Company with the capacity to acquire an additional $109.2 million in assets. In addition, the Company is reviewing mortgages that are maturing in 2004 to re-finance these properties up to 75% of their values which would free up additional capital resources of approximately $1,200,000.

It is expected that outside sources of debt and additional equity capital, if needed, will be available to finance additional property acquisitions. The form of the financing will vary depending upon prevailing market and other conditions, and may include short-term or long-term borrowings from financial institutions, or the issuance of additional equity or debt securities.

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 with general economic conditions in the real estate sector. Specific risks focus more on credit risk, market risk, supply risk, interest risk, rent control risk and utility and property tax risk. The following will address each of these risks in 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 (e.g. the availability and the cost of mortgage funds), (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 tenancy legislations), (iv) competition from others with available space, and (v) the ability of the landlord or owner to provide adequate maintenance economically.

Environmental Risk: Killam is not aware of any material noncompliance with environmental laws at any of its properties. The Corporation has made, and will continue to make, the necessary capital expenditures for compliance 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. Compliance with more stringent environmental laws and regulations could have a material adverse effect on Killam's business, financial condition, or results of operation.

Management's Discussion *and Analysis:*

Risk Management (continued)

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 apartment properties in premier locations in each market in which it operates, some of the apartments or MHC's 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.

Market Risk is the risk that the Company could be adversely affected due to market changes in product supply, interest rates and regional rent controls. Killam's principal exposures to market risk are in the areas of new multi-family housing supply, changes to rent controls, utility price increases, property tax increases, higher interest rates and mortgage renewal risk.

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 pressure on rents. No sign of significant new rental construction is currently evident in any of Killam's existing markets.

Interest 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 mortgage maturity 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 these risks 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, Prince Edward Island is the only province in which the Company operates that has rent controls. The Company believes that rent controls are not an increasing trend in its markets.

Management's Discussion *and Analysis:*

Risk Management (Continued)

Utility and Property Tax Risk relates to the potential loss the Corporation may experience as a result of higher 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 higher reassessments and/or tax rates. To address this risk, Killam, along with the assistance of outside consultants, 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. Any significant increase in these costs that Killam cannot pass on to its tenants may have a negative impact on the Company. Killam has the ability to increase rents to offset some of these increases.

Accounting Estimates and Policies

The Company's accounting policies are described in Note 1 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. The key estimate that management makes is regarding the amortization of its building assets. In 2003 and 2002 the Company used the sinking fund method to amortize these assets (see Note 2 for a further description of this method). On January 1, 2004 the Company will change its building amortization policy, as required by GAAP, to the straight-line method. This change will be applied prospectively in accordance with the transitional requirements of the CICA Handbook section 1100. The effect of this change cannot be reasonably estimated as the Company has added and will continue to add a significant number of assets to its portfolio during 2003 and will continue to add to its portfolio in 2004.

Future Objectives

Killam achieved a year of significant growth in 2003. In 2004, we will continue to focus on acquiring solid performing assets as a means of realizing our goals. The Company anticipates that it will acquire a minimum of 2,000 units in 2004 based on its existing capital resources.

The benefit of a full year of ownership of our current properties will result in rental revenues of approximately $9 million based on December 31, 2003 rental and vacancy rates. We expect increased rental incomes from our existing properties as the market rent in Killam's markets are generally above our rates. This will be achieved through lease renewals and at unit turn-over. In addition, we anticipate that our acquisition strategy will result in additional accretive rental revenues.

As we enter into our third year of owning and managing certain properties, Killam will begin to review its results on a property by property basis (i.e. same store sales) for stabilized properties (properties we have owned for 24 months). This will provide management with valuable feedback on the results of its management expertise in effectively executing its strategies.

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 described 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 appropriate 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, which responsibility it carries out principally through its Audit Committee.

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

Philip Fraser
President and CEO

Robert Richardson, CA
Executive Vice-President and CFO

March 5, 2004

Auditors' *Report*

To the Shareholders of
Killam Properties Inc.

We have audited the consolidated balance sheets of **Killam Properties Inc.** as at December 31, 2003 and 2002 and the consolidated statements of (loss) income and (deficit) retained earnings 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, 2003 and 2002 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

Halifax, Canada
March 5, 2004

Chartered Accountants

CONSOLIDATED BALANCE SHEETS

As at December 31

	2003 $	2002 $
ASSETS		
Capital assets *[notes 4 and 5]*	**61,691,185**	15,835,761
Cash and cash equivalents *[note 3]*	**13,183,560**	4,101,874
Accounts receivable	**45,090**	3,055
Prepaid expenses	**129,963**	128,968
Deferred financing costs (net)	**397,857**	28,440
Refundable deposits	**11,000**	11,000
Future income taxes *[note 9]*	**731,741**	27,000
	76,190,396	20,136,098
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-term debt *[note 5]*	**36,691,071**	11,057,870
Accounts payable and accrued liabilities	**769,296**	213,415
Corporate taxes payable	**43,937**	68,729
Current portion of long-term debt *[note 5]*	**7,711,699**	241,731
Security deposits	**157,764**	15,958
Future income taxes *[note 9]*	**196,906**	9,000
	45,570,673	11,606,703
Shareholders' Equity		
Capital stock *[note 7]*	**30,687,095**	8,500,390
(Deficit) retained earnings	**(67,372)**	29,005
	30,619,723	8,529,395
	76,190,396	20,136,098

See accompanying notes

On behalf of the Board

G.W. Watson   Philip Fraser

G. Wayne Watson
Director

Philip D. Fraser
Director

CONSOLIDATED STATEMENTS OF (LOSS) INCOME AND (DEFICIT) RETAINED EARNINGS

For the year ended December 31

	2003	2002
	$	$
Revenue		
Rental	**5,081,691**	1,445,926
Interest	**71,440**	8,470
Other	**22,374**	5,996
	5,175,505	1,460,392
Property Expenses		
Property operating expenses	**2,102,768**	574,983
Mortgage and loan interest	**1,643,788**	445,908
Amortization	**654,797**	72,578
	4,401,353	1,093,469
Earnings from property operations	**774,152**	366,923
Other expenses		
General and administrative:		
Salaries and benefits	**272,685**	124,329
Other	**199,096**	75,829
TSX initial listing costs	**113,996**	—
Professional fees	**140,954**	31,606
Provincial capital taxes	**71,000**	46,592
Interest and bank charges	**13,785**	987
	811,516	279,343
(Loss) income before income taxes	**(37,364)**	87,580
(Provision for) recovery of income taxes *[note 9]*		
Current	**(41,500)**	(22,137)
Future	**(17,513)**	18,000
Net (loss) income	**(96,377)**	83,443
Retained earnings (deficit), beginning of year	**29,005**	(54,438)
(Deficit) retained earnings, end of year	**(67,372)**	29,005
Net (loss) income per share *[note 10]* - basic	**($0.0033)**	$0.0062
- diluted	**($0.0031)**	$0.0056

See accompanying notes

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31

	2003 $	2002 $
OPERATING ACTIVITIES		
Net (loss) income	**(96,377)**	83,443
Add items not affecting cash		
Amortization	**654,797**	72,578
Future income taxes	**17,513**	(18,000)
Funds from operations	**575,933**	138,021
Net change in non-cash working capital items related to operations	**629,865**	268,812
Cash provided by operating activities	**1,205,798**	406,833
FINANCING ACTIVITIES		
(Increase) decrease in deferred financing costs	**(510,462)**	170,823
Issue of common shares for cash (net of issue costs)	**20,501,220**	5,835,176
Repayment of long-term debt	**(683,621)**	(127,132)
Issuance of long-term debt	**33,786,790**	11,426,733
Cash provided by financing activities	**53,093,927**	17,305,600
INVESTING ACTIVITIES		
Purchase of capital assets	**(45,218,039)**	(13,849,461)
Cash used in investing activities	**(45,218,039)**	(13,849,461)
Net increase in cash and cash equivalents	**9,081,686**	3,862,972
Cash and cash equivalents, beginning of year	**4,101,874**	238,902
Cash and cash equivalents, end of year	**13,183,560**	4,101,874
Cash interest paid	**1,459,907**	399,322
Cash taxes paid	**137,292**	—

See accompanying notes

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-family apartment buildings and manufactured home communities.

The Company was incorporated on May 26, 2000 under the Canada Business Corporations Act. On October 26, 2000, the Company filed a prospectus and subsequently made an initial public offering. The Company's common shares were listed and posted for trading on the TSX Venture Exchange on December 21, 2000. On April 4, 2003, the Company's common shares were posted and listed for trading on the Toronto Stock Exchange.

2. Summary of Significant Accounting Policies

Basis of presentation
These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and the recommendations of the Canadian Institute of Public and Private Real Estate Companies. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Killam Properties Apartments Trust, Killam Properties M.H.C. Trust and Killam Investments Inc.

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. The effective interest rate on these short-term investments is approximately 2.5%.

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.

Capital assets
Revenue producing real estate properties held as ongoing investments are stated at the lower of cost net of accumulated amortization and net recoverable amount. Net recoverable amount is the projected undiscounted net cash flow from use of the property together with residual value. 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.

notes to consolidated financial **statements**

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	5%	sinking fund, 40 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

The Company utilizes the sinking fund method of amortization for its buildings. The sinking fund method charges amortization to income at an amount which increases annually, consisting of a fixed annual sum together with a factor compounded at the rate of 5% per annum so as to fully amortize the buildings over their estimated useful lives of 40 years.

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.

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.

Financial Instruments

Financial Instruments are defined as a contractual right to receive or deliver cash or another financial assets. The fair values of the Company's financial instruments, except for long-term debt, approximates their recorded values at December 31, 2003 and 2002 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 $45,153,000 (2002 - $11,570,000) based on these estimates.

notes to consolidated financial **statements**

2. Summary of Significant Accounting Policies (continued)

Risk management
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. 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.

Stock options
During 2002, the Company adopted Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments.*

The Company has established a stock-based compensation plan, which is a common share option plan granting options at no less than the trading value of the Company's common shares at the date of granting such options to certain employees, directors, and officers. As permitted by the recommendations, no compensation expense is recognized for this plan when stock options are issued. However, as required by the recommendations, the Company discloses pro-forma net income (loss) and pro-forma net income (loss) per share using the fair market value method of accounting for stock based compensation awards (note 8). Any consideration paid on exercise of stock options is recorded as an increase in share capital.

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.

notes to consolidated financial **statements**

3. Cash and Cash Equivalents

	2003 $	2002 $
Cash	**12,581,946**	3,510,025
Restricted cash	**601,614**	183,379
Short-term investments	**—**	408,470
	13,183,560	4,101,874

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

4. Capital Assets

	2003		2002	
	Cost $	**Accumulated Amortization** $	Cost $	Accumulated Amortization $
Land	**6,036,768**	**—**	1,575,865	—
Buildings	**47,680,289**	**254,348**	14,206,798	44,858
Roads and Driveways	**3,524,751**	**70,495**	—	—
Water and Sewer	**3,551,753**	**106,553**	—	—
Suite Renovations	**601,407**	**66,154**	33,405	—
Project Improvements	**572,368**	**29,502**	9,306	465
Other Assets	**302,782**	**51,881**	75,569	19,859
	62,270,118	**578,933**	15,900,943	65,182
Less: accumulated amortization	**(578,933)**		(65,182)	
	61,691,185		15,835,761	

notes to consolidated financial **statements**

5. Long-Term Debt

Mortgages payable of $41,702,770 (2002 - $10,499,601) bear interest at fixed rates from 5.7% to 7.51% with maturity dates ranging from May 2004 to July 2019. Vendor mortgages payable of $2,700,000 (2002 - $800,000) bear interest at fixed rates from 7.0% to 8.0% with maturity dates ranging from November 2004 to October 2006. All mortgages are secured by a first or second charge on the revenue producing real estate properties of the Company.

The weighted average mortgage rate at December 31, 2003 and 2002 was 6.4%.

Principal repayments of mortgages are due as follows:

Year	**2004**	**7,711,699**
	2005	**2,612,667**
	2006	**2,672,937**
	2007	**2,678,001**
	2008	**14,351,201**
	Thereafter	**14,376,265**
		44,402,770
Less: current portion		**7,711,699**
		$36,691,071

6. 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 lenders' prime plus 1%. As at December 31, 2003 the Company had a $Nil balance (December 31, 2002 - $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) $5,000,000 revolving secured facility to fund asset acquisitions, bearing interest at the greater of prime plus 4.5% or 9.5% plus a 1% fee on undrawn amounts (expensed monthly). This facility also had a commitment fee whereby the Company issued 500,000 warrants to the lender to acquire common shares of the Company. As at December 31, 2003 the Company had a $Nil balance (December 31, 2002 - $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

notes to consolidated financial **statements**

6. Credit Facilities (continued)

(b) $10,000,000 non-revolving term facility to fund one-time, strategic portfolio acquisitions, bearing interest at the greater of prime plus 7% or 12%. The Company will also pay a 1% fee for the drawn amount, payable on funding, under this facility. As at December 31, 2003, the Company had borrowed $Nil (December 31, 2002 - $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

7. 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:

	2003		2002	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**26,210,874**	**$ 8,500,390**	4,750,000	$596,181
Issued for cash (i)	**21,000,000**	**20,454,970**	12,906,666	5,637,950
Issued on property acquisitions (ii)	**685,300**	**740,026**	7,826,554	2,069,033
Stock options exercised	**142,500**	**46,250**	—	—
Warrants exercised (iii)	**—**	**—**	727,654	197,226
Tax benefit of share issuance costs	**—**	**945,459**	—	—
Balance, end of year	**48,038,674**	**$30,687,095**	26,210,874	$8,500,390

(i) Net of issuance costs of $1,595,029 (2002 - $534,050)
(ii) Net of issuance costs of $2,394 (2002 - $343,933)
(iii) Net of issuance costs of $Nil (2002 - $1,070)

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 consideration. The number of shares issued is based on the trading value of the shares prior to closing the acquisition.

The 21,000,000 shares issued in 2003 are subject to a four month hold period which expires on March 15, 2004.

notes to consolidated financial **statements**

7. Capital Stock (continued)

As of December 31, 2003, there are a total of Nil (2002 – 3,831,250) common shares held under escrow agreements dated October 26, 2000, and February 22, 2002. The above escrow agreements covered common shares that were eligible for release over 36 months from the completion date of the qualifying transaction, which occurred on February 22, 2002, or upon listing on the Toronto Stock Exchange ("TSX"). Upon graduation from the TSX Venture Exchange to the TSX, a total of 1,787,916 common shares were released from escrow on April 28, 2003. The remaining common shares held in escrow were released during the period April 28 to September 6, 2003.

8. 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 the aggregate number of 2,525,000 (December 31, 2002 – 1,375,000) 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 TSX; 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 TSX.

Options granted and exercised are as follows:

	2003		2002	
	Number of Shares	**Weighted Average Exercise Price $**	Number of Shares	Weighted Average Exercise Price $
Outstanding, beginning of year	**1,335,500**	**.26**	475,000	.20
Granted	**859,000**	**.67**	860,500	.30
Exercised	**(142,500)**	**.32**	—	—
Outstanding, end of year	**2,052,000**	**.43**	1,335,500	.26

notes to consolidated financial **statements**

8. Stock Options and Warrants (continued)

The following table summarizes the stock options outstanding at December 31, 2003 and 2002:

	2003		2002	
Exercise prices	**Number of Options Outstanding**	**Remaining Contractual Life**	Number of Options Outstanding	Remaining Contractual Life
$0.20	**475,000**	**1.95 years**	475,000	2.95 years
$0.30	**673,000**	**3.40 years**	698,000	4.40 years
$0.30	**55,000**	**3.44 years**	162,500	4.44 years
$0.56	**200,000**	**4.44 years**	—	
$0.65	**609,500**	**4.44 years**	—	
$1.30	**10,000**	**4.92 years**	—	
$1.69	**29,500**	**4.96 years**	—	
	2,052,000		1,335,500	

Included in the above figures are 16,000 options at an average exercise price of $1.50 that were not exercisable at December 31, 2003, as they had not vested (December 31, 2002, NIL options).

Warrants

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

	2003		2002	
	Number of Shares	**Weighted Average Exercise Price $**	Number of Shares	Weighted Average Exercise Price $
Outstanding, beginning of year	**791,000**	**.50**	—	
Issued during the year	**1,420,000**	**1.08**	791,000	.50
Outstanding, end of year	**2,211,000**	**.87**	791,000	.50

The warrants issued during the year consisted of 500,000 warrants at $0.95 issued upon obtaining the credit facility which expire August 27, 2008 and 920,000 warrants of $1.15 issued on the Company's November 2003 share offering which expire December 31, 2004. Warrants issued in 2002 of 791,000 at $0.50 related to the Company's November 2002 share offering and expire November 19, 2004.

notes to consolidated financial **statements**

8. Stock Options and Warrants (Continued)

The table below presents pro-forma net (loss) income, basic net (loss) income per share and diluted net (loss) income per share using the fair market value method of accounting for stock-based compensation. The pro-forma adjustments presented below pertain to new awards granted since adoption of the new recommendations for accounting for stock-based compensation on January 1, 2002 as described in note 2.

	2003	2002
Pro-forma net (loss) income applicable to common shares:		
Reported net (loss) income	**$ (96,377)**	$83,443
Pro-forma adjustments	**(210,021)**	(25,255)
Pro-forma net (loss) income applicable to common shares	**$(306,398)**	$58,188
Basic:		
Average number of common shares outstanding	**29,226,195**	13,396,825
Pro-forma (loss) earnings per share	**$(0.01)**	$0.004
Diluted:		
Average number of common shares outstanding	**29,226,195**	13,396,825
Impact of outstanding stock options	**1,934,410**	1,602,647
	31,160,605	14,999,472
Pro-forma (loss) earnings per share	**$(0.0098)**	$0.004

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

	2003	2002
Expected volatility	**53.5%**	88.4%
Risk-free intrest rate	**3.5%**	4.304.9%
Expected lives	**1-5 years**	1-5 years
Expected dividend yield	**nil**	nil

notes to consolidated financial **statements**

9. Income Taxes

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

	2003		2002	
	$	**%**	$	%
Net (loss) income before taxes	**(37,364)**		87,580	
Income taxes, at statutory rates	**(13,824)**	**37.0**	35,820	40.9
Federal large corporations tax	**41,500**	**(111.0)**	22,137	25.3
Other differences	**31,337**	**(83.9)**	(6,820)	(7.8)
Benefit of non-capital losses carried forward	—	—	(47,000)	(53.7)
	59,013	**(157.9)**	4,137	4.7
Consists of:				
Provision for income taxes – current	**(41,500)**		(22,137)	
Provision for income taxes – future	**(17,513)**		18,000	
	59,013		4,137	

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:

	2003	2002
	$	$
Share issue costs	**685,485**	—
Capital assets	**(196,906)**	27,000
Deferred charges	—	(9,000)
Loss carryforward	**46,256**	—
Net future income tax asset	**534,835**	18,000

The loss carryforwards expire from 2008 to 2010.

notes to consolidated financial **statements**

10. Per Share Information

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

	2003	2002
Basic	**29,226,195**	13,396,825
Fully diluted	**31,160,605**	14,999,472

11. Segmented Information

During 2003, the Company operated in two segments of the multi-family residential industry: multi-family apartments and manufactured home communities. Prior to 2003 the Company had only one segment.

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 year ended December 31, 2003 are set out as follows:

	Multi-family Apartments $	Manufactured Home Communities $	Corporate $	Total $
Revenue	4,126,435	978,869	70,201	5,175,505
Property operating expenses	1,713,404	389,364	—	2,102,768
Mortgage and loan interest	1,342,939	300,849	—	1,643,788
Earnings from property operations prior to amortization	1,070,092	288,656	70,201	1,428,949
Capital assets (net)	53,668,457	7,840,612	182,116	61,691,185

Reconciliation to consolidated financial statements:

Earnings from property operations prior to amortization (per above)	$ 1,428,949
Amortization	654,797
Earnings from property operations	$ 774,152

notes to consolidated financial **statements**

12. Subsequent Events

During the period of January 1 to March 5, 2004 the Company completed six property acquisitions representing 372 units. The total purchase price of the acquisitions was $17,482,500 paid as follows:

Cash	$11,268,272
Assumption of mortgages	5,008,000
Vendor-take-back mortgages	600,000
Issuance of common stock	606,228
	$17,482,500

Subsequent to the acquisitions the Company placed mortgage financing of approximately $7,205,000 on the properties that were purchased debt free or had less than 75% of the purchased price financed.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for 2003.

Board of ***Directors:***

Timothy R. Banks, Charlottetown, Prince Edward Island[2] Mr. Banks is President and owner of the APM Group of Companies, and has extensive experience in the construction, development and management of retail, industrial and residential real estate throughout Atlantic Canada.

Philip D. Fraser, Halifax, Nova Scotia[3] Mr. Fraser is President and Chief Executive Officer of Killam Properties Inc. Mr. Fraser is also a director of the Company's 100% owned subsidiaries.

Robert G. Kay, Moncton, New Brunswick[1] Mr. Kay is Chairman of Springwall Group International and of Springwall Sleep Products, Inc., one of Canada's largest mattress manufacturers. Mr. Kay is a past board member of the Canadian Federation of Independent Business.

James C. Lawley, Halifax, Nova Scotia[1] Mr. Lawley is General Manager of Scotia Fuels Ltd., a residential fuel oil supplier based in Halifax, and is an owner of a number of operating businesses throughout Atlantic Canada.

Arthur G. Lloyd, Calgary, Alberta[2] Mr. Lloyd is the former President and Chief Operating Officer of TGS North American REIT in Calgary, Alberta and prior to that was a Senior Vice President with TrizecHahn Corporation.

Barry Reichmann, Toronto, Ontario Mr. Reichmann is President, Co-Chief Executive Officer and a Trustee of Retirement Residences Real Estate Investment Trust, Canada's largest provider of senior care and accommodation and is listed on the TSX. Mr. Reichmann is also a Trustee of IPC US Income Commercial Real Estate Investment Trust and a Trustee of Firm Capital Mortgage Investment Trust, both listed on the TSX.

George J. Reti, Calgary, Alberta[2][3] Mr. Reti is Chairman of the Board of Killam Properties Inc. and is the former Executive Vice President and a Director of Boardwalk Equities Inc. Currently, he is involved in real estate development projects in Western Canada, and provides independant consulting services in the commercial and residential real estate markets for private and public companies, as well as governmental institutions. Mr. Reti currently serves as a director of several other Canadian private and public companies.

Robert G. Richardson, Halifax, Nova Scotia Mr. Richardson is Executive Vice President and Chief Financial Officer of Killam Properties Inc. Mr. Richardson is also President of Compass Commercial Realty Limited, a commercial real estate brokerage and management company. Mr. Richardson was formerly the Director for Oxford Atlantic, a division of Oxford Properties Group.

G. Wayne Watson, Dartmouth, Nova Scotia[1] Mr. Watson is Vice President of Finance with CanJam Trading Limited and was formerly the Chief Financial Officer and Vice President, Finance of Fortis Inc., a TSX company with investments in electric utilities, commercial real estate and hotels. Mr. Watson has been a director of Canadian Niagara Power Corp. and Fortis Properties Corp.

[1]Audit Committee [2]Compensation Committee
[3]Corporate Governance Committee

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To receive email updates on Killam activities and press releases, please visit our web site and complete the email registry form.

WEB SITE: www.killamproperties.com

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Chairman of the Board

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President, Chief Executive Officer

Robert G. Richardson, B.Comm., C.A.
Executive Vice President, Chief Financial Officer

Ronald M. Barron, LLB
Corporate Secretary

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CORPORATE GOVERNANCE
Killam believes that effective corporate governance is critical to the continued and long-term success of the Company by helping to maximize shareholder value over time. For a detailed description of the Company's governance practices, please see the Management Proxy Circular.

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