KILLAM PROPERTIES INC

2004 ANNUAL REPORT

2004 FINANCIAL HIGHLIGHTS

$167 million in acquisitions

270% increase in revenue to $19.1 million

635% increase in funds from operations to $4.2 million

Our 2004 acquisitions enhanced the Company's portfolio in terms of geographic and asset diversification in our key markets. We have continued building our portfolio with a committed focus on quality and financial return that has served us well since the formation of Killam. We used our market knowledge, local presence and strong relationships to execute over 35 transactions throughout the year.

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Welcome home. Welcome to Killam.

Killam Properties Inc. is a publicly traded real estate company focused on the acquisition, redevelopment, and management of multi-family residential properties and manufactured home communities in Eastern Canada. Our mission is to increase shareholder value through strategic acquisition, proactive management, strong financial controls, and capitalizing on the power of our portfolio.

We understand two fundamental principles. The first is that our business is ultimately about people, not buildings. The second is that by providing for the human need for shelter, we can provide long-term value to our shareholders.

President's Message to Shareholders

On behalf of the Board of Directors, I am pleased to present Killam's 2004 Annual Report and a review of the last 12 months. We exceeded our acquisition target in 2004 by acquiring 4,333 units compared to 1,489 units acquired in 2003. Of the 4,333 units purchased, 3,063 were apartment units and 1,270 were Manufactured Home Community ("MHC") units comprising eight communities. The asset mix and geographic diversification that Killam has achieved ensure we are not overly exposed to any one sector.

Throughout 2004 we expanded our geographic reach and now have a presence in the six major Atlantic Canadian markets. As well, we acquired our first MHC asset in Niagara Falls, Ontario. We will continue to explore opportunities to acquire additional communities in this sector in Eastern Canada because of the stable cash flow and additional diversification it offers Killam.

Welcome home. Welcome to Killam

Killam continues to build its reputation as a quality landlord throughout Atlantic Canada. We have a disciplined program of maintenance and capital reinvestment in our properties. During 2004 we completed $4.1 million of renovation work on our portfolio and another $5 million is scheduled to be completed during 2005. The renovation work consists of improved landscaping and exterior maintenance, upgraded common areas, and renovated suites with new appliances, flooring and bathrooms. We have also implemented Killam's standard interior and exterior signage program to achieve a uniform portfolio presentation.

Strong Financial Management

During June 2004, we were successful in raising $44 million in new common equity capital that was immediately invested in a number of acquisitions that met our stringent investment hurdle requirements.

Killam also completed a significant number of mortgage debt financing transactions during 2004. In terms of debt service coverage ratios, Killam's balance sheet is stronger now than it has ever been. Approximately 95% of our mortgage debt is fixed and our average cost of mortgage debt has been reduced to 5.9% from 6.4% at the beginning of the year.

During the year Killam achieved a critical mass which will permit us to lower both per suite operating costs and general and administrative expenses as a percentage of rental revenue. We will keep pushing to optimize procurement, standardize our procedures and apply our best practices. We are pleased to note that properties we have owned for 24 months showed a decrease in operating costs. Properties generally take over a year

Building a Strategy for Managed Growth

What we do

At Killam, our strategy is to acquire, redevelop and manage apartment buildings and manufactured home communities profitably.

Where we're going

Our objective is to become the dominant owner in our market. By achieving this scale and presence, we will bring considerable value to our tenants and our shareholders.

Creating value

We create value by implementing standardized policies and procedures in acquiring, redeveloping and managing properties across Eastern Canada.

to stabilize and during 2005 there will be a growing number of properties which we will be analyzing on a same store basis.

Disciplined Growth

We were successful in acquiring $167 million of real estate in 2004 which tripled the size of the Company. The market for acquiring good quality apartment properties and manufactured home communities remains competitive as investment capital continues to be attracted to this sector. The long-term demographics are encouraging and are expected to generate strong operating and investment performance returns for the multi-family sector over the next decade.

Killam remains disciplined in its underwriting and acquisition strategy by conducting thorough due diligence on each acquisition and demanding all cash and leveraged returns that are accretive.

Strong Governance

We assure you Killam will continue to follow the best practices for corporate governance.

The majority of your Board has been in place since Killam's inception, when we owned just 311 units. The Board possesses extensive experience in apartment operations, real estate investment, public company governance, and capital market transactions. The Board's Committees are active in their oversight and specific responsibilities. As significant owners of Killam, the Board is very committed to growth and the creation of shareholder value and I am grateful for their guidance and insight.

Positioned for Growth

In closing I would like to thank everyone at Killam for their significant contributions in 2004. While we take pride in our record of performance last year, we understand our responsibilities are forward-focused.

Our diversification across our region, in two asset classes gives us a great operating platform for strong growth through 2005.

Philip Fraser

Philip Fraser
President & CEO
Killam Properties Inc.

Managed growth

By identifying and pursuing the acquisition of strategic apartment buildings and MHC's and other related opportunities, we manage growth as we pursue our goals.

Financial and Corporate Highlights

	2004	2003	2002
Revenues	**19,137,200**	5,175,505	1,460,392
Earnings from property operations	**11,034,817**	3,072,737	885,409
Total assets	**242,845,701**	76,190,396	20,136,098
Total long-term debt	**159,900,874**	44,402,770	11,299,601
Shareholder's equity	**77,974,544**	30,619,723	8,529,395
Shares outstanding at December 31	**74,856,631**	48,038,674	26,210,874
Number of units	**6,133**	1,800	311

Portfolio Growth

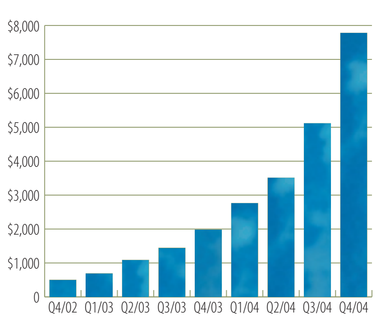
- Completed acquisitions totaling $167 million.
- Increased our total portfolio by 4, 333 units to 6,133 units at December 31, 2004.
- Continued our geographic diversification through apartment acquisitions in Charlottetown, Prince Edward Island, Sydney, Nova Scotia and Fredericton, New Brunswick. In addition we continued to grow our MHC business through acquisitions in a number of centers in Atlantic Canada and we entered the Southern Ontario market with our acquisition in Niagara Falls, Ontario.

Equity and Financing

- In June 2004 we completed a private placement of 23,160,500 common shares for gross proceeds of $44 million.
- Renewed and increased our acquisition credit facility to $20 million.
- Mortgage financing increased to $159.9 million and we reduced the weighted average cost of debt to 5.9%.

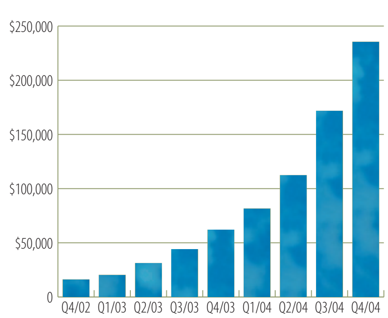
Revenue

(in thousands)

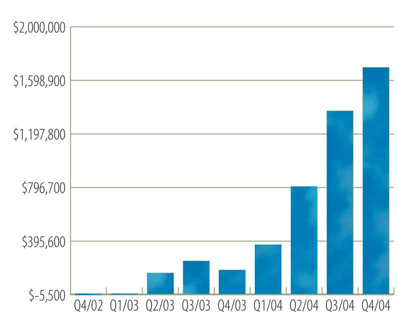


Capital Assets

(in thousands)



Funds From Operations



Strong Financial Management

Over the past year, we have raised $44 million in new capital that was immediately invested in a number of strategic acquisitions. At the same time, we have reduced the average cost of mortgage debt to 5.9% from 6.4% . Financially, we are well placed to continue pursuing our long-term objectives.

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

Turning Buildings into Homes

We have always been aware that the residential and MHC properties we own are homes to our residents – families, couples and individuals.

We invest in making sure every building provides more than just the necessities. Residents know they can turn to the building management and have any issue resolved promptly and thoroughly.

This creates tenant loyalty, and loyalty is what helps businesses grow during a good economic climate, and what allows it to weather difficult times.

By re-investing in our buildings, we maintain or increase property values and create steady, manageable growth. By taking care of our tenants, they take care of us. And that is a proven strategy for long term success.

Q&A

You acquired 4,333 units in 2004 – can Killam continue to grow?
Killam currently owns only 5% of the multi-family units in Atlantic Canada. Continued focus on this core market plus expansion into manufactured home communities in Southern Ontario should see Killam maintain its growth for the next several years.

Why own trailer parks? Do the tenants pay you rent?
MHC's (trailer parks) are a very complementary part of Killam's business. These communities are governed by the same provincial Tenancy Acts that govern apartment rentals, so the day-to-day operations are quite similar. Killam owns the land and rents the sites to the home owners. The added benefit for Killam is that we are not responsible for heating the homes and the unit upgrades as we would for an apartment complex.

You seem to be trading at a huge multiple of EPS? Why are your earnings per share so low even after all these acquisitions?
70% of Killam's assets have been owned for less than one year. It has been less than three years since Killam acquired its first property, and in that time, we have been committed to building our operating platform and growing our portfolio. We are just now reaching a critical mass that will sustain earnings.

Geographic Diversification

* See property listings on page 8 and 9.

You bought all these properties, can you manage them?
Killam has a dedicated team of 160 staff to manage its properties professionally. Killam recognized from the beginning that a hands-on management approach would give it a competitive leasing advantage and we have built the right team to accomplish exactly that.

Why are you not a REIT or paying dividends?
The consolidation opportunity remains in our market so Killam retains its earnings for accretive expansion of its portfolio.

What are the benefits of owning so much? Are there economies of scale?
There are significant economies of scale . The savings on energy, carpets, painting, and ground services are quite substantial. The savings in personnel costs for management of the properties are also considerable.

Property Portfolio

Where we live. Where we work.

Our connection to the communities where we own property in goes deeper than that of just a landlord. We live and work here. That gives us unique insight into local trends and opportunities. It also brings us closer to our residents and that's good for business.

Apartment Buildings

	Property	City	Units	Year Built	Average Monthly Rent
1	26 Alton Drive & 36 Kelly Street	Halifax	80	1969	530
2	3565 Connaught	Halifax	19	1958	653
3	Glenforest Apartments	Halifax	80	1969-1970	761
4	59 Glenforest/21 Plateau	Halifax	153	1978	615
5	Glenmoir Terrace	Halifax	28	1972	566
6	10/214 Harlington Crescent	Halifax	60	1978	637
7	175-211 Harlington	Halifax	60	1978	636
8	6 Jamieson	Halifax	24	1965	596
9	Kent Street	Halifax	139	late 1950s	749
10	75 Knightsridge	Halifax	41	1986	705
11	95 Knightsridge	Halifax	46	1984	748
12	Lakefront Apartments	Halifax	396	1954	620
13	294 – 300 Main	Halifax	58	1969-1970	585
14	Parkridge Place	Halifax	76	2002	866
15	Quinpool Towers	Halifax	233	1978	818
16	Shaunslieve	Halifax	92	1978	686
17	Victoria Gardens	Halifax	198	1954	621
18	Waterview Place	Halifax	82	1971	611
19	57 Westgrove Place	Halifax	41	1969	616
20	Cabot House	Sydney	88	1974	729
21	Moxham Court	Sydney	51	1998	803
22	100 Archibald	Moncton	60	2003	777
23	101 Archibald	Moncton	60	1993	664
24	Cambridge Court	Moncton	45	1994	766
25	Cambridge Place	Moncton	63	1995	928
26	Cameron Street	Moncton	81	1966/1967	537
27	276 - 350 Gauvin Road	Moncton	84	1991-1996	599
28	Gordon/Bonaccord Street	Moncton	41	1984/pre1950	578
29	Lakeview Estates	Moncton	48	1980/1981	546
30	Lorentz	Moncton	101	1969	620

Apartment Buildings (continued)

Property		City	Units	Year Built	Average Monthly Rent
31	1111 Main	Moncton	16	1957	1718
32	The Anchorage	Saint John	51	2003	836
33	Carleton Towers	Saint John	60	1968	561
34	Cedar Glen	Saint John	204	1977	500
35	Fort Howe Apartments	Saint John	153	1970	688
36	Parkwood Village	Saint John	205	1947	546
37	Sydney Arms	Saint John	54	1961	598
38	Woodhaven Apartments	Saint John	24	1977	468
39	Woodward Gardens	Saint John	99	1962	514
40	969 Regent	Fredericton	62	1997/2001	741
41	Venus Apartments	Fredericton	54	1965	719
42	116 & 126 Wilsey Road	Fredericton	48	1975	596
43	Forest Manor	St. John's	65	1978	523
44	Mount Pleasant Manor	St. John's	100	1976	532
45	Village Manor	St. John's	40	1978	540
46	Ridgeview Terrace	Grand Falls	59	1975	431
47	Terrace Apartments	Grand Falls	89	1970s to 1990s	652
48	DesBarres House	Charlottetown	51	1978	490

Manufactured Home Communities

Property		City	Province	Units	Average Monthly Rent	Acres
1	Fairview Estates	Halifax	NS	131	255	15
2	Maple Ridge Park	Halifax	NS	160	190	18
3	Heather Estates	Sydney	NS	217	145	72
4	Southgate/Brentwood/Fundy/Liberty	Amherst	NS	307	131	67
5	Glen Aire Estates	Antigonish	NS	236	151	130
6	Valley View Hills	New Minas	NS	195	134	50
7	Cairdeil Estates	Port Hawkesbury	NS	159	130	37
8	White Frost Estates	Moncton	NB	211	183	51
9	East Coast Village	Moncton	NB	109	200	72
10	Pine Valley	Saint John	NB	100	185	16
11	Crown & Currie Park	Fredericton	NB	176	188	140
12	Pine Tree Village	Niagara Falls	ON	70	374	38

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, 2004 and 2003. 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 4, 2005. 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 2004.

Financial Performance Summary provides a high-level overview of the Company and its financial performance in 2004. 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 the year and financial position at December 31, 2004. The results of the Company's fourth quarter of 2004 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 including changes implemented during 2004 and a discussion of any future accounting rules and regulation changes that may affect the Company in 2005.

Future Objectives provides an overview of the Company's key performance targets for 2005.

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. Some of the factors that could cause results or events to differ materially from current expectations include but are not limited to those factors identified in the "Risk Management" section of this MD&A. Killam disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or any other circumstances.

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 in Eastern Canada. Killam's objectives are:

- Increase shareholder value by becoming the dominant owner of multi-family apartments and manufactured home communities in those markets where we operate, thereby growing earnings.
- Provide our employees with a challenging and fulfilling work environment that recognizes, attracts, and fosters highly motivated, high-performing team members.
- Provide our tenants a high-quality living environment and promptly address their needs with thoughtfulness and concern.

Killam's growth continued throughout 2004. Killam has grown from 1,800 units at the beginning of 2004 to owning 6,133 multi-family units at December 31, 2004, an increase of 241%. This exceeds our goal which we set out in our 2003 Annual Report of acquiring 2,000 units during the year. In addition, we completed our single largest acquisition to date with the acquisition of a 594 unit residential apartment portfolio in Dartmouth, Nova Scotia. We are pleased the Company has achieved this growth while maintaining its standards of delivering premier service to our valued tenants. Market conditions remained attractive during the year and are expected to remain favorable into 2005.

In June, 2004, Killam completed a private placement of 23,160,500 Common Shares at a price of $1.90 per common share for gross proceeds of approximately $44 million. The proceeds from the financing were utilized to pursue Killam's strategy of acquiring and managing a substantial portfolio of residential rental properties and to repay its revolving credit facility with Brascan Financial Corporation that had been partially utilized to close recent acquisitions.

Portfolio Summary

As at December 31, 2004

	Number of Units	Percentage
Halifax	2,197	35.8%
Saint John	950	15.5%
Moncton	919	15.0%
Fredericton	340	5.5%
St. John's/Grand Falls	353	5.8%
Sydney	139	2.3%
Charlottetown	51	0.8%
Other NS	1,114	18.2%
Niagara Falls	70	1.1%
Total	6,133	100%
Apartments	4,062	66.2%
MHCs	2,071	33.8%
Total	6,133	100%

Financial Performance Summary

For the years ended December 31

	2004	2003	2002
Total assets	**$242,845,701**	$76,190,396	$20,136,098
Long-term debt	**159,900,874**	44,402,770	11,299,601
Shareholders' equity	**77,974,544**	30,619,723	8,529,395
Total revenue	**19,137,200**	5,175,505	1,460,392
Net income (loss)	**234,133**	(96,377)	83,443
Funds from operations	**4,232,529**	575,933	138,021
Net income (loss) per share			
- basic	**0.004**	(0.003)	0.006
- fully diluted	**0.004**	(0.003)	0.006

Total Assets increased $166.7 million (219%) over December 31, 2003 as a result of completing 43 acquisitions during 2004. These acquisitions added 4,333 units to our rental portfolio.

Total Revenue for 2004 increased $14.0 million (270%) over 2003 driven by the unit growth during 2004 and the effects of a full year of revenue from properties acquired during 2003.

Net Income of $234,133 is affected by an additional $1.6 million of building depreciation in 2004 as a result of the required change in accounting policy (see discussion later in the MD&A).

Funds from Operations (FFO) increased by $3.66 million (635%) over 2004 as a result of the increase in rental portfolio and the full year results for properties acquired in 2003.

Summary of Quarterly Results

Three months ended (unaudited)

	2004				2003			
	Dec 31	Sept 30	June 30	Mar 31	Dec 31	Sept 30	June 30	Mar 31
Total revenue	$7,772,179	$5,108,297	$3,502,735	$2,753,989	$1,976,424	$1,436,843	$1,079,056	$683,182
Net income (loss)	175,108	185,710	18,065	(144,750)	(154,146)	81,885	28,619	(52,735)
Per share basic	0.0024	0.0026	0.0004	(0.0030)	(0.0041)	0.0031	0.0011	(0.0020)
Per share diluted	0.0023	0.0025	0.0003	(0.0028)	(0.0038)	0.0029	0.0010	(0.0017)
Funds from operations	1,693,887	1,368,789	803,225	366,627	178,009	245,801	155,904	(3,781)
Per share basic	0.0231	0.0191	0.0162	0.0076	0.0048	0.0092	0.0058	(0.0001)
Per share diluted	0.0222	0.0182	0.0150	0.0072	0.0044	0.0086	0.0055	(0.0001)
Total assets	$242,845,701	$182,342,835	$149,983,371	$88,143,221	$76,190,396	$44,524,865	$33,013,421	$24,357,213
Shareholders' equity	$77,974,544	$75,286,086	$71,493,999	$31,090,580	$30,619,723	$9,116,143	$9,000,236	$8,771,617

Financial Statement Analysis

Consolidated Statement of Income

Revenue

	2004	2003	% change
Rental income	$18,888,710	$5,081,691	272%
Interest income	193,317	71,440	171%
Other income	55,173	22,374	147%
	$19,137,200	$5,175,505	270%

Rental revenue increased $13.8 million or 272% compared to 2003. The increase is due primarily to the completion of accretive acquisitions over the past twelve months and a full year of revenue for those properties acquired throughout 2003.

The annualized rental revenue of the properties the Company owned as at December 31, 2004 is approximately $35.3 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% increase in vacancy rates would impact the annualized rental revenues by $0.35 million.

The following table presents our revenues by operating segment:

	2004	2003	% change
Apartments	$16,526,212	$4,126,435	300%
Manufactured Home Communities	2,414,309	978,869	147%
Corporate	196,679	70,201	180%
	$19,137,200	$5,175,505	270%

Weighted average rent per unit		
Apartments	$645	$638
Manufactured Home Communities	$170	$145

Property Operating Expenses

	2004	2003	% change
Apartments	$7,234,856	$1,713,404	322%
Manufactured Home Communities	867,527	389,364	123%
	$8,102,383	$2,102,768	285%
As a Percentage of Rental Revenue	42.9%	41.4%	

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 increased to 42.9% in 2004 from 41.4% in 2003. There are a number of factors which contributed to this increase during 2004:

- Killam acquired 1,117 apartment units in the fourth quarter of the year and the related operating costs are disproportionately higher for the winter heating season.
- Killam has also seen general increases in oil (during 2004 the cost of fuel rose by approximately 9.3% over 2003 prices), property taxes, water and other costs.
- Killam has not actively pursued rental increases to offset these rising operating costs as it continues to consolidate the marketplace and increases in rent will have the effect of raising the cost of acquiring other buildings within those markets.

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 we have 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.

Mortgage and Loan Interest

Financing expenses were higher in 2004 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 is expected to increase in 2005 as the Company continues to expand its portfolio. However, Killam expects to finance properties at favorable rates throughout 2005. Please see further discussion in the Mortgages Payable section of the 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 debt would increase financing costs by approximately $1.6 million per year.

Amortization Expense

As discussed in Killam's 2004 quarterly reports, the Company was required to change its method of building amortization on a prospective basis effective January 1, 2004, from the sinking fund method to the straight-line method. This change in accounting policy has resulted in approximately $1.6 million additional building amortization for the year ended December 31, 2004 versus the sinking fund method. The additional increase in amortization is a result of the increased portfolio.

General and Administrative Expenses

	2004	2003	% change
Total	**$1,273,388**	$585,777	117%
As a Percentage of Rental Revenue	**6.7%**	11.5%	(42%)

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.

The significant increase from 2003 is a result of hiring additional personnel late in 2003 and during 2004 to handle the management and accounting for the additional properties added in 2003 and 2004. However, as a percentage of rental revenue our general and administrative costs are declining (6.7% compared to 11.5%). It is anticipated that these expenses will continue to decrease as a percentage of rental revenue during 2005 as there is a relatively fixed component of these expenses which will be spread over a greater amount of revenue as Killam continues to expand its portfolio.

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 share capital and mortgages on properties held outside the Company's internal trusts as at December 31, 2004 and is not a function of the time the capital was 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 for 2004 is a result of the Company's share offering in June 2004.

Income Tax

	2004	2003	% change
Current	**$ –**	$41,500	–
Future	**144,234**	17,513	724%
	$144,234	$59,013	144%

Current income tax expense represents the federal large corporation tax. The decrease from 2003 is a result of an increase in the federal capital tax exemption. It is anticipated that federal capital tax expense will increase in 2005 as the Company continues to expand and certain tax planning strategies begin to reverse. In addition, the Company has booked a future income tax expense representing the future tax on Killam's 2004 net income at a rate of approximately 37%.

Same Store Results

In 2004 we have begun to analyze property results on a same store basis. Same store results is a generally accepted measure of comparing year over year operating results for properties of real estate companies; however, it is a non-GAAP measurement and readers are cautioned that Killam's calculation of same store may be different than that used by other companies.

The following table sets out the results of operations for 6 properties we have owned for equivalent periods in 2003 and 2004.

	2004	2003	% change
Rental revenues	**$2,577,796**	$2,581,669	(0.15%)
Property operating expenses	**1,131,380**	1,139,136	(0.68%)
Earnings from property operations	**$1,446,416**	$1,442,533	0.27%

Earnings from property operations increased $3,883 compared to the prior year as a result of an increased effort to reduce costs. Rental revenues decreased 0.15% as a result of an increase in vacancy rates due to ongoing unit renovations which was partially offset by increased rents at re-leasing. Property operating expense as a percentage of revenue for 2004 fell to 43.9% from 44.1% in the previous year.

Consolidated Balance Sheet

Capital Assets

	2004	2003	% change
Net book value	**$235,199,298**	$61,691,185	281%

Capital assets increased to $235.2 million from $61.7 million, as a result of 43 acquisitions totaling 4,333 units in 2004. Killam has acquired these properties at significant discounts to their estimated replacement costs.

The following table is a summary of the Company's acquisitions during 2004 and 2003. The acquisition value set out below is the purchase price paid by the Company and excludes third party costs such as legal, environmental and other costs paid as part of the acquisition process.

Apartment Acquisitions

Value of acquisitions *	**$144,792,400**	$36,054,000	302%
Units acquired	**3,063**	688	345%
Average price per unit	**$47,271**	$52,404	(10%)

MHC Acquisitions

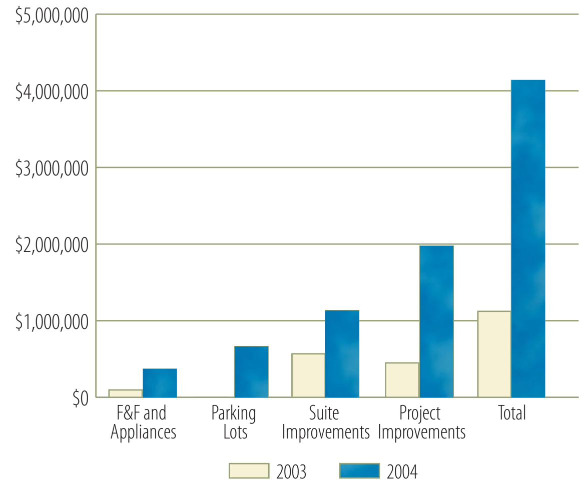
Value of acquisitions	**$18,075,000**	$7,650,000	136%
Units acquired	**1,270**	801	59%
Average price per unit	**$14,232**	$9,551	49%

** the 2004 acquisitions exclude 40,360 square feet of commercial space at an average of $75/sq. ft. and vacant land of $1.0 million.*

During 2004 Killam expanded its geographic reach with the acquisitions of apartment units in Charlottetown, Prince Edward Island, Sydney, Nova Scotia and Fredericton, New Brunswick. Killam also completed its first MHC transaction outside Atlantic Canada with the acquisition of 70 units in Niagara Falls, Ontario. A number of the acquisitions in 2004 are adjacent to Killam's existing buildings which allow the Company to have greater control in providing a consistent level of service and achieve cost savings through the better utilization of resources.

In addition to property acquisitions, the Company has invested significantly in capital improvements to the properties. During 2004 the Company has spent approximately $4.1 million (2003 - $1.2 million) on building and suite improvements, paving, appliances and other equipment.

Capital Improvements



Deferred Financing

	2004	2003	% change
Deferred financing costs	**$1,533,939**	$556,975	175%
Less: accumulated amortization	**(511,010)**	(159,118)	221%
	$1,022,929	$397,857	157%

Deferred financing costs (net of amortization) increased $0.625 million as a result of 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 25 year amortization period of the mortgage.

Prepaid Expenses

	2004	2003	% change
Property taxes	**$295,780**	$68,837	330%
Insurance	**230,616**	29,548	680%
Other	**197,181**	42,578	363%
	$723,577	$140,963	413%

The large increase in prepaids over the December 31, 2003 balance is due to the increased size of the portfolio as well as the timing of property tax payments in various provinces.

Mortgages Payable

	2004	2003	% change
Mortgages	**$154,085,874**	$41,702,770	269%
Vendor financing	**5,815,000**	2,700,000	115%
	$159,900,874	$44,402,770	260%
Weighted average years to maturity	**6.1**	5.8	
Debt as a percentage of NBV	**68%**	72%	
Weighted average interest rate	**5.9%**	6.4%	

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 significant increase in mortgages payable is due to the continued growth of the Company. Killam's weighted average interest rate fell to 5.9% at December 31, 2004 from 6.4% as at December 31, 2003. It is anticipated that Killam will continue to benefit from the low interest rate environment throughout 2005 and as a result the weighted average interest rate is expected to continue to decline.

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 December 31, 2004 ($000's)	Average Int. Rate %
2005	2,739	6.48
2006	7,927	6.19
2007	6,873	5.26
2008	29,716	6.14
2009	48,701	5.47
2010	3,664	6.68
2011	-	-
2012	-	-
2013	14,426	6.16
2014	28,067	6.20
2015	13,750	5.83
Thereafter	4,038	6.94

Shareholders' Equity

	2004	2003	% change
Capital stock	**$77,809,075**	$30,687,095	154%
Contributed surplus	**233,984**	--	–
Deficit	**(68,515)**	(67,372)	1.7%
	$77,974,544	$30,619,723	155%

The increase in share capital is the result of a private placement in June 2004 of 22,080,000 shares ($42 million) along with 1,080,500 attached warrants ($2.05 million) and the issuance of 1,078,386 shares ($2.29 million) to fund a portion of the purchase price of certain properties. 920,000 warrants associated with the Company's November 2003 private placement and 791,000 warrants associated with the company's November 2002 private placement were also exercised during 2004 for gross proceeds of $1.45 million as well as 330,000 stock options for gross proceeds of $90,000. The proceeds from these various equity sources were used to fund the Company's acquisitions during 2004.

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. Stock options issued or vested during 2004 are expensed with the offsetting credit applied to contributed surplus, as options are exercised the corresponding fair value that had been charged to contributed surplus is credited to share capital.

Consolidated Statement of Cash Flows

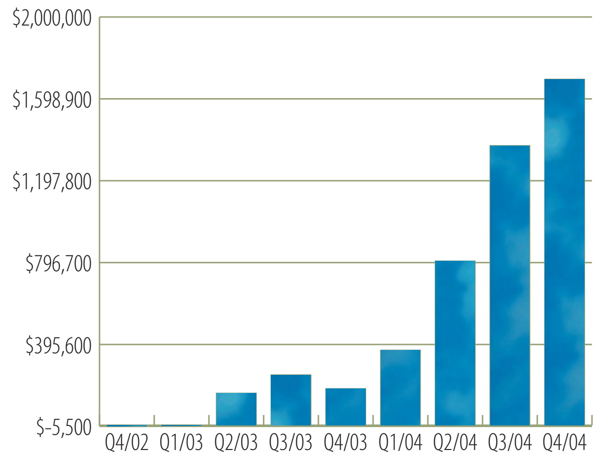
Operating Activities

	2004	2003	% change
Funds from operations	**$4,232,529**	$575,933	635%
FFO/share	**$0.0698**	$0.0197	254%

The Company's funds from operations continued to grow during 2004 largely as a result of the expanded portfolio as well as the full year contribution of the 2003 acquisitions.

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). A number of multi-family real estate companies use this measure but the reader should know that Killam's calculation of FFO may be different from other companies.

FFO Growth



Financing Activities

Capital Stock

As discussed earlier in the MD&A, the Company issued a total of 25.2 million shares for gross proceeds of $47.9 million during the year. In addition the Company utilized shares to partially fund certain acquisitions during 2004 and 2003, 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 2004 the financing of new acquisitions and the re-financing of existing properties totaled $83.8 million compared to $33.8 million during 2003. 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 the MD&A, the Company completed the acquisition of 43 properties representing 4,333 units during 2004. This compares to 11 properties representing 1,489 units in 2003. 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 $4.1 million of capital improvements to its properties during 2004 (2003 - $1.2 million).

Results of fourth quarter operations

3 months ended December 31,

	2004	2003	% change
Revenue	**$7,772,179**	$1,976,424	293%
Property operating expenses	**3,637,940**	803,964	353%
Mortgage and loan interest	**2,046,074**	655,634	212%
Amortization	**1,443,517**	314,640	359%
Net income (loss)	**$175,108**	$(154,146)	–

Revenue increased 293% from the same period in the prior year as a result of 16 acquisitions totaling 1,654 units in the fourth quarter of 2004 and a full quarter effect of the 2,679 units acquired in the first three quarters of 2004. Property operating expenses were higher as a result of the increased portfolio, in addition they were 46.8% of revenue in the fourth quarter of 2004 versus 40.7% in the same period of 2003 largely as a result of increased fuel costs in 2004. Amortization expense increased due to both the increased portfolio as well as the change in accounting policy discussed elsewhere in the MD&A.

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, 2004 the Company had available $3.8 million of cash. These funds along with the Company's acquisition bridge facility that consists of a $10 million revolving secured facility and a $10 million non-revolving term facility, provide the Company with the capacity to acquire a minimum of $95.2 million in additional assets. We will continue to finance new properties at 75% of their value through new mortgages or placing second mortgages when available and the Company is constantly reviewing existing mortgages to ensure the properties are appropriately leveraged to maximize access to historically low mortgage rates.

It is expected that outside sources of debt and 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, interest risk and utility and property tax risk. The following will address each of these risks in more details.

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 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 corporation 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 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.

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 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 PEI 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.

Utility and Property Tax Risk relates to the potential loss the Company 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 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. Any significant increase in these costs that Killam cannot pass on to the tenants may have a negative impact on the Company. Killam has the ability to increase rents to offset some of these increases. In addition the Company locks in rates for a portion of its oil consumption to reduce the fluctuations in price.

Accounting Estimates and Policies

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.

Building Amortization

The key estimate that management makes is regarding the depreciation of its building assets. In 2003 and 2002 the Company used the sinking fund method to amortize these assets (see Note 3 for a further description of this method). On January 1, 2004 the Company, along with the rest of the Canadian real estate industry, was required by the CICA to discontinue the use of the sinking fund method of depreciation. This change has been applied prospectively in accordance with the transitional requirements of the CICA Handbook section 1100. The effect of this change on the Company's 2004 results was to increase amortization expense by approximately $1.6 million.

Stock Options

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.

Future Objectives

2004 was another milestone year for Killam with record growth in both our Apartment and MHC lines of business. With the proceeds from our June equity offering, acquisition facilities and re-financing opportunities, Killam is well positioned to continue its aggressive growth strategy. Subsequent to year-end we closed 4 properties representing 302 units and have an additional 8 properties under contract which we anticipate will close by the end of the first half of 2005.

Our goals for 2005 include;

- Continue to grow our portfolio through accretive acquisitions.
- Increase rental incomes from existing properties at lease rollover and renewal.
- Review existing mortgages to maximize our leverage position and ensure we are taking advantage of the continued low interest rate environment and staggering the maturity dates of our mortgages.
- Maintain our focus on utilities consumption and review opportunities for added efficiencies and cost savings going forward.

Management is confident that Killam is well positioned to continue its rapid growth and believes that market fundamentals remain strong.

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
March 4, 2005

Robert Richardson, CA
EVP and CFO

Auditors' Report

To the Shareholders of Killam Properties Inc.

We have audited the consolidated balance sheets of Killam Properties Inc. as at December 31, 2004 and 2003 and the consolidated statements of income (loss) 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, 2004 and 2003 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 4, 2005

Consolidated Balance Sheets

As at December 31

	2004	2003
Assets		
Capital assets *(note 5)*	$235,199,298	$61,691,185
Cash and cash equivalents *(note 4)*	4,168,071	13,183,560
Accounts receivable	189,320	45,090
Income tax receivable	214,897	–
Prepaid expenses	723,577	140,963
Deferred financing costs (net)	1,022,929	397,857
Future income taxes *(note 10)*	1,327,609	731,741
	242,845,701	76,190,396
Liabilities and Shareholders' Equity		
Long-term debt *(note 6)*	159,900,874	44,402,770
Accounts payable & accrued liabilities	2,967,334	769,296
Income taxes payable	–	43,937
Tenant security deposits	644,943	157,764
Future income taxes *(note 10)*	1,358,006	196,906
	164,871,157	45,570,673
Shareholders' Equity		
Capital stock *(note 8)*	77,809,075	30,687,095
Contributed surplus *(note 8)*	233,984	–
Deficit	(68,515)	(67,372)
	77,974,544	30,619,723
	$242,845,701	$76,190,396

See accompanying notes

On behalf of the Board

G. W. Watson

G. Wayne Watson
Director

Philip Fraser

Philip Fraser
Director

Consolidated Statements of Income (Loss) and Deficit

For the year ended December 31

	2004	2003
Revenue		
Rental income	$18,888,710	$5,081,691
Interest income	193,317	71,440
Other income	55,173	22,374
	19,137,200	5,175,505
Property expenses		
Property operating expenses	8,102,383	2,102,768
	11,034,817	3,072,737
Mortgage and loan interest	5,196,286	1,643,788
Amortization	3,854,162	654,797
General and administrative	1,273,388	585,777
Professional fees	186,923	140,954
Provincial capital taxes	100,000	71,000
Interest and bank charges	45,691	13,785
	10,656,450	3,110,101
Income before income taxes	378,367	(37,364)
Provision for income taxes		
- current	–	(41,500)
- future	(144,234)	(17,513)
Net income (loss)	234,133	(96,377)
(Deficit) retained earnings, beginning of year	(67,372)	29,005
Adjustment to opening balance *(note 3)*	(235,276)	–
Deficit, end of year	$(68,515)	$(67,372)
Net income (loss) per share *(note 11)*		
- basic	$0.004	$(0.003)
- diluted	$0.004	$(0.003)

See accompanying notes

Consolidated Statements of Cash Flows

For the year ended December 31

	2004	2003
Operating Actitivies		
Net income (loss)	$234,133	$(96,377)
Add items not affecting cash		
Amortization	3,854,162	654,797
Future income taxes	144,234	17,513
Funds from operations	4,232,529	575,933
Net change in non-cash working capital items related to operations	1,699,489	629,865
Cash provided by operating activities	5,932,018	1,205,798
Finanacing Activities		
Increase in deferred financing	(976,963)	(510,462)
Issue of common shares for cash (net of issue costs)	42,752,508	20,501,220
Repayment of long-term debt	(8,505,483)	(683,621)
Issuance of long-term debt	83,790,860	33,786,790
Cash provided by financing activities	117,060,922	53,093,927
Investing Activities		
Purchase of capital assets	(132,008,429)	(45,218,039)
Cash used in investing activities	(132,008,429)	(45,218,039)
Net (decrease) increase in cash and cash equivalents	(9,015,489)	9,081,686
Cash and cash equivalents, beginning of year	13,183,560	4,101,874
Cash and cash equivalents, end of year	$4,168,071	$13,183,560
Cash interest paid	$4,815,016	$1,459,907
Cash taxes paid	$385,834	$137,292

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.

Amortization

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

Buildings	2.5%	straight-line, 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

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 amortization period of 25 years.

Stock-based compensation

The Company expenses stock-based compensation using the fair value method for all awards granted or modified subsequent to January 1, 2002. The Company determines the fair value of the options at the date of grant using an 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. For awards granted prior to January 1, 2002, the Company accounts for the employee stock-based compensation as a capital transaction. However, the Company discloses 2003 pro-forma net income (loss) and 2003 pro-forma net income (loss) per share as if the fair market value method of accounting for such stock based compensation awards was used.

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.

3. Changes in Accounting Policies

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.

Building amortization

As a result of CICA Handbook Section 1100 removing industry precedence as a source of GAAP, the sinking fund method of depreciating income properties used by many Canadian public real estate entities has been discontinued. Therefore effective January 1, 2004 the Company changed its method of building amortization from the sinking fund method to the straight-line method. As required by Section 1100, this change has been accounted for prospectively and the opening balance of accumulated depreciation has not been adjusted. The impact of this change for the year ended December 31, 2004 was to increase amortization expense by approximately $1.6 million.

4. Cash and Cash Equivalents

	2004	2003
Cash	$2,006,934	$12,581,946
Tenant security deposits	397,788	156,612
Restricted cash	1,763,349	445,002
	$4,168,071	$13,183,560

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

5. Capital Assets

	2004		2003	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Land	$23,905,349	$ –	$6,036,768	$ –
Buildings	185,521,711	2,727,714	47,680,289	254,348
Roads and driveways	11,941,998	314,694	3,524,751	70,495
Water and sewer	11,969,000	472,306	3,551,753	106,553
Suite renovations	1,708,817	252,691	601,407	66,154
Project improvements	2,544,731	148,530	572,368	29,502
Other assets	1,688,895	165,268	302,782	51,881
	239,280,501	$4,081,203	62,270,118	$578,933
Less: accumulated amortization	(4,081,203)		(578,933)	
	$235,199,298		$61,691,185	

6. Long-Term Debt

Mortgages payable of $154,085,874 (2003 - $41,702,770) bear interest at fixed rates from 3.32% to 7.14% with maturity dates ranging from November, 2005 to January 2015. Vendor mortgages payable of $5,815,000 (2003 - $2,700,000) bear interest at fixed rates from 0.00% to 9.0% with maturity dates ranging from April 2005 to February 2008. Mortgages are secured by a first or second charge on the revenue producing real estate 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, 2004 was 5.9% (2003 - 6.4%).

Principal repayments of mortgages are due as follows:

Year	
2005	$6,680,975
2006	11,739,795
2007	9,836,401
2008	30,823,135
2009	43,613,959
Thereafter	57,206,609
	$159,900,874

7. 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, 2004 the Company had a $Nil balance (2003 - $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) $10,000,000 revolving secured facility to fund asset acquisitions, bearing interest at the greater of prime plus 3.5% or 7.5% plus a 0.6% fee on undrawn amounts (expensed monthly). As at December 31, 2004 the Company had a $Nil balance outstanding (2003 - $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

(b) $10,000,000 non-revolving term facility to fund one-time, strategic portfolio acquisitions, bearing interest at the greater of prime plus 4.5% or 8.5%. As at December 31, 2004, the Company had a $Nil balance outstanding (2003 - $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

8. 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:

	2004		2003	
	Number of Shares	Value	Number of Shares	Value
Balance, beginning of year	48,038,674	$30,687,095	26,210,874	$8,500,390
Issued for cash (i)	22,080,000	39,277,383	21,000,000	20,454,970
Issued on property acquisitions (ii)	1,616,457	3,338,738	685,300	740,026
Stock options exercised	330,000	90,730	142,500	46,250
Warrants exercised (iii)	2,791,500	3,384,395	–	–
Tax benefit of issuance costs	–	1,030,734	–	945,459
Balance, end of year	74,856,631	$77,809,075	48,038,674	$30,687,095

(i) Net of issuance costs of $2,674,617 (2003 - $1,595,029)
(ii) Net of issuance costs of $11,490 (2003 - $2,394)
(iii) Net of issuance costs of $122,055 (2003 - $Nil)

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

	2004
Balance, beginning of year	$ Nil
Adjustment (i)	235,276
Stock options expensed	2,938
Stock options exercised	(4,230)
Balance, end of year	$233,984

(i) Adjustment upon adoption of CICA Handbook Section 3870, see Note 3.

9. 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 2,525,000 (December 31, 2003 –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.

Options granted and exercised during the year are as follows:

	2004		2003	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	2,052,000	$0.43	1,335,500	$0.26
Granted	10,000	2.00	859,000	.67
Exercised	(330,000)	.26	(142,500)	.32
Outstanding, end of year	1,732,000	$0.47	2,052,000	$0.43

The following table summarizes the stock options outstanding at December 31, 2004 and 2003:

	2004		2003	
Exercise prices	Number of Options Outstanding	Remaining Contractual Life	Number of Options Outstanding	Remaining Contractual Life
$0.20	350,000	.95 years	475,000	1.95 years
$0.30	513,000	2.40 years	673,000	3.40 years
$0.30	10,000	2.44 years	55,000	3.44 years
$0.56	200,000	3.44 years	200,000	4.44 years
$0.65	609,500	3.44 years	609,500	4.44 years
$1.30	10,000	3.92 years	10,000	4.92 years
$1.69	29,500	3.96 years	29,500	4.96 years
$2.00	10,000	4.92 years	–	–
	1,732,000		2,052,000	

Included in the above figures are 15,600 options at an average exercise price of $1.50, that were not exercisable at December 31, 2004, as they had not vested (2003, 16,000 options).

Warrants

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

	2004		2003	
Exercise prices	Number of Options Outstanding	Remaining Contractual Life	Number of Options Outstanding	Remaining Contractual Life
$0.50	–	–	791,000	0.86 years
$0.95	500,000	3.66 years	500,000	4.66 years
$1.15	–	–	920,000	1.00 years
	500,000		2,211,000	

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

During the year 920,000 warrants at $1.15 issued on the Company's November 2003 share offering and 791,000 warrants at $0.50 related to the Company's November 2002 share offering were exercised. In addition, 1,080,500 warrants at $1.90 associated with the Company's June 2004 private placement were issued and exercised during the year.

The table below presents pro-forma net loss, basic net loss per share and diluted net loss per share for the year ended December 31, 2003 using the fair market value method of accounting for stock-based compensation. As set out in Notes 2 and 3, the Company records compensation expense for stock options effective January 1, 2004.

	2003
Pro-forma net (loss) income applicable to common shares:	
Reported net loss	$(96,377)
Pro-forma adjustments	(210,021)
Pro-forma net loss applicable to common shares	$(306,398)
Basic:	
Average number of common shares outstanding	29,226,195
Pro-forma loss per share	$(0.01)
Diluted:	
Average number of common shares outstanding	29,226,195
Impact of outstanding stock options	1,934,410
	31,160,605
Pro-forma loss per share	$(0.0098)

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:

Expected volatility	53.5%
Risk-free interest rate	3.5%
Expected lives	1-5 years
Expected dividend yield	nil

10. Income Taxes

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

	2004		2003	
Net income (loss) before taxes	$378,367		$(37,364)	
Income taxes, at statutory rates	$139,996	37.0%	$(13,824)	37.0%
Federal large corporation tax	–	–	41,500	(111.0)
Other differences	4,238	1.1	31,337	(83.9)
	$144,234	38.1%	$59,013	(157.9)%
Consists of:				
Provision for income taxes – current	$ –		$41,500	
Provision for income taxes – future	144,234		17,513	
	$144,234		$59,013	

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:

	2004	2003
Share issue costs	$1,327,609	$685,485
Capital assets	(1,358,006)	(196,906)
Loss carryforward	–	46,256
Net future income tax (liability) asset	$ (30,397)	$534,835

11. Per Share Information

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

	2004	2003
Basic	60,680,934	29,226,195
Fully diluted	63,968,302	31,160,605

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. The operating results and capital assets of the segments as at and for the years ended December 31 2004 and 2003 are set out as follows:

As at and for the year ended December 31, 2004

	Multi-family Apartments	Manufactured Home Communities	Corporate	Total
Revenue	$16,526,212	$ 2,414,309	$196,679	$19,137,200
Property operating expenses	7,234,856	867,527	–	8,102,383
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

As at and for the year ended December 31, 2003

	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
Earnings from property operations	$2,413,031	$589,505	$70,201	$3,072,737
Capital assets (net)	$53,668,457	$7,840,612	$182,116	$61,691,185

13. 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, 2004 and 2003 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 $162,165,500 (2003 - $45,153,000) compared to its book value of $159,900,874 (2003 - $44,402,770).

14. Subsequent Events

During the period of January 1 to March 4, 2005 the Company completed four property acquisitions representing 302 units. The total purchase price of the acquisitions was $10,625,000 paid as follows:

Cash	$2,656,250
Mortgage financing	7,968,750
	$10,625,000

In addition, the Company placed mortgage financing of approximately $2,219,000 on properties that were purchased debt free in 2004 or had less than 75% of the purchased price financed.

15. Related Party Transactions

During the year the Company paid a real estate commission of $39,000 and construction management fees of $67,400 to a company controlled by a Director. The commission and management fees were based on market rates and there is no continuing contractual obligation to use the services of the related party.

16. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for 2004.

Directors and Executives

Board of Directors

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

Philip D. Fraser (3)
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)
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)
Dartmouth, Nova Scotia
Vice President of Finance, Can Jam Trading Limited

Executive Team

Philip Fraser
President & CEO

Robert Richardson, CA
Executive Vice President & CFO

Keith Foster, CA
Vice President, Finance

Ruth Buckle-McIntosh
Vice President, Property Management

Ed Beazley
Vice President, Acquisitions

Ronald Barron
Corporate Secretary

(1) Audit Committee
(2) Compensation Committee
(3) Corporate Governance

Corporate Information

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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.

www.killamproperties.com

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
Suite 2008, Purdy's Wharf, Tower II
Halifax, NS B3J 3R7

Investor Inquiries

Philip Fraser
Tel: 902.453.4536
Fax: 902.455.4525

Share Listing

Toronto Stock Exchange (TSX)
Trading Symbol: KMP

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.

Annual and Special Meeting of Shareholders of Killam Properties Inc. will be held on Wednesday, May 4, 2005 at 11:00 AM (Atlantic Time) at the Four Points Sheraton, 1496 Hollis Street, Halifax, Nova Scotia.

Adam Peterson Alfreda Mazerolle Amber Thomas-Johnson Amy Morris Anne Hanlon Anne-Marie Phalen Anthony Thibodeau Armand Lemieux Barbara Fiander Barry Sweet Beth Ramsay Brenda Garland Bryan Sonier Charlene Harris Chris Beck Chris Lirette Christine Lucas Christine Lynk Christopher Roche Cliff Burke Constance Reader Craig Bernard Craig McDonald Curtis Ashley Dale Arsenault Dale Shaffer Daniel Cormier Darcy MacDonald Darren Skerry Deborah Hodges Deborah Price Della Taylor Donald MacKinnon Donna Curwin Dorothy Cox Douglas Brodie Edward Beazley Edward Gillard Elizabeth Hall Elizabeth Kilbride Emil Bodnar Emile Gautreau Fenwick McKelvey George Horne Gerard Hurd Hazel Jesso Henry Andrews Jacqueline Ervin-Yeomans Jacqueline Lacombe James Baker James Vigliarolo Jean Warner Jeff Spencer John McLaughlin Jonathan Froment Joseph Bernier Joseph Cain Joseph D. Sampson Joseph MacDow Joseph Paul Robichaud Joyce Lynch Judylee Clarke Julia Kumar-Misir Julie Smith Justin MacKinnon Karl Harris Katheline Pike Kathy Askew Kathy Kerr-Miller Keith Foster Keith Waite Kellie Price Kelly Whittaker Kenneth Hall Kevin O'Grady Lauren Zelikovitz Leandre Poulin Leo Garnier Leonard Martin Lesley Empringham Linda Campbell Lindsay Kaiser Lise Vienneau Lloyd Barton Lorne Green Lynn Clark Lynn Somers Marion Wilkins Mark Bodnar Mary Ellen Bull Maureen Crawford Maxine Hannah Michael McLean Michael Melvin Mike Bannan Monica Allinson Murray Strickland Nicholas Morris Patricia Rockwell Paula Jenkins Pauline MacLe

Ralph Dahr Rheal Doucet Richard O'Donnell Robert Leslie Robert Light Robert Richardson Robert Schaefer Robert Vincent Robin Bai … Ruth Buckle-McIntosh Sandra Oakes Sean Robert Gillis Shawn Harris Sheila McAllister Sherran Franchuk Shirley Elliott … acDow Stephen Aulenback Stephen Lewis Stephen Sands Stirling Wesley Stuart Allinson Tammy Loughery Terry Ward … Victoria Kaiser Walter Allan Walter Parker Walter Robinson Wanda Marriott Wayne Strongman Wendy Crowley Wenzhong … lliam Casford William Cramm Yvon Williams Adam Peterson Alfreda Mazerolle Amber Thomas-Johnson Amy Morris Anne Hanlon Anne-Marie … Anthony Thibodeau Armand Lemieux Barbara Fiander Barry Sweet Beth Ramsay Brenda Garland Bryan Sonier Charlene Harris Chris Beck Chris Lirette Christine Lucas Christine Lynk Christopher Roche Cliff Burke Constance Reader Craig Bernard Craig McDonald Curtis Ashley Dale Arsenault Dale Shaffer Daniel Cormier Darcy MacDonald Darren Skerry Deborah Hodges Deborah Price Della Taylor Donald MacKinnon **To all our dedicated employees** Donna Curwin Dorothy Cox Douglas Brodie Edward Beazley Edward Gillard Elizabeth Hall Elizabeth Kilbride Emil Bodnar Emile Gautreau Fenwick McKelvey George Horne Gerard Hurd Hazel Jesso Henry Andrews Jacqueline Ervin-Yeomans Jacqueline Lacombe James Baker James Vigliarolo Jean Warner Jeff Spencer John McLaughlin Jonathan Froment Joseph Bernier Joseph Cain Joseph D. Sampson Joseph MacDow Joseph Paul Robichaud Joyce Lynch Judylee Clarke Julia Kumar-Misir Julie Smith Justin MacKinnon Karl Harris Katheline Pike Kathy Askew Kathy Kerr-Miller Keith Foster Keith Waite Kellie Price Kelly Whittaker Kenneth Hall Kevin O'Grady Lauren Zelikovitz Leandre Poulin Leo Garnier Leonard Martin Lesley Empringham Linda Campbell Lindsay Kaiser Lise Vienneau Lloyd Barton Lorne Green Lynn Clark Lynn Somers Marion Wilkins Mark Bodnar Mary Ellen Bull Maureen Crawford Maxine Hannah Michael McLean Michael Melvin Mike Bannan Monica Allinson Murray Strickland Nicholas Morris Patricia Rockwell Paula Jenkins Pauline MacLeod Philip Fraser Ralph Dahr Rheal Doucet Richard O'Donnell Robert Leslie Robert Light Robert Richardson Robert Schaefer Robert Vincent Robin Bailey Rory Crawford Russell Smith Ruth Buckle-McIntosh Sandra Oakes Sean Robert Gillis Shawn Harris Sheila McAllister Sherran Franchuk Shirley Elliott Simon John Parent Stephanie MacDow Stephen Aulenback Stephen Lewis Stephen Sands Stirling Wesley Stuart Allinson Tammy Loughery Terry Ward Troy MacEachern Vanessa Jensen Victoria Kaiser Walter Allan Walter Parker Walter Robinson Wanda Marriott Wayne Strongman Wendy Crowley Wenzhong Zhao William Arsenault William Casford William Cramm Yvon Williams Adam Peterson Alfreda Mazerolle Amber Thomas-Johnson Amy Morris Anne Hanlon Anne-Marie Phalen Anthony Thibodeau Armand Lemieux Barbara Fiander Barry Sweet Beth Ramsay Brenda Garland Bryan Sonier Charlene Harris Chris Beck Chris Lirette Christine Lucas Christine Lynk Christopher Roche Cliff Burke Constance Reader Craig Bernard Craig McDonald Curtis Ashley Dale Arsenault Dale Shaffer Daniel Cormier Darcy MacDonald Darren Skerry Deborah Hodges Deborah Price Della Taylor Donald MacKinnon Donna Curwin Dorothy Cox Douglas Brodie Edward Beazley Edward Gillard Elizabeth Hall Elizabeth Kilbride Emil Bodnar Emile Gautreau Fenwick McKelvey George Horne Gerard Hurd Hazel Jesso Henry Andrews Jacqueline Ervin-Yeomans Jacqueline Lacombe James Baker James Vigliarolo Jean Warner Jeff Spencer John McLaughlin Jonathan Froment Joseph Bernier Joseph Cain Joseph D. Sampson Joseph MacDow Joseph Paul Robichaud Joyce Lynch Judylee Clarke Julia Kumar-Misir Julie Smith Justin MacKinnon Karl Harris Katheline Pike Kathy Askew Kathy Kerr-Miller Keith Foster Keith Waite Kellie Price Kelly Whittaker Kenneth Hall Kevin O'Grady Lauren Zelikovitz Leandre Poulin Leo Garnier Leonard Martin Lesley Empringham Linda Campbell Lindsay Kaiser Lise Vienneau Lloyd Barton Lorne Green Lynn Clark Lynn Somers Marion Wilkins Mark Bodnar Mary Ellen Bull Maureen Crawford Maxine Hannah Michael McLean Michael Melvin Mike Bannan Monica Allinson Murray Strickland Nicholas Morris Patricia Rockwell Paula Jenkins Pauline MacLeod Philip Fraser Ralph Dahr Rheal Doucet Richard O'Donnell Robert Leslie Robert Light Robert Richardson Robert Schaefer Robert Vincent Robin Bailey Rory Crawford Russell Smith Ruth Buckle-McIntosh Sandra Oakes Sean Robert Gillis Shawn Harris Sheila McAllister Sherran Franchuk Shirley Elliott Simon John Parent Stephanie MacDow Stephen Aulenback Stephen Lewis Stephen Sands Stirling Wesley

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