Consolidated Balance Sheets

As at

	March 31 2005	December 31 2004
	(unaudited)	*(audited)*
ASSETS		
Capital assets *(note 4)*	**274,942,828**	235,199,298
Cash and cash equivalents *(note 3)*	**4,549,189**	4,168,071
Accounts receivable	**176,538**	189,320
Income tax receivable	**21,059**	214,897
Prepaid expenses	**1,414,717**	723,577
Deferred financing costs (net)	**1,292,979**	1,022,929
Future income taxes *(note 9)*	**1,353,392**	1,327,609
	283,750,702	242,845,701
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-term debt *(note 5)*	**191,204,176**	159,900,874
Credit facility *(note 6)*	**8,400,000**	-
Accounts payable & accrued liabilities	**4,123,838**	2,967,334
Security deposits	**750,569**	644,943
Future income taxes *(note 9)*	**1,358,006**	1,358,006
	205,836,589	164,871,157
Shareholders' Equity		
Capital stock *(note 7)*	**77,809,075**	77,809,075
Contributed surplus *(note 7)*	**235,371**	233,984
Deficit	**(130,333)**	(68,515)
	77,914,113	77,974,544
	283,750,702	242,845,701

See accompanying notes

Consolidated Statements of Loss and Deficit

For the 3 months ended March 31,

	2005	2004
	$	$
	(unaudited)	*(unaudited)*
Revenue		
Rental income	**8,832,496**	2,699,817
Interest income	**12,689**	38,358
Other income	**25,382**	6,872
	8,870,567	2,745,047
Property expenses		
Property operating expenses	**4,230,933**	1,231,677
	4,639,634	1,513,370
Mortgage and loan interest	**2,399,649**	790,306
Amortization	**1,684,404**	589,777
General and administrative	**526,895**	300,970
Professional fees	**26,711**	13,296
Provincial capital taxes	**49,086**	17,751
Interest and bank charges	**20,738**	14,046
	4,707,483	1,726,146
Loss before income taxes	**(67,849)**	(212,776)
Recovery of (provision for) income taxes		
- current	**(19,752)**	(10,374)
- future	**25,783**	78,400
Net loss	**(61,818)**	(144,750)
Deficit, beginning of period	**(68,515)**	(67,372)
Adjustment to opening balance *(note 2)*	**-**	(235,276)
Deficit, end of period	**(130,333)**	(447,398)
Net loss per share		
- basic	**$ (0.0008)**	$ (0.0030)
- diluted	**$ (0.0008)**	$ (0.0028)

See accompanying notes

Consolidated Statements of Cash Flows

For the 3 months ended March 31,

	2005	2004
	$	$
	(unaudited)	*(unaudited)*
OPERATING ACTIVITIES		
Net loss	**(61,818)**	(144,750)
Add items not affecting cash		
Amortization	**1,684,404**	589,777
Future income taxes	**(25,783)**	(78,400)
Funds from operations	**1,596,803**	366,627
Net change in non-cash working capital items related to operations	**777,610**	206,328
Cash provided by operating activities	**2,374,413**	572,955
FINANCING ACTIVITIES		
Increase in deferred financing	**(341,536)**	(59,832)
Issue of common shares for cash (net of issue costs)	**-**	13,500
Increase in credit facilities	**8,400,000**	-
Repayment of long term debt	**(1,857,965)**	(361,862)
Issuance of long-term debt	**31,525,087**	7,550,000
Cash provided by financing activities	**37,725,586**	7,141,806
INVESTING ACTIVITIES		
Purchase of capital assets	**(39,718,881)**	(15,586,392)
Cash used in investing activities	**(39,718,881)**	(15,586,392)
Net increase (decrease) in cash and cash equivalents	**381,118**	(7,871,631)
Cash and cash equivalents, beginning of period	**4,168,071**	13,183,560
Cash and cash equivalents, end of period	**4,549,189**	5,311,929

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-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") without audit or review by the Company's auditors. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The accounting principles used in these interim consolidated financial statements are consistent with those used in the Company's December 31, 2004 annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 2004 Annual Report.

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.

Seasonality

The Company's results for the three months ended March 31, 2005 and 2004 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in utility and snow removal costs. The Company has historically experienced higher utility expenses in the first and fourth quarters as a result of the winter months.

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.

Notes to Consolidated Financial Statements

3. Cash and Cash Equivalents

	March 31, 2005	Dec 31, 2004
Cash	**$1,601,296**	$2,006,934
Tenant security deposits	**426,949**	397,788
Restricted cash	**2,520,944**	1,763,349
	$4,549,189	$4,168,071

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

4. Capital Assets

	March 31, 2005		December 31, 2004	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 27,794,262**	**$ —**	$ 23,905,349	$ —
Buildings	**197,259,681**	**3,846,381**	185,521,711	2,727,714
Roads and driveways	**23,594,300**	**437,102**	11,941,998	314,694
Water and sewer	**23,621,302**	**653,989**	11,969,000	472,306
Suite renovations	**2,115,343**	**335,488**	1,708,817	252,691
Project improvements	**3,826,561**	**207,441**	2,544,731	148,530
Other assets	**2,425,488**	**213,708**	1,688,895	165,268
	280,636,937	**$5,694,109**	239,280,501	$4,081,203
Less: accumulated amortization	**(5,694,109)**		(4,081,203)	
	$274,942,828		$235,199,298	

5. Long-Term Debt

Mortgages payable of $181,463,136 (December 2004 - $154,085,874) bear interest at fixed rates from 3.32% to 8.47% with maturity dates ranging from November, 2005 to July 2019. Vendor mortgages payable of $9,741,040 (December 2004 - $5,815,000) bear interest at fixed rates from 0.00% to 7.25% with maturity dates ranging from April 2005 to September 2010. 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 March 31, 2005 was 5.8% (December 2004 – 5.9%).

Principal repayments of mortgages are due as follows:

Year	
2005	**$ 5,777,070**
2006	**11,882,199**
2007	**9,997,104**
2008	**30,123,895**
2009	**44,835,064**
Thereafter	**88,588,844**
	$191,204,176

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 lender's prime plus 1%. As at March 31, 2005 the Company had a $Nil balance (December 31, 2004 - $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

Acquisition Bridge Facility

This agreement consists of two facilities:

(a) $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 March 31, 2005 the Company had an $8,400,000 balance outstanding (December 31, 2004 - $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 March 31, 2005, the Company had a $Nil balance outstanding (December 31, 2004 - $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

7. Capital Stock and Contributed Surplus

Capital Stock

Authorized:
Unlimited number of common shares
Unlimited number of preferred shares, issuable in series

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

	2005		2004	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**74,856,631**	**$77,809,075**	48,038,674	$30,687,095
Issued during the quarter				
Issued on property acquisitions (i)	—	—	251,547	601,372
Stock options exercised	—	—	45,000	14,850
Balance, end of quarter	**74,856,631**	**$77,809,075**	48,335,221	$31,303,317

(i) Net of issuance costs of $Nil (2004 - $4,859)

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

For the three months ended March 31,

	2005	2004
Balance, beginning of year	**$233,984**	$ —
Adjustment	—	235,276
Stock options expensed	**1,387**	735
Stock options exercised	—	(1,350)
Balance, end of quarter	**$235,371**	$234,661

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

Notes to Consolidated Financial Statements

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

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

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

Options granted and exercised during the three months ended March 31 are as follows:

	2005		2004	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**1,732,000**	**$0.47**	2,052,000	$0.26
Exercised	—	—	(45,000)	.30
Outstanding, end of quarter	**1,732,000**	**$0.47**	2,007,000	$0.43

8. Stock Options and Warrants (continued)

The following table summarizes the stock options outstanding at:

	March 31, 2005		December 31, 2004	
Exercise prices	**Number of Options Outstanding**	**Remaining Contractual Life**	Number of Options Outstanding	Remaining Contractual Life
$0.20	**350,000**	**.70 years**	350,000	.95 years
$0.30	**513,000**	**2.15 years**	513,000	2.40 years
$0.30	**10,000**	**2.19 years**	10,000	2.44 years
$0.56	**200,000**	**3.19 years**	200,000	3.44 years
$0.65	**609,500**	**3.19 years**	609,500	3.44 years
$1.30	**10,000**	**3.67 years**	10,000	3.92 years
$1.69	**29,500**	**3.71 years**	29,500	3.96 years
$2.00	**10,000**	**4.67 years**	10,000	4.92 years
	1,732,000		1,732,000	

Included in the above figures are 23,823 options at an average exercise price of $1.69, that were not exercisable at March 31, 2005, as they had not vested (December 31, 2004, 29,639 options).

Warrants

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

	March 31, 2005		December 31, 2004	
Exercise price	**Number of Options Outstanding**	**Remaining Contractual Life**	Number of Options Outstanding	Remaining Contractual Life
$0.95	**500,000**	**3.41 years**	500,000	3.66 years

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

9. Income Taxes

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

For the three months ended March 31,

	2005		2004	
Net income (loss) before taxes	**(67,849)**		(212,776)	
Income taxes, at statutory rates	**(25,104)**	**(37.0) %**	(78,727)	(37.0) %
Federal large corporations tax	**19,752**	**29.1**	10,374	4.9
Other differences	**701**	**1.0**	327	0.15
	(6,053)	**(8.9) %**	(68,026)	(31.9) %
Consists of:				
Provision for income taxes – current	**19,752**		10,374	
Provision for income taxes – future	**(25,783)**		(78,400)	
	(6,053)		(68,026)	

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:

	March 31 2005	December 31 2004
Share issue costs	**$1,327,609**	$1,327,609
Capital assets	**(1,358,006)**	(1,358,006)
Loss carryforward	**25,783**	—
Net future income tax liability	**$ (4,614)**	$ (30,397)

10. Per Share Information

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

	2005	2004
Basic	**74,856,631**	48,238,395
Fully diluted	**76,539,616**	51,080,754

Notes to Consolidated Financial Statements

11. Segmented Information

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

The accounting policies of these segments are the same as those described in the summary of significant accounting policies. The segments are analyzed based on earnings from property operations before amortization. The operating results and capital assets of the segments as at and for the years ended December 31, 2004 and 2003 are set out as follows:

As at and for the three months ended March 31, 2005

	Multi-family Apartments	Manufactured Home Communities	Corporate	Total
Revenue	**$7,702,713**	**$1,151,436**	**$16,418**	**$8,870,567**
Property operating expenses	**3,840,680**	**390,253**	**—**	**4,230,933**
Earnings from property operations	**$3,862,033**	**$ 761,183**	**$16,418**	**$4,639,634**
Capital assets (net)	**$221,721,397**	**$52,784,304**	**$437,126**	**$274,942,828**

As at and for the three months ended March 31, 2004

	Multi-family Apartments	Manufactured Home Communities	Corporate	Total
Revenue	$2,366,919	$341,448	$36,680	$2,745,047
Property operating expenses	1,077,361	154,316	—	1,231,677
Earnings from property operations	$1,289,558	$187,132	$36,680	$1,513,370
Capital assets (net)	$71,324,841	$9,754,979	$226,962	$81,306,782

Notes to Consolidated Financial Statements

12. 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 March 31, 2005 and December 31, 2004 due to their short-term nature and or the credit terms of those instruments.

The fair value of the mortgages payable has been determined by discounting the cash flows using current market rates of similar investments. These estimates are subjective in nature and therefore cannot be determined with precision. The fair value of long-term debt as compared to book value has remained relatively consistent with the December 31, 2004 values.

13. Subsequent Events

Subsequent to March 31, 2005, the Company announced a $57.5 million private placement consisting of $42.2 million principal amount of convertible, unsecured, subordinated debentures at a price of $1,000 per debenture, and 6 million common shares at a price of $2.55 per common share. The debentures will have a seven year term, bear a coupon of 6.50%, and will be convertible into common shares at a price of $3.10 per share.

During the period of April 1 to May 3, 2005 the Company completed three property acquisitions representing 84 units. The total purchase price of the acquisitions was $4.5 million.

14. Comparative Figures

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