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 June 30, 2005 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 the Company's 2004 Annual Report and the Company's 2004 Annual Information Form. These documents are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available at August 10, 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 in the second quarter of 2005.

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

Financial Statement Analysis provides a detailed discussion and analysis of the Company's financial performance for the second quarter and year-to-date 2005 and financial position at June 30, 2005.

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

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

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

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

Non-GAAP Measures

There are measures included in this MD&A that do not have a standardized meaning under Generally Accepted Accounting Principles (GAAP) and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures as a means of measuring financial performance.

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

Management's Discussion and Analysis:

Corporate Overview

Killam Properties Inc. ("Killam") is a publicly traded real estate company focused on the acquisition, re-development and management of multi-family apartments and manufactured home communities in 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 rapid growth continued during the second quarter of 2005 with the addition of 2,014 units to bring the Company's total portfolio to 9,784 units, an increase of 59.5% since December 31, 2004. On June 30th Killam closed its largest transaction to date by acquiring from Maplehurst Properties Ltd. a portfolio of 723 residential apartment units in Halifax and Dartmouth, Nova Scotia. The Maplehurst portfolio is a key acquisition for Killam. It is a very well maintained portfolio that was not listed for sale and the majority of the buildings have undergone major renovations over the last four years. Spring Garden Terrace is one of the finest residential buildings in Atlantic Canada and the Dartmouth portion offers great economies of scale and upside when combined with our existing properties in Dartmouth.

On May 5, 2005 the Company completed a $57.5 million private placement. The private placement consisted 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 have a seven year term, bear a coupon of 6.50%, and are convertible into common shares at a price of $3.10 per share.

Portfolio Summary
(June 30, 2005)

	Number of Units	Percentage
Halifax	3,248	33.2%
Moncton	1,759	18.0%
Saint John	1,104	11.3%
Fredericton	378	3.9%
St. Johns/Grand Falls	436	4.4%
Sydney	139	1.4%
PEI	253	2.6%
Other NS	1,174	12.0%
Ontario	1,293	13.2%
Total	9,784	100%
Apartments	5,590	57.1%
MHCs	4,194	42.9%
Total	9,784	100%

Management's Discussion and Analysis:

Financial Performance Summary

As at

	June 30, 2005	June 30, 2004	December 31, 2004
Total assets	**$398,574,952**	$149,983,371	$242,845,701
Long-term debt	**256,668,026**	76,720,415	159,900,874
Shareholders' equity	**94,472,536**	71,493,999	77,974,544

	3 months ended June 30		*6 months ended June 30*	
	2005	2004	**2005**	2004
Total revenue	**$10,887,501**	$3,497,223	**$19,758,069**	$6,242,270
Net income (loss)	**107,556**	18,065	**45,738**	(126,685)
Funds from operations	**2,561,445**	803,225	**4,159,635**	1,169,852
Net income (loss) per share - basic	**0.0014**	0.0004	**0.0006**	(0.0026)
- diluted	**0.0013**	0.0003	**0.0006**	(0.0024)

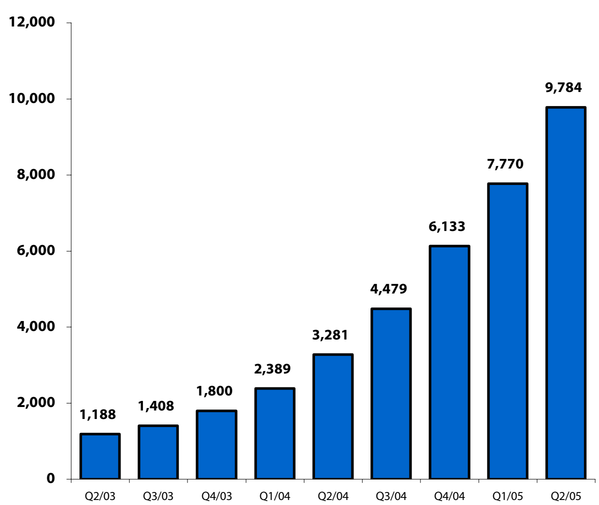
Total Assets increased $155.7 million (64%) over December 31, 2004 as a result of completing nine acquisitions during the first quarter and 17 acquisitions in the second quarter of 2005. These acquisitions added 3,651 units to our rental portfolio.

Total Revenue for the second quarter of 2005 increased $7.4 million (211%) over the same period in 2004 and 216% on a year-to-date basis driven by the unit growth during 2005.

Net Income of $107,556 and $45,738 for the three and six months ended June 30, 2005 is a reflection of the Company's continued growth and focus on cost reduction.

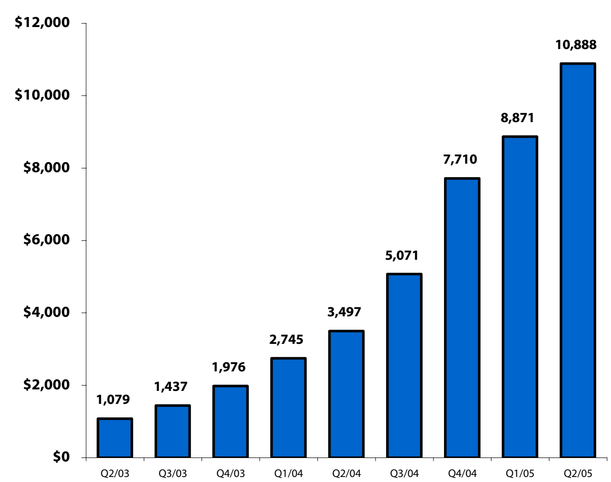
Funds from Operations (FFO) increased by $1.7 million over the second quarter of 2004 and $3.0 million for the first half of 2005 versus 2004 as a result of the increase in the rental portfolio.

Unit Growth



Revenue Growth

(in $000's)



Management's Discussion and Analysis:

Financial Statement Analysis

Consolidated Statement of Income

Revenue

	3 months ended June 30		*6 months ended June 30*	
	2005	2004	**2005**	2004
Rental income	**$10,721,981**	$3,470,089	**$19,554,477**	$6,169,906
Interest income	**119,910**	19,874	**132,599**	58,233
Other income	**45,611**	7,260	**70,993**	14,131
	$10,887,502	$3,497,223	**$19,758,069**	6,242,270

Rental revenue increased $7.25 million or 209% and $13.4 million or 217% compared to the second quarter and first half of 2004 respectively. The increase is due primarily to the completion of accretive acquisitions over the past twelve months.

The annualized rental revenue of the properties the Company owned as at June 30, 2005 is approximately $50.6 million based on the rental and vacancy rates as at quarter 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 $0.56 million.

The following table presents our revenues by operating segment:

	3 months ended June30		*6 months ended June30*	
	2005	2004	**2005**	2004
Apartments	**$8,583,946**	$2,910,617	**$16,286,659**	$5,277,536
Manufactured Home Communities	**2,185,350**	565,730	**3,336,786**	907,178
Corporate	**118,206**	20,876	**134,624**	57,556
	$10,887,502	$3,497,223	**$19,758,069**	$6,242,270

Weighted average rent per unit		
Apartments	**$711**	$674
Manufactured Home Communities	**$183**	$148

Property Operating Expenses

	3 months ended June 30		*6 months ended June 30*	
	2005	2004	**2005**	2004
Apartments	**$3,577,805**	$1,090,807	**$7,418,484**	$2,168,168
Manufactured Home Communities	**719,647**	183,397	**1,109,900**	337,712
	$4,297,452	$1,274,204	**$8,528,384**	$2,505,880
As a Percentage of Rental Revenue	**40.1%**	36.7%	**43.6%**	40.6%

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.

Management's Discussion and Analysis:

Financial Statement Analysis (continued)

Property operating expenses as a percentage of rental revenue increased to 43.6% in 2005 from 40.6% in the first half of 2004. There are a number of factors which contributed to this increase during 2005:

- Killam has seen general increases in oil (during late 2004 and 2005 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.

By year-end 2005 Killam expects to have 26.5% of its apartment portfolio heated by natural gas with the balance heated by oil (49.5%) and by electricity (24%, which is paid directly by the tenant). Killam's strategy is to continue increasing the number of units heated by natural gas.

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 2005 on a gross dollar basis compared to the prior year due to the increase in the mortgage portfolio related to acquisitions. Mortgage and loan interest is expected to continue to increase in 2005 as the Company continues to expand its portfolio. However, Killam expects to continue 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 at June 30, 2005 would increase financing costs by approximately $2.6 million per year.

Amortization Expense

Amortization expense increased $1.5 million compared to the second quarter of 2004 and $2.6 million versus the first half of 2004. The increase in amortization is a result of the increased portfolio.

General and Administrative Expenses

	3 months ended June 30		*6 months ended June 30*	
	2005	2004	**2005**	2004
Total	**$461,891**	$288,367	**$988,786**	589,338
As a Percentage of Rental Revenue	**4.3%**	8.3%	**5.1%**	9.6%

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 percentage has decreased from the same periods in 2004 as there is a relatively fixed component of these expenses which continues to be spread over a greater amount of revenue as Killam continues to expand its portfolio.

Management's Discussion and Analysis:

Financial Statement Analysis (continued)

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 and is not a function of the time the capital is invested. These taxes are deductible for provincial and federal income tax purposes and the tax benefit of this deduction is included in Income Tax as discussed below. The increase in provincial capital tax for the second quarter and first half of 2005 is a result of the Company's private placement in May 2005.

Income Tax

	3 months ended June 30		*6 months ended June 30*	
	2005	2004	**2005**	2004
Current	**$45,000**	$10,374	**$64,752**	$20,748
Future	**93,502**	16,702	**67,719**	(61,698)
	$138,502	$27,076	**$132,471**	$40,950

Current income tax expense represents federal large corporation's tax. The increase over the same period of 2004 is largely a result of the Company's May 2005 private placement. In addition, the Company has booked a future income tax expense representing the future tax expense on Killam's 2005 net income at a rate of approximately 38%.

Same Store Results

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

	3 months ended June 30		*6 months ended June 30*	
	2005	2004	**2005**	2004
Rental revenues	**$2,336,521**	$2,249,995	**$4,651,573**	$4,527,147
Property operating expenses	**952,435**	883,341	**1,988,722**	1,953,815
Earnings from property operations	**$1,384,086**	$1,366,654	**$2,662,851**	$2,573,332
Operating expenses as a percentage of rental revenue	**40.7%**	39.3%	**42.8%**	43.2%

Earnings from property operations increased $17,432 and $89,519 or 1.3% and 3.5% for the three and six months ended June 30, 2005 compared to the prior year as a result of an increased effort to reduce costs. Rental revenues increased 3.8% and 2.7% as a result of beginning to lease units which had been undergoing renovations as well as increased rents at re-leasing. Property operating expense as a percentage of revenue for 2005 remained stable even with the large increases in oil, water and property tax costs as the Company continues to focus on cost reductions.

Management's Discussion and Analysis:

Financial Statement Analysis (continued)

Consolidated Balance Sheet

The following is a discussion of the changes in the Company's balance sheet from the end of the last fiscal year, December 31, 2004 to the end of the second quarter, June 30, 2005.

Capital Assets

	June 30 2005	December 31 2004	% change
Net book value	**$378,710,760**	$235,199,298	61%

Capital assets increased to $378.7 million from $235.2 million, as a result of 26 acquisitions totaling 3,651 units in the first half of 2005.

The following table is a summary of the Company's acquisitions during the second quarter and first half of 2005. 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.

	3 months ended June 30, 2005	**6 months ended June 30, 2005**
Apartment Acquisitions		
Value of acquisitions	**$80,919,000**	**$93,234,000**
Units acquired	**1,271**	**1,528**
Average price per unit	**$63,666**	**$61,017**
MHC Acquisitions		
Value of acquisitions	**$16,725,000**	**$43,075,000**
Units acquired	**743**	**2,123**
Average price per unit	**$22,510**	**$20,290**

During the first and second quarters Killam continued to expand its geographic reach with the acquisition of additional MHC units in Ontario. During the second quarter the Company completed its largest single acquisition to date with the acquisition of the 723 unit Maplehurst Portfolio in Halifax and Dartmouth, NS. A number of the acquisitions in 2005 are adjacent to Killam's existing buildings and MHCs which allow the Company to have greater control in providing a consistent level of service and achieve cost savings through better utilization of resources.

Capital Improvements

In addition to property acquisitions, the Company has invested $6.4 million in property improvements as set out below:

	Q1	**Q2**	**Total YTD**
Project improvements	$1,281,827	$2,948,961	$4,230,788
Suite improvements	411,847	1,399,332	1,811,179
Parking lots	3,035	19,546	22,581
Appliances	44,808	137,973	182,781
Furniture & Fixtures	14,766	102,885	117,651
Total	$1,756,283	$4,608,697	$6,364,980

Included in the project improvement numbers presented above is $2.6 million of renovations related to the Company's Woodward Gardens re-positioning project.

Management's Discussion and Analysis:

Financial Statement Analysis (continued)

Deferred Financing

	June 30 2005	December 31 2004	% change
Deferred financing costs	**$4,817,638**	$1,533,939	214%
Less: accumulated amortization	**(680,656)**	(511,010)	33%
	$4,136,982	$1,022,929	304%

Deferred financing costs (net of amortization) increased $3.1 million largely as a result of the May private placement ($2.1 million) with the remainder due to the increase in the portfolio. The costs related to mortgage assumption, application fees and legal costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. The costs associated with the convertible debentures are amortized over the term of the debenture.

Prepaid Expenses

	June 30 2005	December 31 2004	% change
Property taxes	**$1,564,626**	$295,780	429%
Insurance	**457,709**	230,616	98%
Other	**791,970**	197,181	302%
	$2,814,305	$723,577	289%

The large increase in prepaids over the December 31, 2004 balance is due to the increased size of the portfolio as well as the timing of property tax payments in various provinces.

Mortgages Payable

	June 30 2005	December 31 2004	% change
Mortgages	**$246,526,986**	$154,085,874	60%
Vendor financing	**10,141,040**	5,815,000	74%
	$256,668,026	$159,900,874	61%
Weighted average years to maturity	**5.7**	6.1	
Debt as a percentage of NBV	**67.8%**	68.0%	
Weighted average interest rate	**5.6%**	5.9%	

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize vendor-take-back mortgages as part of an acquisition. Mortgages are secured by a first or second charge against the individual properties and the vendor financing is secured by a general corporate guarantee. The increase in mortgages payable is due to the continued growth of the Company. Killam's weighted average interest rate fell to 5.6% at June 30, 2005 from 5.9% as at December 31, 2004 and 5.8% at March 31, 2005. 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's weighted average years to maturity fell from year end and March 31, 2005 as a result of the assumption of the Maplehurst portfolio mortgages at June 30, 2005 which have a shorter term to maturity than the Company's usual financing terms.

Financial Statement Analysis (continued)

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 June 30, 2005 *($000's)***	**Average Int. Rate %**
2005	2,123	6.58
2006	8,024	6.15
2007	7,868	5.26
2008	39,944	6.10
2009	68,366	5.33
2010	43,993	5.15
2011	—	—
2012	3,366	6.15
2013	10,920	6.16
2014	27,867	5.99
2015	40,241	5.47
Thereafter	3,956	6.94

Convertible Debenture

	June 30 2005	December 31 2004	% change
Convertible debentures	**$40,627,038**	$Nil	—%

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

Shareholders' Equity

	June 30 2005	December 31 2004	% change
Capital stock	**$92,596,961**	$77,809,075	19%
Contributed surplus	**296,659**	233,984	27%
Other paid-in capital	**1,601,693**	—	—
Deficit	**(22,777)**	(68,515)	67%
	$94,472,536	$77,974,544	21%

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

Management's Discussion and Analysis:

Financial Statement Analysis (continued)

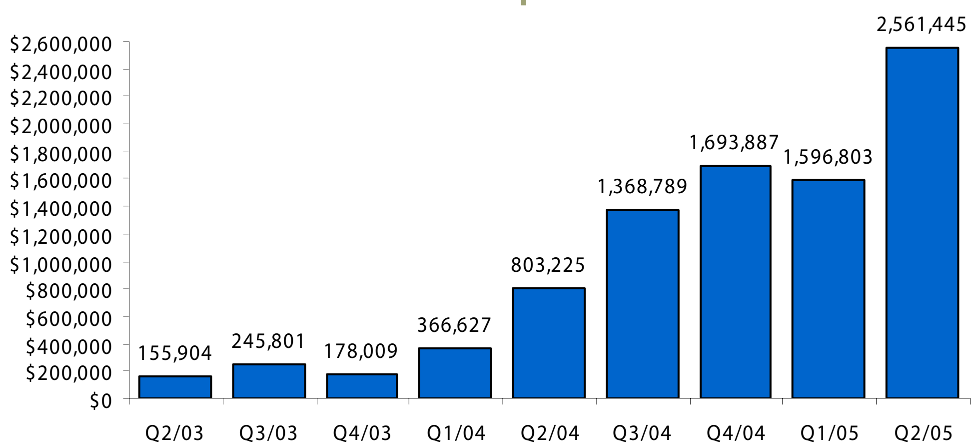
Consolidated Statement of Cash Flows

Operating Activities

	3 months ended June 30		*6 months ended June 30*	
	2005	2004	**2005**	2004
Funds from operations	**$2,561,445**	$803,225	**$4,159,635**	$1,169,852
FFO/share	**$0.03**	$0.02	**$0.05**	$0.02

The Company's funds from operations continued to grow on a total dollar and per share basis during the second quarter of 2005 compared to the same periods in 2004 largely as a result of the expanded portfolio during late 2004 and the first half of 2005.

Funds From Operations



Financing Activities

Issuance of Common Shares

As discussed earlier in the MD&A, the Company completed the private placement of 6 million common shares in the second quarter of 2005 at a price of $2.55 per share.

Financing of Capital Assets

During the second quarter of 2005 the financing of new acquisitions and the re-financing of existing properties totaled $44.5 million compared to $18.1 million during the same period of 2004. For the six months ended June 30, 2005 new financings totaled $76.0 million versus $25.6 million in 2004. These amounts exclude mortgages assumed on acquisition. See the section on Mortgages Payable elsewhere in the MD&A for a further discussion of financing.

Investing Activities

As discussed earlier in the MD&A, the Company completed the acquisition of 17 properties representing 2,014 units during the second quarter of 2005 and 26 properties representing 3,651 units in the first half of 2005. The purchase of capital assets amount in the cash flow statement is shown net of the value of shares issued to complete the acquisitions and debt assumed. In addition the Company completed approximately $4.6 million of capital improvements to its properties during the second quarter of 2005.

Management's Discussion and Analysis:

Liquidity and Capital Resources

The Company intends to meet its short-term liquidity requirements (defined as monthly mortgage payments of principal and interest and ongoing operating costs) through net cash 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 June 30, 2005 the Company had available $9.3 million of cash. Subsequent to June 30, 2005 the Company renegotiated its acquisition bridge facility to increase the facility to a $20 million revolving secured facility and a $20 million non-revolving term facility. The cash on hand and credit facilities provide the Company with sufficient capital to continue its acquisitions in the short term. 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.

Risk Management

Killam, like most real estate companies, is exposed to a variety of risk areas. These are described in detail in the Management's Discussion and Analysis found in Killam's 2004 Annual Report. These factors still exist at the end of this interim period and remain relatively unchanged.

Critical Accounting Estimates

The Company's accounting policies are described in Note 2 of the consolidated financial statements, found in the 2004 Annual Report. 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. Since January 1, 2004 the Company has used the straight-line method of amortization in accordance with Section 1100 of the Canadian Institute of Chartered Accountants (CICA) Handbook. If management's assumptions of estimated useful life or allocation of purchase price to building assets proves incorrect, the computation of depreciation could be materially different than recorded amounts.

Property Acquisitions

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

Management's Discussion and Analysis:

Future Objectives

Killam continued its growth during the second quarter of 2005. With the proceeds from our May 2005 private placement, acquisition facilities and re-financing opportunities, Killam is well positioned to continue its aggressive growth strategy. Subsequent to quarter-end we closed six properties representing 293 units and have additional properties under contract which we anticipate will close by the end of the second half of 2005.

As set out in the 2004 Annual Report our goals for 2005 remain to:

- 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 accretive growth and that market fundamentals remain strong.