Consolidated Balance Sheets

As at

	September 30 2005	December 31 2004
	(unaudited)	*(audited)*
ASSETS		
Capital assets *(note 4)*	**401,468,149**	235,199,298
Cash and cash equivalents *(note 3)*	**2,447,517**	4,168,071
Accounts receivable	**382,356**	189,320
Income tax receivable	**-**	214,897
Prepaid expenses	**2,674,641**	723,577
Deferred financing costs (net)	**4,290,774**	1,022,929
Future income taxes	**1,478,939**	1,327,609
	412,742,376	242,845,701
LIABILITIES AND SHAREHOLDERS' EQUITY		
Long-term debt *(note 5)*	**268,579,734**	159,900,874
Convertible debentures *(note 8)*	**40,672,574**	-
Accounts payable & accrued liabilities	**5,599,971**	2,967,334
Income tax payable	**314,617**	-
Security deposits	**1,121,787**	644,943
Future income taxes	**1,451,508**	1,358,006
	317,740,191	164,871,157
Shareholders' Equity		
Capital stock *(note 7)*	**92,819,884**	77,809,075
Contributed surplus *(note 7)*	**351,656**	233,984
Other paid-in capital *(note 8)*	**1,601,693**	-
Deficit	**228,952**	(68,515)
	95,002,185	77,974,544
	412,742,376	242,845,701

See accompanying notes

Consolidated Statements of Income and Retained Earnings (deficit)

(Unaudited)

	For the 3 months ended September 30		For the 9 months ended September 30	
	2005	2004	**2005**	2004
	$	$	**$**	$
Revenue				
Rental income	**13,710,441**	4,946,578	**33,264,918**	11,116,484
Interest income	**21,833**	110,010	**154,432**	168,243
Other income	**45,280**	14,029	**116,273**	28,160
	13,777,554	5,070,617	**33,535,623**	11,312,887
Property expenses				
Property operating expenses	**5,129,989**	1,906,428	**13,658,374**	4,412,308
	8,647,565	3,164,189	**19,877,249**	6,900,579
Mortgage and loan interest	**3,654,416**	1,311,291	**9,003,569**	3,150,212
Convertible debenture interest	**731,286**	-	**1,180,751**	-
Amortization	**3,084,670**	1,052,410	**7,039,442**	2,410,645
General and administrative	**479,847**	310,728	**1,468,633**	900,066
Professional fees	**40,900**	14,314	**171,680**	71,115
Provincial capital taxes	**132,957**	108,084	**287,043**	144,111
Interest and bank charges	**24,532**	13,319	**48,965**	38,022
	8,148,608	2,810,146	**19,200,083**	6,714,171
Income before income taxes	**498,957**	354,043	**677,166**	186,408
Provision for income taxes				
- current	**(57,624)**	(37,664)	**(122,376)**	(58,412)
- future	**(189,604)**	(130,669)	**(257,323)**	(68,971)
Net income	**251,729**	185,710	**297,467**	59,025
Deficit, beginning of period	**(22,777)**	(193,957)	**(68,515)**	(67,372)
Adjustment to opening balance *(note 2)*	**-**	(235,376)	**-**	(235,276)
Retained earnings (deficit), end of period	**228,952**	(243,623)	**228,952**	(243,623)
Net income per share				
- basic	**$ 0.0031**	$ 0.0026	**$ 0.0038**	$ 0.0010
- diluted	**$ 0.0030**	$ 0.0025	**$ 0.0037**	$ 0.0010

See accompanying notes

Consolidated Statements of Cash Flows

(Unaudited)

	For the 3 months ended September 30		For the 9 months ended September 30	
	2005	2004	**2005**	2004
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income	**251,729**	185,710	**297,467**	59,025
Add items not affecting cash				
Amortization	**3,084,670**	1,052,410	**7,039,442**	2,410,645
Non-cash debenture interest	**45,536**	-	**74,267**	-
Non-cash compensation expense	**54,997**	-	**117,672**	-
Future income taxes	**189,604**	130,669	**257,323**	68,971
Funds from operations	**3,626,536**	1,368,789	**7,786,171**	2,538,641
Net change in non-cash working capital items related to operations	**1,654,674**	815,704	**1,494,895**	712,871
Cash provided by operating activities	**5,281,210**	2,184,493	**9,281,066**	3,251,512
FINANCING ACTIVITIES				
Increase in deferred financing	**(303,399)**	(125,794)	**(3,586,624)**	(483,618)
Issue of common shares for cash (net of issue costs)	**(3,352)**	1,975,424	**14,470,657**	41,296,048
Issuance of convertible subordinated debentures	**-**	-	**40,132,504**	-
Increase in credit facility	**-**	10,000,000	**-**	10,000,000
Repayment of long term debt	**(2,727,529)**	(498,745)	**(6,021,288)**	(8,276,145)
Issuance of long-term debt	**8,030,500**	7,880,000	**84,039,238**	33,505,860
Cash provided by financing activities	**4,996,220**	19,230,885	**129,034,487**	76,042,145
INVESTING ACTIVITIES				
Purchase of capital assets	**(18,858,714)**	(48,521,108)	**(140,036,107)**	(84,913,519)
Cash used in investing activities	**(18,858,714)**	(48,521,108)	**(140,036,107)**	(84,913,519)
Net decrease in cash and cash equivalents	**(8,581,284)**	(27,105,730)	**(1,720,554)**	(5,619,862)
Cash and cash equivalents, beginning of period	**11,028,801**	34,669,428	**4,168,071**	13,183,560
Cash and cash equivalents, end of period	**2,447,517**	7,563,698	**2,447,517**	7,563,698

Notes to Consolidated Financial Statements

(Unaudited)

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 and nine months ended September 30, 2005 and 2004 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in utility, landscaping 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.

Convertible subordinated debentures

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

Notes to Consolidated Financial Statements

(Unaudited)

3. Cash and Cash Equivalents

	September 30, 2005	December 31, 2004
Cash	**$ 879,109**	$2,006,934
Tenant security deposits	**495,965**	397,788
Restricted cash	**1,072,443**	1,763,349
	$2,447,517	$4,168,071

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

4. Capital Assets

	September 30, 2005		December 31, 2004	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 40,981713**	**$ —**	$ 23,905,349	$ —
Buildings	**289,718,841**	**6,776,096**	185,521,711	2,727,714
Roads and driveways	**31,591,930**	**996,318**	11,941,998	314,694
Water and sewer	**31,616,177**	**1,488,823**	11,969,000	472,306
Suite renovations	**5,051,144**	**701,591**	1,708,817	252,691
Project improvements	**10,041,480**	**455,797**	2,544,731	148,530
Other assets	**3,260,833**	**375,344**	1,688,895	165,268
	$412,262,118	**$10,793,969**	239,280,501	$4,081,203
Less: accumulated amortization	**(10,793,969)**		(4,081,203)	
	$401,468,149		$235,199,298	

5. Long-Term Debt

Mortgages payable of $257,980,834 (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 $10,598,900 (December 2004 - $5,815,000) bear interest at fixed rates from 0.00% to 7.25% with maturity dates ranging from November 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 September 30, 2005 was 5.6% (December 2004 – 5.9%).

Principal repayments of mortgages are due as follows:

Year	
2005	**$ 2,164,586**
2006	**15,828,838**
2007	**13,028,733**
2008	**43,022,092**
2009	**66,633,676**
Thereafter	**127,901,809**
	$268,579,734

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 September 30, 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) $20,000,000 senior revolving facility to fund asset acquisitions, bearing interest at the greater of prime plus 3.75% or 8.0% plus a 0.6% fee on undrawn amounts (expensed monthly). As at September 30, 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.

(b) $20,000,000 revolving senior secured facility to fund asset acquisitions bearing interest at the greater of prime plus 5.0% or 9.25%. As at September 30, 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

Contributed Surplus

	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 1st quarter	**235,371**	234,661
Stock options expensed	**61,288**	735
Balance, end of 2nd quarter	**296,659**	235,396
Stock options expensed	**54,997**	735
Stock options exercised	—	(2,880)
Balance, end of 3rd quarter	**$351,656**	$233,251

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

Notes to Consolidated Financial Statements

(Unaudited)

7. Capital Stock and Contributed Surplus (cont)

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 1st 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
Issued during 2nd quarter				
Issued on property acquisitions (i)	—	—	44,248	96,762
Issued for cash (ii)	**6,000,000**	**14,474,009**	22,080,000	39,307,123
Tax benefit of issuance costs	—	**313,877**	—	980,734
Balance, end of quarter	**80,856,631**	**92,596,961**	70,459,469	71,687,936
Issued during 3rd quarter				
Issued on property acquisitions (i)	**84,906**	**225,001**	782,591	1,580,219
Issued for cash	—	**(3,352)**	—	—
Stock options exercised	—	—	221,000	56,680
Warrants exercised (iii)	—	—	1,080,500	1,921,623
Tax benefit of issuance costs	—	**1,274**	—	50,000
Balance, end of quarter	**80,941,537**	**$92,819,884**	72,543,560	$75,296,458

(i) Net of issuance costs of $Nil (2004 - $4,859, $3,328 and $3,781)
(ii) Net of issuance costs of $825,991 (2004 - $2,644,877)
(iii) Net of issuance costs of $Nil (2004 - $131,327)

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.

8. Convertible Subordinated Debentures

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

Notes to Consolidated Financial Statements

(Unaudited)

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

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

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

Options granted and exercised during the three months ended September 30 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)	0.30
Outstanding, end of 1st quarter	**1,732,000**	**$0.47**	2,007,000	0.43
Granted	**1,779,500**	**2.05**	—	—
Outstanding, end of 2nd quarter	**3,511,500**	**$1.27**	2,007,000	0.43
Exercised	—	—	(221,000)	0.24
Outstanding, end of 3rd quarter	**3,511,500**	**$1.27**	2,007,000	$0.46

9. Stock Options and Warrants (continued)

The following table summarizes the stock options outstanding at:

	September 30, 2005		December 31, 2004	
Exercise prices	**Number of Options Outstanding**	**Remaining Contractual Life**	Number of Options Outstanding	Remaining Contractual Life
$0.20	**350,000**	**0.20 years**	350,000	.95 years
$0.30	**513,000**	**1.65 years**	513,000	2.40 years
$0.30	**10,000**	**1.69 years**	10,000	2.44 years
$0.56	**200,000**	**2.69 years**	200,000	3.44 years
$0.65	**609,500**	**2.69 years**	609,500	3.44 years
$1.30	**10,000**	**3.17 years**	10,000	3.92 years
$1.69	**29,500**	**3.20 years**	29,500	3.96 years
$2.00	**10,000**	**4.17 years**	10,000	4.92 years
$2.05	**1,779,500**	**4.59 years**	—	—
	3,511,500		1,732,000	

Included in the above figures are 1,616,427 options at an average exercise price of $2.04, that were not exercisable at September 30, 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:

	September 30, 2005		December 31, 2004	
Exercise price	**Number of Options Outstanding**	**Remaining Contractual Life**	Number of Options Outstanding	Remaining Contractual Life
$0.95	**500,000**	**2.91 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.

Notes to Consolidated Financial Statements

(Unaudited)

10. Per Share Information

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

Three months ended September 30,	**2005**	2004
Basic	**80,930,462**	49,571,261
Fully diluted	**83,118,750**	53,441,773

Six months ended September 30,	**2005**	2004
Basic	**78,111,970**	48,901,187
Fully diluted	**80,301,169**	52,267,622

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

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 three and nine months ended September 30, 2005 and 2004 are set out as follows:

As at and for the three months ended September 30, 2005

	Multi-family Apartments	Manufactured Home Communities	Corporate	Total
Revenue	**$11,086,307**	**$2,671,117**	**$20,130**	**$13,777,554**
Property operating expenses	**4,136,052**	**993,937**	**—**	**5,129,989**
Earnings from property operations	**$6,950,255**	**$1,677,180**	**$20,130**	**$8,647,565**
Capital assets (net)	**$331,366,432**	**$69,487,336**	**$614,381**	**$401,468,149**

Notes to Consolidated Financial Statements

(Unaudited)

As at and for the three months ended September 30, 2004

	Multi-family Apartments	Manufactured Home Communities	Corporate	Total
Revenue	$4,292,829	$668,924	$108,864	$5,070,617
Property operating expenses	1,678,266	228,162	—	1,906,428
Earnings from property operations	$2,614,563	$440,762	$108,864	$3,164,189
Capital assets (net)	$155,860,506	$15,348,813	$247,627	$171,456,946

For the nine months ended September 30, 2005

	Multi-family Apartments	Manufactured Home Communities	Corporate	Total
Revenue	**$27,372,966**	**$6,007,903**	**$154,754**	**$33,535,623**
Property operating expenses	**11,554,537**	**2,103,837**	**—**	**13,658,374**
Earnings from property operations	**$15,818,429**	**$3,904,066**	**$154,754**	**$19,877,249**

For the nine months ended September 30, 2004

	Multi-family Apartments	Manufactured Home Communities	Corporate	Total
Revenue	$9,570,365	$1,576,102	$166,420	$11,312,887
Property operating expenses	3,846,434	565,874	—	4,412,308
Earnings from property operations	$5,723,931	$1,010,228	$166,420	$ 6,900,579

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 September 30, 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. Related Party Transactions

During the first half of 2005 the Company paid real estate commissions of $129,220 to a Company controlled by a director. The commissions were based on market rates and there is no continuing contractual obligation to use the service of the related party. There were no related party transactions during the third quarter of 2005.

14. Subsequent Events

During the period of October 1 to November 4, 2005 the Company completed 3 property acquisitions representing 211 units. The total purchase price of the acquisitions was $11.9 million which was satisfied through mortgages totaling $7.4 million and $4.5 million from the Company's acquisition facilities.

In addition, the Company has increased financing on certain properties by $0.4 million and has commitments to refinance $6.0 million of existing mortgages to net additional proceeds of $6.0 million.

15. Comparative Figures

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