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, 2005 and 2004. 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 7, 2006. 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 2005.

Financial Performance Summary provides a high-level overview of the Company and its financial performance in 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 2005 and financial position as at December 31, 2005. The results of the Company's fourth quarter of 2005 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.

Controls and Procedures provides a description of management's evaluation of the effectiveness, design and operation of its disclosure controls and procedures.

Future Objectives provides an overview of the Company's key performance targets for 2006.

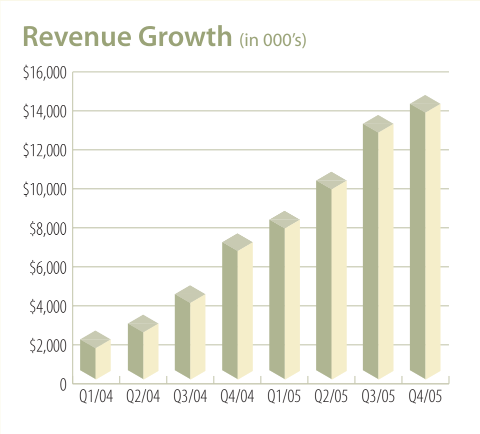
Forward-looking Statements

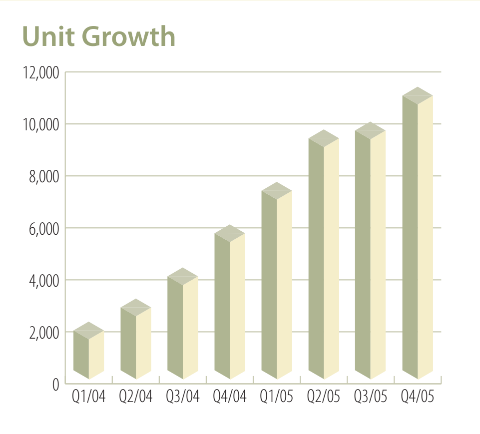
Certain statements in this MD&A constitute "forward-looking statements". You can identify forward-looking statements by our use of the words "believe", "expect", "anticipate", "intend", "estimate", "assume", "project", and other similar terms that predict or indicate future events and trends that do 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. A number of these factors are set out in the Risk Management section of this MD&A.

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 income 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.





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 (MHCs). Killam's corporate strategy is based on the principles of bringing professional management to a fragmented industry coupled with a portfolio diversified by two asset classes operating in multiple regions.

Killam continued to consolidate the rental market during 2005 with the acquisition of 50 properties representing 5,296 units to bring the Company's total portfolio to 11,429 units, an increase of 86% since December 31, 2004.

Portfolio Summary

By Unit Type and Location

	Apartments	MHCs	Total
Halifax	3,396	291	3,687
Moncton	663	1,160	1,823
Saint John	1,062	100	1,162
Fredericton	202	176	378
St. John's/Grand Falls	436	86	522
Sydney	156	217	373
PEI	553	–	553
Other NS	–	984	984
Ontario	–	1,700	1,700
Saskatchewan	–	247	247
Total	6,468	4,961	11,429
Percentage by units	56.6%	43.4%	
Percentage by dollar value	81.7%	18.3%	

Financial Performance Summary

For the year ended December 31

	2005	2004	2003
Total assets	**$469,516,525**	$242,845,701	$76,190,396
Mortgages payable	**302,821,105**	159,900,874	44,402,770
Shareholders' equity	**94,843,668**	77,974,544	30,619,723
Total revenue	**48,356,382**	19,023,166	5,158,147
Net income (loss)	**4,847**	234,133	(96,377)
Funds from operations	**10,922,731**	4,232,529	575,933
Net income (loss) per share			
– basic	**0.0001**	0.0040	(0.003)
– diluted	**0.0001**	0.0040	(0.003)

Total Assets increased to $469.5 million (93%) over December 31, 2004 as a result of completing 50 acquisitions during 2005. These acquisitions added 5,296 units to our rental portfolio.

Total Revenue for 2005 increased $29.3 million (154%) over 2004 driven by the unit growth during 2005 and the effects of a full year of revenue for properties acquired in 2004.

Net Income of $4,847 for 2005 is lower than 2004 as a result of a number of factors including share capital compensation and non-cash debenture interest totaling $292,473 (see detailed discussion later in the MD&A).

Funds from Operations (FFO) increased by $6.7 million (158%) over 2004 as a result of the increase in the rental portfolio during 2005 and the effects of a full year of results for properties acquired in 2004.

Revenues Per Acquisition Year

(In $000s)

	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue from 2002 acquisitions	$ 632	$ 634	$ 656	$ 652	$ 632	$ 646	$ 652	$ 657
Revenue from 2003 acquisitions	1,645	1,616	1,642	1,685	1,683	1,690	1,690	1,647
Revenue from 2004 acquisitions	431	1,226	2,664	5,343	6,339	6,319	6,498	6,644
Revenue from 2005 acquisitions	–	–	–	–	200	2,114	4,917	5,761
	$2,708	$3,476	$4,962	$7,680	$8,854	$10,769	$13,757	$14,709

The above revenue excludes corporate revenues.

Financial Statement Analysis

Consolidated Statement of Income

Revenue

	2005	2004	% change
Rental income	**$47,764,779**	$18,774,676	154%
Interest income	**165,813**	193,317	(14.4)%
Other income	**425,790**	55,173	672%
	$48,356,382	$19,023,166	154%

Rental revenue increased $29.0 million or 154% over 2004 driven by Killam's unit growth during 2005 and the effects of a full year of revenue for properties acquired in 2004.

The annualized rental revenue of the properties the Company owned as at December 31, 2005 is approximately $60 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% change in vacancy rates would impact the annualized rental revenues by $0.60 million.

Other income includes a gain on the sale of a home acquired as part of a larger transaction in 2005 as well as income from the sale of manufactured homes, commissions on the placement of homes by retailers, commissions on the Company's exclusivity agreement with Aliant Inc. and other sundry revenue from tenants. Killam will increase its participation in the sale of manufactured homes in 2006 with the expansion of its Pine Tree, Green Hill and Cowan Place Manufactured Home Communities.

The following table presents our revenues by operating segment:

	2005	2004	% change
Apartments	**$39,267,338**	$16,424,809	139%
Manufactured Home Communities	**8,822,121**	2,401,678	267%
Corporate	**266,923**	196,679	36%
	$48,356,382	$19,023,166	154%
Weighted average rent per unit			
Apartments	**$704**	$645	
Manufactured Home Communities	**$188**	$170	

Weighted average rent per unit increased for both apartments and MHCs in 2005 over 2004. Both of these increases are primarily a result of new acquisitions in the relatively more expensive sub-markets of Halifax for apartments and southwestern Ontario for MHCs.

Property Operating Expenses

	2005	2004	% change
Apartments	**$17,001,309**	$7,133,453	138%
Manufactured Home Communities	**3,189,845**	854,896	273%
	$20,191,154	$7,988,349	153%
As a Percentage of Rental Revenue	**42.3%**	42.5%	

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 decreased slightly to 42.3% in 2005 from 42.5% in 2004. This decrease was obtained through effective cost management even with large increases in the following costs and other factors:

- Oil increased 32% in 2005 versus 2004 while natural gas spiked in Q4 2005 by 92% over the same quarter of the previous year. Natural gas has leveled out in the first quarter of 2006.
- In many of our markets, water and electricity rates increased 5 – 6% and property taxes have increased 10 – 15%.
- Killam had not actively pursued rental increases to offset these rising operating costs as it continued to consolidate the marketplace. Increases in rent likely would have the effect of raising the cost of acquiring other buildings within those markets. However, during the third quarter of 2005 the Company has initiated rental increases in those markets where we have a significant presence.

At year-end 2005, Killam heated 24% of its apartment portfolio by electricity which is paid directly by the tenants. The balance of the apartment portfolio is heated by a combination of natural gas (26.5%) and oil (49.5%).

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 it has 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.

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 (1,800 units) we have owned for equivalent periods in 2005 and 2004.

	2005	2004	% change
Rental revenues	**$9,297,503**	$9,161,545	1.5%
Property operating expenses	**3,900,063**	3,883,488	0.4%
Earnings from property operations	**$5,397,440**	$5,278,057	2.3%
Operating expenses as a percentage of rental revenue	**41.9%**	42.4%	

Earnings from property operations increased $119,383 or 2.3% compared to the prior year. Rental revenues increased 1.5% 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 decreased even with the significant increases in energy and utility costs which occurred in 2005.

For the year ended December 31, 2006 this same store analysis will be expanded to 60 properties representing 6,133 units.

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 on a gross dollar basis is expected to continue to increase in 2006 as the Company continues to expand its portfolio. However, Killam expects to continue to finance properties at favorable rates throughout 2006. Please see further discussion in the Mortgages Payable section of this 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 mortgages at December 31, 2005 would affect financing costs by approximately $3.0 million per year were all of Killam's debt due within one year. However, only $65 million of Killam's mortgages are due within the next three years. Therefore, that same interest rate change would only affect Killam by $0.6 million.

Amortization Expense

Amortization expense increased $6.6 million compared to 2004. The increase in amortization is a result of the increased portfolio as well as Killam's capital improvement program.

General and Administrative Expenses

	2005	2004	% change
Total	**$2,013,776**	$1,273,388	58%
As a percentage of rental revenue	**4.2 %**	6.8%	

General and administrative expenses include expenses which are not specific to an individual property. These expenses include TSX related costs, management salaries and benefits, office rent, communication costs, office equipment leases and other head office expenses. The general and administrative percentage has decreased from 2004 as there is a relatively fixed component of these expenses which continues to be spread over increased revenue as Killam continues to grow its portfolio.

Provincial Large Corporation Tax (Capital Tax)

The Company is required to pay provincial capital tax in certain provinces based on the total taxable capital invested in those provinces at year-end. 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 from $100,000 in 2004 to $209,250 in 2005 is largely the result of the Company's private equity and debt placement completed in May 2005.

Income Tax

	2005	2004	% change
Current	**$ 59,028**	$ –	N/A
Future	**212,855**	144,234	48%
	$271,883	$144,234	89%

Current income tax expense represents federal large corporation's tax. The increase over 2004 is largely the result of the Company's May 2005 private equity and debt placement. In addition, the Company has booked a future income tax expense representing the future tax expense on Killam's 2005 net income at an effective rate of approximately 77%. The Company's statutory rate of approximately 37% is affected by the Company's non-cash compensation expense and non-cash debenture interest totaling $292,473 which are considered permanent differences for tax purposes.

Consolidated Balance Sheet

Capital Assets

	2005	2004	% change
Net book value	**$452,076,153**	$235,199,298	92%

Capital assets increased to $452.1 million from $235.2 million, as a result of 50 acquisitions totaling 5,296 units in 2005. In addition, Killam invested approximately $18.4 million in suite renovation and project improvements during 2005 to improve its buildings and begin to expand certain MHC properties.

The following table is a summary of the Company's acquisitions for 2004 and 2005. The acquisition value set out below excludes third party costs such as legal, environmental and other costs paid as part of the acquisition process.

	2005	2004	% change
Apartment Acquisitions			
Value of acquisitions	**$145,353,000**	$144,792,400	0.4%
Units acquired	**2,406**	3,063	(21)%
Average price per unit	**$ 60,413**	$ 47,271	28%
MHC Acquisitions			
Value of acquisitions	**$ 54,757,000**	$ 18,075,000	203%
Units acquired	**2,890**	1,270	128%
Average price per unit	**$ 18,947**	$ 14,232	33%

The average cost to purchase both apartment units and MHC sites increased in 2005 versus 2004. This is due, in part, to a general capitalization rate compression in the marketplace, plus the fact that Killam's 2005 purchases were focused in its relatively more expensive sub-markets of Halifax for apartments and southwestern Ontario for MHCs.

During 2005, Killam continued to expand its geographic reach with the acquisition of additional MHCs in Ontario and the purchase of a 247 unit MHC in Saskatchewan. In addition, Killam completed its largest single acquisition to date with the acquisition of the 723 unit Maplehurst Portfolio in Halifax, NS. Many of Killam's 2005 acquisitions are adjacent to Killam's existing buildings and MHCs which enables the Company to better control the neighborhood, provide our tenants with a more consistent level of service and achieve efficiency cost savings.

Capital Improvements

In addition to property acquisitions, Killam invested $18.4 million in property improvements during 2005, including $4.3 million in renovations related to the Company's Woodward Gardens repositioning project that was completed in the fourth quarter of 2005. Killam's capital improvement program is focused on improving the portfolio's curb appeal, including landscaping and parking lots, plus common area upgrades and suite finishes.

Energy and life safety issues are also a priority – for example, we have replaced over 20 heating systems in 2005 totaling $1.9 million, converting from oil to natural gas in each case. Further, Killam installs energy efficient lighting as well as motion and light activated sensors in all of its properties.

Capital Improvements and Energy Upgrades (By Quarter)

	Q1	Q2	Q3	Q4	Total YTD
Project improvements	$1,281,827	$2,912,169	$3,302,752	$4,649,389	$12,146,137
Suite improvements	411,847	1,403,020	1,532,779	1,763,418	5,111,064
Equipment	25,609	71,372	57,032	1,793,680	1,947,693
Parking lots	3,035	19,596	126,477	150,593	299,701
Appliances	44,808	138,104	136,611	211,232	530,755
Furniture & Fixtures	14,766	103,924	121,748	29,498	269,936
Total	$1,781,892	$4,648,185	$5,277,399	$8,597,810	$20,305,286

Deferred Financing

	2005	2004	% change
Deferred financing costs	**$5,872,356**	$1,533,939	283%
Less: accumulated amortization	**(1,104,360)**	(511,010)	116%
	$4,767,996	$1,022,929	366%

Deferred financing costs (net of amortization) increased $3.7 million, largely as a result of the May 2005 private debt 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 debentures.

Other Assets

	2005	2004	% change
Property taxes	**$ 514,368**	$ 295,780	74%
Insurance	**282,353**	230,616	22%
Other	**406,814**	159,940	154%
Deferred charges	**354,485**	37,241	852%
Goodwill	**4,500,000**	–	– %
	$6,058,020	$ 723,577	737%

The large increase in prepaid property taxes over the 2004 balance is due to the increased size of the portfolio as well as the timing of these payments in various provinces. Other prepaids include prepaid utility costs, annual maintenance contracts and other miscellaneous items. Deferred charges include costs associated with the Company's expansions on certain vacant lands. Goodwill is the tax effect of the Company's acquisition of two properties through share purchase transactions.

Mortgages and Loans Payable

	2005	2004	% change
Mortgages	**$291,760,750**	$154,085,874	89%
Vendor financing	**11,060,355**	5,815,000	90%
	$302,821,105	$159,900,874	89%
Weighted average years to maturity	**5.5**	6.1	
Mortgage debt as a percentage of GBV	**65.0%**	66.8%	
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 2005 weighted average interest rate fell to 5.6% compared to 5.9% as at December 31, 2004. It is anticipated that Killam will continue to benefit from the low interest rate environment throughout 2006. The Company's weighted average years to maturity fell from the previous year as a result of the assumption of mortgages during the second and third quarter of 2005 which have a shorter term to maturity than the Company's usual financing terms. In addition, the Company's mortgage debt to gross book value fell slightly from 66.8% to 65.0% as the Company assumed a number of mortgages during 2005 which were less than the conventional 75% financing Killam would place on acquisitions.

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 2005 ($000's)	Average Int. Rate %
2006	13,083	6.11
2007	8,078	5.25
2008	43,601	6.12
2009	68,055	5.34
2010	49,907	5.26
2011	3,406	6.34
2012	4,796	6.17
2013	10,809	6.16
2014	32,360	5.89
2015	55,505	5.42
Thereafter	13,221	5.64

Convertible Debenture

	2005	2004	% change
Convertible debentures	$40,718,111	$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 principal and interest payments was $40.6 million and the fair value of the holders' conversion option was calculated at $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

	2005	2004	% change
Capital stock	$92,900,223	$77,809,075	19%
Contributed surplus	405,420	233,984	73%
Other paid-in capital	1,601,693	–	–
Deficit	(63,668)	(68,515)	7%
	$94,843,668	$77,974,544	22%

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 holders' conversion option of the Company's May 2005 issuance of convertible subordinated dentures. The change in the contributed surplus account is a result of the expensing of stock options which have vested during 2005.

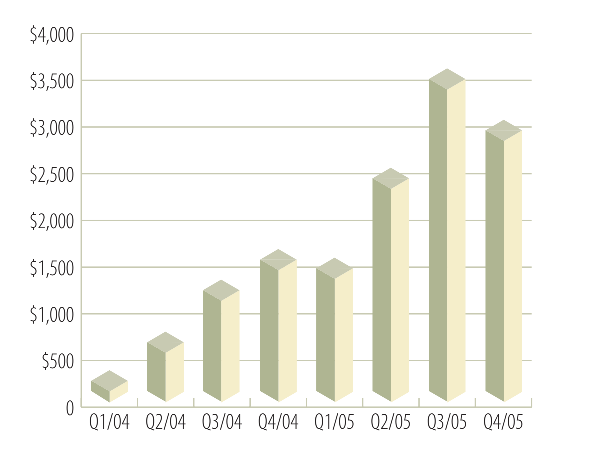
Consolidated Statement of Cash Flows

Operating Activities

	2005	2004	% change
Funds from operations	$10,922,731	$4,232,529	158%
FFO/share	$ 0.14	$ 0.07	100%

The Company's funds from operations continued to grow on a total dollar and per share basis during 2005 largely as a result of the expanded portfolio during 2005 and the effects of a full year of contribution from 2004 acquisitions. Had a couple key acquisitions closed in Q4 – 2005 instead of Q1 – 2006, net income and FFO would have been higher. As noted in the following graph, Killam's results are affected by seasonality. Quarter 1 and Quarter 4 show a decline in FFO due to the increased consumption of fuel, utilities and snow removal in the winter months.

Funds From Operations (in 000's)



Financing Activities

Issuance of Common Shares & Convertible Subordinated Debentures

As discussed earlier in this MD&A, during 2005, the Company completed a private placement consisting of 6 million common shares at a price of $2.55 per share and $42.2 million convertible subordinated debentures. The amounts shown in the cash flow statement for common shares are net of costs incurred on the issuance. In addition, the Company utilized shares to partially fund acquisitions during 2005 and 2004, as the issuance of these shares is considered a non-cash transaction, they are excluded from the cash flow statement.

Deferred Financing

Deferred financing costs are costs incurred when mortgage debt is obtained, as well as the costs of issuing the convertible subordinated debentures, and drawing on Killam's credit facilities. These costs are amortized over the term of the associated debt.

Credit Facility

As at December 31, 2005, Killam has drawn $16.9 million on its Credit Facility associated with its continued acquisitions.

Financing of Capital Assets

During 2005, the financing of new acquisitions and the re-financing of existing properties totaled $108.9 million compared to $83.8 million during 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 this MD&A, the Company completed the acquisition of 50 properties representing 5,296 units during 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 $20.3 million of capital improvements to its properties during 2005.

Quarterly Results & Discussion of Q4 Operations

(In $000's except per share amounts)

	2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total revenue	$2,745	$3,497	$5,070	$7,711	**$8,871**	**$10,888**	**$13,778**	**$14,819**
Rental revenue	2,670	3,470	4,947	7,688	**8,832**	**10,722**	**13,710**	**14,501**
Operating expenses	1,232	1,274	1,906	3,576	**4,231**	**4,297**	**5,130**	**6,533**
Net income (loss)	(144)	18	186	175	**(62)**	**108**	**252**	**(293)**
Per share basic	(0.0030)	0.0004	0.0026	0.0024	**(0.0008)**	**0.0014**	**0.0031**	**(0.0036)**
Per share diluted	(0.0028)	0.0003	0.0025	0.0023	**(0.0008)**	**0.0013**	**0.0031**	**(0.0036)**
Funds from operations	367	803	1,369	1,694	**1,597**	**2,561**	**3,627**	**3,138**
Per share basic	0.0076	0.0162	0.0191	0.0231	**0.0213**	**0.0326**	**0.0448**	**0.0387**
Per share diluted	0.0072	0.0150	0.0182	0.0222	**0.0209**	**0.0315**	**0.0436**	**0.0377**
Total assets	88,143	149,983	182,343	242,846	**283,751**	**398,575**	**412,742**	**469,517**
Shareholders' equity	31,091	71,494	75,286	77,975	**77,914**	**94,473**	**95,002**	**94,844**

Revenue increased 91% in Q4 2005 versus the same quarter of 2004 as a result of 17 acquisitions totaling 1,335 units in the fourth quarter 2005 as well as a full quarter of revenue from the 33 acquisitions completed in the first nine months of 2005. Property operating expenses as a percentage of rental revenue decreased to 45.8% in Q4 2005 versus 46.5% in the same period of 2004.

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, 2005 the Company had available $1.2 million of cash. Subsequent to year-end the Company completed two $5 million private placements of unsecured subordinated debentures and warrants. The debentures and warrants have a term of seven years and the debentures bear a coupon of 5.92 and 6.06%. The warrants are convertible into common shares of the Company at exercise prices of $3.60 and $3.80 per share.

The Company has credit facilities totaling $40 million of which the Company has drawn $16.9 million on these facilities as at December 31, 2005. The cash on hand and credit facilities provide the Company with sufficient capital to acquire approximately $120 million in additional properties. Killam will continue to finance new properties at 75% of their value through new mortgages or placing second mortgages where available. The Company continuously reviews 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 classified between general and specific risk areas. General risks are associated 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 detail.

General Risks

Real Estate Industry Risk: Real estate investments are generally subject to varying degrees of risk, depending on the nature of the property. These risks include (i) changes in general economic conditions, (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 Company 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 to comply 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.

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 Rate 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 Ontario and PEI are the only provinces in which the Company operates that have 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 natural 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. Killam's tenant leases are typically one year; therefore, Killam has the ability to raise rents, subject to the overall rental market conditions, to offset rising energy and utility costs. In addition the Company locks in rates through hedge or pricing contracts for a portion of its oil consumption to reduce the fluctuations in price.

Critical Accounting Estimates

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.

Impairment of Long-lived Assets

Under Canadian GAAP, Killam is required to write down to fair value any capital assets that are determined to have been permanently impaired. Impairment is calculated as the net undiscounted cash-flows from the property over the anticipated holding period. This calculation requires subjective assumptions on general economic conditions, occupancies, rental rates and residual value. In the event these assumptions result in the sum of the undiscounted cash flows exceeding the assets carrying value an impairment loss would be recognized. To calculate this impairment loss would then require management to determine an appropriate discount rate, which is subjective. There were no impairment losses recorded for the years ended December 31, 2005 or 2004.

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 capital improvements. 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.

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 Company determines the fair value of the options at the date of grant using the Black-Scholes option pricing model and recognizes the fair value over the vesting period as compensation expense and contributed surplus. This option pricing model requires the Company to make assumptions about the risk-free interest rate, expected term, expected volatility and dividend yield of Killam's common shares.

Disclosure Controls

As of December 31, 2005, the Company's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer.

Disclosure Controls are procedures designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Company's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company's Disclosure Controls will prevent or detect all error and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Company have been detected.

Based on the evaluation of Disclosure Controls, the Chief Executive Officer and the Chief Financial Officer have concluded that, subject to the inherent limitations noted above, the Company's Disclosure Controls are effective in ensuring that material information relating to the Company and its consolidated subsidiaries is made known to the Company's management on a timely basis by others within those entities, and is included as appropriate in this MD&A.

Future Objectives

With our current acquisition facilities and pre-arranged debenture financing arrangements, Killam is well positioned to continue its growth strategy. Subsequent to year-end we closed 8 properties representing 664 units and have a number of additional properties under contract, which we anticipate will close over the next few months.

2006 Goals and Objectives

- Continue to grow our portfolio through accretive acquisitions.
- Increase rental incomes from existing properties at tenant turnover or renewal.
- Lower costs through operating efficiencies.
- Maximize potential in our current portfolio through increases in occupancy rates and having properties such as Woodward Gardens back on line in 2006.
- Grow our MHC business through park expansions utilizing our existing vacant land in the parks.
- Crystallize the value of our apartment surplus land through development agreements or sales.

Management is confident that Killam is well positioned to continue its accretive growth and effectively manage its portfolio.

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 7, 2006

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, 2005 and 2004 and the consolidated statements of income 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, 2005 and 2004 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 7, 2006
(Except for Note 16 which is as of March 28, 2006)