**PRESS RELEASE**
For Immediate Distribution

**KILLAM PROPERTIES INC.**

Halifax, Nova Scotia
March 7, 2006

## KILLAM PROPERTIES INC. ANNOUNCES 2005 YEAR-END RESULTS

Killam Properties Inc. (TSX:KMP/KMP:DB) is pleased to announce its financial results for the fiscal year ended December 31, 2005, reflecting Killam's dramatic growth in its asset base and funds from operations over the past 12 months.

Killam's portfolio grew by 5,296 units to a total of 11,429 apartment and manufactured home units at year end 2005. In the fourth quarter of 2005 Killam completed the purchase of 568 apartment units and 767 manufactured home units to hold a total of 6,468 apartment units and 4,961 manufactured home units representing approximately 82% and 18% of its capital assets (by dollar value), respectively at December 31, 2005. Subsequent to year end, Killam completed another eight property acquisitions comprising of 664 units with the result that Killam now owns a total of 12,093 units.

Killam recorded a net income of $4,800 ($234,000 for fiscal 2004) which was impacted by an additional $168,000 of provincial and federal capital taxes and future income tax expense of $109,000 on the company’s share capital compensation and non cash debenture interest expense which are non deductible for tax purposes.

Funds from operations (“FFO”) increased substantially to $10.9 million or $0.14 per share in fiscal 2005 (FFO was $4.3 million or $0.07 per share in fiscal 2004). Funds from operations is a generally accepted measure of operating performance of real estate companies; however, it is a non-GAAP measurement and readers are cautioned that Killam's calculation of FFO may be different than that used by other companies. Killam calculates FFO as net income plus amortization and future income tax expenses (recovery).

Total assets at the end of 2005 were $469.5 million, representing an increase of 93.3% over the $242.8 million recorded at December 31, 2004. Shareholders' equity increased to $94.8 million from $77.9 million over the same period. These changes to Killam's balance sheet reflect the aforementioned acquisitions throughout 2005 together with $15.3 million equity and $42.2 million convertible debenture financings completed in May of 2005.

Financial highlights include:

| Year ended December 31 | 2005 | 2004 | % Change |
|---|---|---|---|
| Revenue .......................................... | $48,356,382 | $19,023,166 | 154.2% |
| Funds from operations.................... | $10,922,731 | $4,232,529 | 158.0% |
| Net income...................................... | $4,847 | $234,133 | ( 97.9)% |

| | | | |
|---|---|---|---|
| Total Assets .................................... | $469,516,525 | $242,845,701 | 93.3% |
| Shareholders' Equity ....................... | $94,843,668 | $77,974,544 | 21.6% |

On December 31, 2005, Killam's portfolio had achieved overall occupancy of 97.5%. The apartment portfolio had an occupancy level of 96.3% with an average monthly rent of $703, and the manufactured home community portfolio had an occupancy level of 99%, with an average monthly rent of $187. Approximately 274 additional vacant units were undergoing renovation, and therefore unavailable for renting.

| | ***Units*** | ***Vacancy*** | ***Average Rent*** |
|---|---|---|---|
| ***APARTMENTS*** | | | |
| NOVA SCOTIA | 3,552 | 2.57% | $704 |
| NEW BRUNSWICK | 1,927 | 5.3% | $668 |
| NEWFOUNDLAND | 436 | 4.2% | $570 |
| PRINCE EDWARD ISLAND | 553 | 3.9% | $699 |
| ***MANUFACTURED HOME COMMUNITIES*** | 4,961 | 1.1% | $187 |
| | 11,429 | | |

Commenting on the past year, Mr. Philip Fraser, President, and Chief Executive Officer noted: "Just like 2004, Killam experienced tremendous growth during 2005 and we have substantially increased our asset base, revenues and funds from operations. As we see interest rates rise, which drive up the costs of home ownership, and record high employment statistics for our key Atlantic Canada rental markets, we expect to see gains in the FFO generated from our existing portfolio this year. This opportunity combined with a substantial deal flow for new acquisitions will produce increased results this year."

**Financial Statements**

**For convenience, this press release includes the Company's December 31, 2005 financial statements and notes including fourth quarter information. Additional details on our operation will be available during our Teleconference on Wednesday March 8, 2006 at 2:00pm (EST). A presentation will be posted on our website (www.killamproperties.com) prior to the call on Wednesday.**

# Consolidated Balance Sheets

*As at December 31*

| | **2005** | 2004 |
|---|---|---|
| **ASSETS** | | |
| Capital assets *(note 4)* | **$ 452,076,153** | $ 235,199,298 |
| Cash and cash equivalents *(note 3)* | **4,885,126** | 4,168,071 |
| Accounts receivable | **544,683** | 189,320 |
| Income tax receivable | **-** | 214,897 |
| Other assets *(note 5)* | **6,058,020** | 723,577 |
| Deferred financing costs (net) | **4,767,996** | 1,022,929 |
| Future income taxes *(note 11)* | **1,184,547** | 1,327,609 |
| | **$ 469,516,525** | 242,845,701 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Mortgages and loans payable *(note 6)* | **$ 302,821,105** | 159,900,874 |
| Convertible debentures *(note 7)* | **40,718,111** | - |
| Credit facility *(note 8)* | **16,943,000** | |
| Accounts payable & accrued liabilities | **7,057,797** | 2,967,334 |
| Income tax payable | **173,139** | - |
| Security deposits | **1,349,199** | 644,943 |
| Future income taxes *(note 11)* | **5,610,506** | 1,358,006 |
| | **374,672,857** | 164,871,157 |
| **Shareholders' Equity** | | |
| Capital stock *(note 9)* | **92,900,223** | 77,809,075 |
| Contributed surplus *(note 9)* | **405,420** | 233,984 |
| Other paid-in capital *(note 7)* | **1,601,693** | - |
| Deficit | **(63,668)** | (68,515) |
| | **94,843,668** | 77,974,544 |
| | **$ 469,516,525** | $ 242,845,701 |

*See accompanying notes*

# Consolidated Statements of Income and Deficit

| | *For the 3 Months ended* | | *Year ended* | |
|---|---|---|---|---|
| | **December 31, 2005** | December 31, 2004 | **December 31, 2005** | December 31, 2004 |
| **Revenue** | | | | |
| Rental income | **$ 14,499,861** | $ 7,658,192 | **$ 47,764,779** | $ 18,774,676 |
| Interest income | **11,381** | 25,074 | **165,813** | 193,317 |
| Other income | **309,517** | 27,013 | **425,790** | 55,173 |
| | **14,820,759** | 7,710,279 | **48,356,382** | 19,023,166 |
| **Property expenses** | | | | |
| Property operating expenses | **6,532,780** | 3,576,041 | **20,191,154** | 7,988,349 |
| | **8,287,979** | 4,134,238 | **28,165,228** | 11,034,817 |
| Mortgage and loan interest | **3,986,359** | 2,046,074 | **12,989,928** | 5,196,286 |
| Convertible debenture interest | **731,287** | - | **1,912,038** | - |
| Depreciation | **3,143,531** | 1,391,713 | **9,864,194** | 3,502,271 |
| Amortization of deferred financing | **229,583** | 51,804 | **548,362** | 351,891 |
| General and administrative | **545,143** | 373,322 | **2,013,776** | 1,273,388 |
| Professional fees | **85,304** | 115,808 | **256,984** | 186,923 |
| Provincial capital taxes | **(77,793)** | (44,111) | **209,250** | 100,000 |
| Interest and bank charges | **45,001** | 7,669 | **93,966** | 45,691 |
| | **8,688,415** | 3,942,279 | **27,888,498** | 10,656,450 |
| **(Loss) income before income taxes** | **(400,436)** | 191,959 | **276,730** | 378,367 |
| *Provision for income taxes (note 11)* | | | | |
| - current | **63,348** | 58,412 | **(59,028)** | - |
| - future | **44,468** | (75,263) | **(212,855)** | (144,234) |
| **Net (loss) income** | **(292,620)** | 175,108 | **4,847** | 234,133 |
| **Retained earning (deficit), beginning** | **228,952** | (243,623) | **(68,515)** | (67,372) |
| Adjustment to opening balance *(note 2)* | **-** | | **-** | (235,276) |
| **Deficit, end of period** | **$ (63,668)** | $ (68,515) | **$ (63,668)** | $ (68,515) |
| Net income per share *(note 12)* | | | | |
| - basic | (0.0030) | 0.0024 | **$ 0.0001** | $ 0.0040 |
| - diluted | (0.0030) | 0.0023 | **$ 0.0001** | $ 0.0040 |

*See accompanying notes*

## Consolidated Statements of Cash Flows

| | 3 Months ended | | Year ended | |
|---|---|---|---|---|
| | **December 31, 2005** | December 31, 2004 | **December 31, 2005** | December 31, 2004 |
| **OPERATING ACTIVITIES** | | | | |
| Net(loss) income | **$ (292,620)** | $ 175,108 | **$ 4,847** | $ 234,133 |
| Add items not affecting cash | | | | |
| Depreciation and amortization | **3,373,114** | 1,443,517 | **10,412,556** | 3,854,162 |
| Non-cash debenture interest | **45,537** | - | **119,804** | - |
| Non-cash compensation expense | **54,997** | - | **172,669** | - |
| Future income taxes | **(44,468)** | 75,263 | **212,855** | 144,234 |
| Funds from operations | **3,136,560** | 1,693,888 | **10,922,731** | 4,232,529 |
| Net change in non-cash working capital items related to operations | **2,498,054** | 986,618 | **3,992,949** | 1,699,489 |
| **Cash provided by operating activities** | **5,634,614** | 2,680,506 | **14,915,680** | 5,932,018 |
| **FINANCING ACTIVITIES** | | | | |
| Issue of common shares for cash (net of issue costs) | **79,267** | 1,456,460 | **14,549,924** | 42,752,508 |
| Issuance of convertible subordinated debentures | **-** | - | **40,132,504** | - |
| Increase in deferred financing | **(706,805)** | (493,345) | **(4,293,429)** | (976,963) |
| Increase in credit facility | **16,943,000** | (10,000,000) | **16,943,000** | - |
| Issuance of long-term debt | **24,887,871** | 50,285,000 | **108,927,109** | 83,790,860 |
| Repayment of long term debt | **(2,364,905)** | (229,338) | **(8,386,193)** | (8,505,483) |
| **Cash provided by financing activities** | **38,838,428** | 41,018,777 | **167,872,915** | 117,060,922 |
| **INVESTING ACTIVITIES** | | | | |
| Purchase of capital assets | **(42,035,433)** | (47,094,910) | **(182,071,540)** | (132,008,429) |
| **Cash used in investing activities** | **(42,035,433)** | (47,094,910) | **(182,071,540)** | (132,008,429) |
| **Net increase (decrease) in cash and cash equivalents** | **2,437,609** | (3,395,627) | **717,055** | (9,015,489) |
| Cash and cash equivalents, beginning of period | **2,447,517** | 7,563,698 | **4,168,071** | 13,183,560 |
| **Cash and cash equivalents, end of period** | **$ 4,885,126** | $ 4,168,071 | **$ 4,885,126** | $ 4,168,071 |

# Notes to Consolidated Financial Statements

## 1. Incorporation

Killam Properties Inc. (the "Company") is a real estate corporation specializing in the acquisition and management of multi-residential apartment buildings and manufactured home communities. The Company is incorporated under the Canada Business Corporations Act.

## 2. Summary of Significant Accounting Policies

***Basis of presentation***

These financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

***Use of accounting estimates***

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

***Cash and cash equivalents***

Cash and cash equivalents consist of cash, restricted cash and short-term investments. Short-term investments consist of short-term monetary investments with maturities not exceeding three months and are recorded at cost which approximates fair market value.

***Revenue recognition***

Revenue from rental properties is recognized when a tenant commences occupancy of a rental suite and rent is due. The Company retains all of the benefits and risks of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes rent, laundry, parking and other sundry revenues.

***Income taxes***

The Company follows the liability method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future tax assets and liabilities are expected to be realized or settled. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

***Capital assets***

Revenue producing real estate properties held as ongoing investments are recorded at cost less accumulated amortization and net of any impairment loss. Cost includes all expenditures incurred in connection with the acquisition of real estate property including all direct costs. All costs associated with capital improvements, other than ordinary repairs and maintenance, are capitalized and amortized over terms appropriate to the expenditure.

## 2. Summary of Significant Accounting Policies (continued)

***Amortization***

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

| | | |
|---|---|---|
| Buildings | 2% - 2.5% | straight-line, 40 - 50 years |
| Roads & driveways | 4% | declining balance |
| Water & sewer | 6% | declining balance |
| Suite renovations | 20% | declining balance |
| Project improvements | 10% | declining balance |
| Other assets | 5% - 30% | declining balance |

***Deferred financing costs***

Financing fees and other costs incurred in connection with debt financing are amortized on a straight-line basis over the term of such financing. Upon refinancing, any financing costs associated with previous mortgages are written off to income. Canadian Mortgage and Housing insurance premiums are amortized over the mortgage amortization period.

***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. 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. When stock options are exercised, the corresponding contributed surplus is transferred to capital stock.

***Net income per share***

Diluted net income per share is calculated using the treasury stock method which recognizes the use of proceeds that could be obtained upon exercise of stock options. This method assumes that any proceeds would be used to purchase common shares at the average market price during the period.

***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.

***Derivative instruments***

Periodically, the Company enters into oil futures contracts to hedge its exposure to rising oil prices. Hedge accounting is applied in accordance with CICA Accounting Guideline 13 "Hedging Relationships" and any realized gains or losses resulting from the settlement of these contracts are expensed in the period of settlement.

# Notes to Consolidated Financial Statements

## 3. Cash and Cash Equivalents

| | 2005 | 2004 |
|---|---|---|
| Cash | **$1,211,738** | $2,006,934 |
| Tenant security deposits | **539,589** | 397,788 |
| Restricted cash | **3,133,799** | 1,763,349 |
| | **$4,885,126** | $4,168,071 |

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

## 4. Capital Assets

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | Cost | Accumulated Amortization |
| Land | **$45,525,506** | **$ —** | $ 23,905,349 | $ — |
| Buildings | **319,637,430** | **8,499,728** | 185,521,711 | 2,727,714 |
| Roads and driveways | **36,924,444** | **1,303,561** | 11,941,998 | 314,694 |
| Water and sewer | **36,950,269** | **1,947,734** | 11,969,000 | 472,306 |
| Suite renovations | **6,819,881** | **1,003,152** | 1,708,817 | 252,691 |
| Project improvements | **14,690,865** | **714,438** | 2,544,731 | 148,530 |
| Other assets | **5,473,155** | **476,784** | 1,688,895 | 165,268 |
| | **$466,021,550** | **$13,945,397** | 239,280,501 | $4,081,203 |
| Less: accumulated amortization | **(13,945,397)** | | (4,081,203) | |
| | **$452,076,153** | | $235,199,298 | |

During the year ended December 31, 2005, the Company capitalized indirect costs of $1.3 million (2004- $0.3 million) as part of its project improvement and suite renovation program. In addition, $0.1 million of interest expense was capitalized as part of the Company's repositioning project of two proprieties (2004 - $Nil).

## 5. Other assets

| | 2005 | 2004 |
|---|---|---|
| Prepaid | **$1,203,535** | $686,334 |
| Deferred charges | **354,485** | 37,241 |
| Goodwill | **4,500,000** | — |
| | **$6,058,020** | $723,575 |

Goodwill presented above is the tax effect of the Company's acquisition of two properties though share purchase transactions. The offsetting liability is presented in Note 11, future income taxes.

# Notes to Consolidated Financial Statements

## 6. Mortgages and loans payable

Mortgages payable of $291,760,750 (December 2004 - $154,085,874) bear interest at fixed rates from 3.32% to 8.47% with maturity dates ranging from May 2006 to July 2019. Vendor mortgages and loans payable of $11,060,355 (December 2004 - $5,815,000) bear interest at fixed rates from 0.00% to 7.25% with maturity dates ranging from April 2006 to September 2010. Mortgages are secured by a first or second charge on the properties of the Company and vendor mortgages are secured by either a second charge on the property or a general corporate guarantee.

The weighted average mortgage rate at December 31, 2005 was 5.6% (2004 – 5.9%).

Principal repayments of mortgages and loans are due as follows:

| Year | |
|---|---|
| 2006 | **$20,063,909** |
| 2007 | **14,170,936** |
| 2008 | **48,088,869** |
| 2009 | **65,072,172** |
| 2010 | **47,571,955** |
| Thereafter | **107,853,264** |
| | **$302,821,105** |

## 7. 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 principal 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%.

## 8. Credit Facilities

The Company has negotiated credit facilities set out as follows:

*Operating Facility*

Consists of a $500,000 revolving demand facility for general business purposes, bearing interest at the lender's prime plus 1%. As at December 31, 2005 the Company had a $Nil balance (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 December, 2005 the Company had a $16,943,000 balance outstanding (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 December 31, 2005, the Company had a $Nil balance outstanding (2004 - $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

## 9. Capital Stock and Contributed Surplus

### *Capital Stock*

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

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

| | **2005** | | 2004 | |
|---|---|---|---|---|
| | **Number of Shares** | **Value** | Number of Shares | Value |
| **Balance, beginning of year** | **74,856,631** | **$77,809,075** | 48,038,674 | $30,687,095 |
| Issued for cash (i) | **6,000,000** | **14,476,668** | 22,080,000 | 39,277,383 |
| Issued on property acquisitions (ii) | **84,906** | **223,931** | 1,616,457 | 3,338,738 |
| Stock options exercised (iii) | **392,000** | **73,256** | 330,000 | 90,730 |
| Warrants exercised (iv) | — | — | 2,791,500 | 3,384,395 |
| Tax benefit of issuance costs | — | **317,293** | — | 1,030,734 |
| **Balance, end of year** | **81,333,537** | **$92,900,223** | 74,856,631 | $77,809,075 |

(i) Net of issuance costs of $823,332 (2004 - $2,674,617)
(ii) Net of issuance costs of $1,070 (2004 - $11,490)
(iii) Net of issuance costs of $10,577 (2004 - $Nil)
(iv) Net of issuance costs of $Nil (2004 - $122,055)

The shares issued on property acquisitions formed a portion of the total purchase price of the acquisition negotiated with third parties. The amount allocated to share capital was the residual of the total purchase price less cash considerations.

### *Contributed Surplus*

| | **2005** | 2004 |
|---|---|---|
| **Balance, beginning of year** | **$233,984** | $ — |
| Adjustment (i) | — | 235,276 |
| Stock options expensed | **172,669** | 2,938 |
| Stock options exercised | **(1,233)** | (4,230) |
| **Balance, end of year** | **$405,420** | $233,984 |

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

## 10. 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 year 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 | $0.43 |
| Granted | **1,779,500** | **2.05** | 10,000 | 2.00 |
| Exercised | **(392,000)** | **0.21** | (330,000) | 0.26 |
| Expired/cancelled | **(11,000)** | **1.92** | | |
| **Outstanding, end of year** | **3,108,500** | **$1.40** | 1,732,000 | $0.47 |

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants:

| | **2005** | 2004 |
|---|---|---|
| Expected volatility | **29.1%** | 53.5% |
| Risk-free interest rate | **2.5%** | 3.5% |
| Expected lives | **5 Years** | 1-5 Years |
| Expected dividend yield | **Nil** | Nil |

# Notes to Consolidated Financial Statements

## 10. Stock Options and Warrants (continued)

The following table summarizes the stock options outstanding at December 31:

| | **2005** | | 2004 | |
|---|---|---|---|---|
| **Exercise prices** | **Number of Options Outstanding** | **Remaining Contractual Life** | Number of Options Outstanding | Remaining Contractual Life |
| $0.20 | — | — | 350,000 | .95 years |
| $0.30 | **471,000** | **1.40 years** | 513,000 | 2.40 years |
| $0.30 | **10,000** | **1.44 years** | 10,000 | 2.44 years |
| $0.56 | **200,000** | **2.44 years** | 200,000 | 3.44 years |
| $0.65 | **608,500** | **2.44 years** | 609,500 | 3.44 years |
| $1.30 | **10,000** | **2.92 years** | 10,000 | 3.92 years |
| $1.69 | **29,500** | **2.96 years** | 29,500 | 3.96 years |
| $2.00 | **10,000** | **3.92 years** | 10,000 | 4.92 years |
| $2.05 | **1,769,500** | **4.42 years** | — | — |
| | **3,108,500** | | 1,732,000 | |

Included in the above figures are 1,528,052 options at an average exercise price of $2.04, that were not exercisable at December 31, 2005, as they had not vested (2004 – 15,600 options at an average exercise price of $1.50).

### *Warrants*

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

| | **2005** | | 2004 | |
|---|---|---|---|---|
| **Exercise price** | **Number of Options Outstanding** | **Remaining Contractual Life** | Number of Options Outstanding | Remaining Contractual Life |
| $0.95 | **500,000** | **2.66 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

## 11. Income Taxes

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

| | **2005** | | 2004 | |
|---|---|---|---|---|
| Net income before income taxes | **$276,730** | | $378,367 | |
| Income taxes at statutory rates | **102,943** | **37.2%** | $139,996 | 37.0% |
| Non-deductible share compensation | **64,233** | **23.2%** | — | — |
| Non-deductible debenture interest | **44,567** | **16.1%** | — | — |
| Other differences | **1,112** | **0.4%** | 4,238 | 1.1% |
| Future tax expense | **212,855** | **76.9%** | 144,234 | 38.1% |
| Federal large corporation tax | **59,028** | | — | |
| | **$271,883** | | $144,234 | |

Future income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities are as follows:

| | **2005** | 2004 |
|---|---|---|
| Share issue costs | **$1,184,547** | $1,327,609 |
| Capital assets | **(1,110,506)** | (1,358,006) |
| Goodwill | **(4,500,000)** | — |
| Net future income tax liability | **$(4,425,959)** | $ (30,397) |

## 12. Per Share Information

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

| | **2005** | 2004 |
|---|---|---|
| Basic | **78,862,486** | 60,680,934 |
| Fully diluted | **81,064,082** | 63,968,302 |

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

# Notes to Consolidated Financial Statements

## 13. Segmented Information

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

The accounting policies of these segments are the same as those described in the summary of significant accounting policies. The segments are analyzed based on earnings from property operations before amortization. The operating results and capital assets of the segments as at and for the years ended December 31, 2005 and 2004 are set out as follows:

***As at and for the year ended December 31, 2005***

| | Multi-family Apartments | Manufactured Home Communities | Corporate | Total |
|---|---|---|---|---|
| Revenue | **$39,267,338** | **$8,822,121** | **$266,923** | **$48,356,382** |
| Property operating expenses | **17,001,309** | **3,189,845** | **—** | **20,191,154** |
| Earnings from property operations | **$22,266,029** | **$5,632,276** | **$266,923** | **$28,165,228** |
| Capital assets (net) | **$369,791,124** | **$81,562,201** | **$722,828** | **$452,076,153** |

*As at and for the year ended December 31, 2004*

| | Multi-family Apartments | Manufactured Home Communities | Corporate | Total |
|---|---|---|---|---|
| Revenue | $16,424,809 | $2,401,678 | $196,679 | $19,023,166 |
| Property operating expenses | 7,133,453 | 854,896 | — | 7,988,349 |
| Earnings from property operations | $9,291,356 | $1,546,782 | $196,679 | $11,034,817 |
| Capital assets (net) | $208,544,930 | $26,283,045 | $371,323 | $235,199,298 |

## 14. Financial Instruments

The Company is exposed to financial risk that arises from, among other factors, fluctuation in interest rates and the credit quality of its tenants. These risks are managed as follows:

(i) ***Interest rate risk***
Interest rate risk is minimized through management's periodic review of its mortgage portfolio. If market conditions warrant, the Company will renegotiate its existing debt to take advantage of lower interest rates. The Company will also structure its debt so as to stagger the debt maturities, thereby minimizing the Company's exposure to interest rate fluctuations.

(ii) ***Credit risk***
Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The Company mitigates the risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one tenant. Credit assessments are conducted with respect to all new leasing and the Company also obtains a security deposit to assist in potential recovery requirements.

***Fair Value***

Financial instruments are defined as a contractual right to receive or deliver cash or another financial asset. The fair values of the Company's financial instruments, except for long-term debt, approximate their recorded values at December 31, 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 is approximately $313,950,000 (2004 - $162,165,500) compared to its book value of $302,821,105 ($2004 - $159,900,874).

As at December 31, 2005, the Company had $167,729 worth of oil futures contracts outstanding.

## 15. Related Party Transactions

During 2005 the Company paid real estate commissions of $103,750 and construction and management fees of $47,995 to a Company controlled by a Director (2004 – real estate commissions of $39,000 and construction management fees of $67,400). The commissions and management fees were based on market rates and there is no continuing contractual obligation to use the service of the related party.

## 16. Subsequent Events

During the period of January 1 to March 7, 2006 the Company completed 8 property acquisitions representing 664 units. The total purchase price of the acquisitions was $32.5 million which was satisfied through mortgages totaling $23.2 million and $9.3 million from the Company's cash and acquisition facilities. In addition, the Company has increased financing on certain properties by $0.7 million.

On January 5, 2006 the Company completed a $5 million private placement 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%. The warrants are convertible into common shares of the Company at an exercise price of $3.60 per share.

## 17. Comparative Figures

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

Killam Properties Inc. is a leading real estate company based in Halifax, Nova Scotia. Killam is the largest owner and manager of multi-family residential rental properties and manufactured home communities in Atlantic Canada.

*Note: The Toronto Stock Exchange has neither approved nor disapproved of the information contained herein. Certain statements in this report may constitute forward-looking statements relating to our operations and the environment in which we operate, which are based on our expectations, estimates, forecast and projections, which we believe are reasonable as of the current date. Such forward-looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of Killam to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements For more exhaustive information on these risks and uncertainties you should refer to our most recently filed annual information form which is available at **www.sedar.com**. Readers, therefore, should not place undue reliance on any such forward-looking statements. Further, a forward-looking statement speaks only as of the date on which such statement is made and should not be relied upon as of any other date. Killam does not undertake to update any of such forward-looking statements*

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