Consolidated Balance Sheets

As at

	March 31 2006	December 31 2005
ASSETS		
Capital assets *(note 4)*	**$ 489,692,479**	$ 452,076,153
Cash and cash equivalents *(note 3)*	**8,203,610**	4,885,126
Accounts receivable	**670,400**	544,683
Other assets *(note 5)*	**6,991,508**	6,058,020
Deferred financing costs (net)	**5,335,025**	4,767,996
Future income taxes	**2,300,360**	1,184,547
	$ 513,193,382	$ 469,516,525
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgages and loans payable *(note 6)*	**$ 327,030,503**	$ 302,821,105
Convertible debentures *(note 7)*	**40,765,287**	40,718,111
Subordinated debentures *(note 8)*	**10,000,000**	
Credit facility *(note 9)*	**23,788,000**	16,943,000
Accounts payable & accrued liabilities	**10,114,327**	7,057,797
Income tax payable	**267,504**	173,139
Security deposits	**1,475,163**	1,349,199
Future income taxes	**6,069,814**	5,610,506
	419,510,598	374,672,857
Shareholders' Equity		
Capital stock *(note 10)*	**92,889,608**	92,900,223
Contributed surplus *(note 10)*	**460,417**	405,420
Other paid-in capital *(note 7)*	**1,601,693**	1,601,693
Deficit	**(1,268,934)**	(63,668)
	93,682,784	94,843,668
	$ 513,193,382	$ 469,516,525

See accompanying notes

Consolidated Statements of Income and Deficit

For the 3 months ended March 31

	2006	2005
Revenue		
Rental income	**$ 16,051,521**	$ 8,832,496
Interest income	**17,372**	12,689
Other income	**216,274**	25,382
	16,285,167	8,870,567
Property expenses		
Property operating expenses	**7,904,822**	4,230,933
	8,380,345	4,639,634
Mortgage and loan interest	**4,249,874**	2,383,959
Convertible debenture interest	**732,926**	-
Subordinated debenture interest	**82,040**	-
Credit facility interest	**447,706**	15,690
Depreciation	**3,559,584**	1,612,918
Amortization of deferred financing	**251,199**	71,486
General and administrative	**712,590**	526,895
Professional fees	**65,554**	26,711
Provincial capital taxes	**72,033**	49,086
Interest and bank charges	**39,773**	20,738
	10,213,279	4,707,483
Loss before income taxes	**(1,832,934)**	(67,849)
(Provision for) recovery of income taxes		
- current	**(22,332)**	(19,752)
- future	**650,000**	25,783
Net loss	**(1,205,266)**	(61,818)
Deficit, beginning of period	**(63,668)**	(68,515)
Deficit, end of period	**$ (1,268,934)**	$ (130,333)
Net loss per share *(note 12)*		
- basic	**$ (0.0148)**	$ (0.0008)
- diluted	**$ (0.0148)**	$ (0.0008)

See accompanying notes

Consolidated Statements of Cash Flows

For the 3 months ended March 31

	2006	2005
OPERATING ACTIVITIES		
Net loss	**$ (1,205,266)**	$ (61,818)
Add items not affecting cash		
Depreciation and amortization	**3,810,783**	1,684,404
Non-cash debenture interest	**47,176**	-
Non-cash compensation expense	**54,997**	-
Future income taxes	**(650,000)**	(25,783)
Funds from operations	**2,057,690**	1,596,803
Net change in non-cash working capital items related to operations	**2,217,655**	777,610
Cash provided by operating activities	**4,275,345**	2,374,413
FINANCING ACTIVITIES		
Issue of common shares for cash (net of issue costs)	**(16,490)**	-
Issuance of subordinated debentures	**10,000,000**	-
Increase in deferred financing	**(818,228)**	(341,536)
Increase in credit facility	**6,845,000**	8,400,000
Issuance of long-term debt	**16,694,935**	31,525,087
Repayment of long term debt	**(1,961,325)**	(1,857,965)
Cash provided by financing activities	**30,743,892**	37,725,586
INVESTING ACTIVITIES		
Purchase of capital assets	**(31,700,753)**	(39,718,881)
Cash used in investing activities	**(31,700,753)**	(39,718,881)
Net increase in cash and cash equivalents	**3,318,484**	381,118
Cash and cash equivalents, beginning of period	**4,885,126**	4,168,071
Cash and cash equivalents, end of period	**$ 8,203,610**	$ 4,549,189

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.

Notes to Consolidated Financial Statements

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

The Company expenses 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. 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

	March 31, 2006	December 31, 2005
Cash	**$4,017,851**	$1,211,738
Tenant security deposits	**636,070**	539,589
Restricted cash	**3,549,689**	3,133,799
	$8,203,610	$4,885,126

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

4. Capital Assets

	March 31, 2006		December 31, 2005	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$49,322,768**	**$ —**	$ 45,525,506	$ —
Buildings	**352,879,567**	**10,464,578**	319,637,430	8,499,728
Roads and driveways	**38,702,568**	**1,662,919**	36,924,444	1,303,561
Water and sewer	**38,727,945**	**2,477,516**	36,950,269	1,947,734
Suite renovations	**8,419,216**	**1,309,664**	6,819,881	1,003,152
Project improvements	**12,891,108**	**972,387**	14,690,865	714,438
Other assets	**6,254,241**	**617,870**	5,473,155	476,784
	$507,197,413	**$17,504,934**	466,021,550	$13,945,397
Less: accumulated amortization	**(17,504,934)**		(13,945,397)	
	$489,692,479		$452,076,153	

During the three months ended March 31, 2006, the Company capitalized indirect costs of $0.3 million (2005- $0.1 million) as part of its project improvement and suite renovation program. In addition, $116,000 of interest expense was capitalized as part of the Company's repositioning projects related to properties which were off-line (2005 - $2,000).

5. Other assets

	March 31, 2006	December 31, 2005
Prepaid	**$2,075,757**	$1,203,535
Deferred charges	**415,751**	354,485
Goodwill	**4,500,000**	4,500,000
	$6,991,508	$6,058,020

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 future income taxes.

6. Mortgages and Loans payable

Mortgages payable bear interest at rates from 3.32% to 8.47% with maturity dates ranging from May 2006 to July 2019. Vendor mortgages and loans payable bear interest at fixed rates from 0.00% to 7.25% with maturity dates ranging from April 2006 to November 2015. 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 March 31, 2006 was 5.6% (December 31, 2005 – 5.6%).

Principal repayments of mortgages and loans are due as follows:

Year	
2006	$18,867,488
2007	16,378,808
2008	48,855,487
2009	67,173,794
2010	48,478,219
Thereafter	127,276,707
	$327,030,503

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. Subordinated Debentures

The Company's unsecured subordinated debentures consist of two $5 million amounts and bear interest at fixed rates of 5.92% and 6.06% respectively, payable semi-annually to their maturity at January 2013. The debentures have attached warrants which are convertible into common shares of the Company at exercise prices of $3.60 and $3.80 per share respectively.

9. Credit Facilities

The Company has negotiated credit facilities set out as follows:

Operating Facility

Consists of a $500,000 revolving demand facility for general business purposes, bearing interest at the lender's prime plus 1%. As at March 31, 2006 the Company had a $Nil balance (December 31, 2005 - $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

9. Credit Facilities (continued)

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%.. As at March 31, 2006 the Company had a $20,000,000 balance outstanding (December 31, 2005 - $16,943,000) 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% plus a 0.6% fee on undrawn amounts (expensed monthly). As at March 31, 2006, the Company had a $3,788,000 balance outstanding (December 31, 2005 - $Nil) related to this facility. The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

10. 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:

	2006		2005	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**81,333,537**	**$92,900,223**	74,856,631	$77,809,075
Issued during the quarter				
Warrants issued [i]	—	**(17,120)**	—	—
Tax benefit of issuance costs	—	**6,505**	—	—
Balance, end of quarter	**81,333,537**	**$92,889,608**	74,856,631	$77,809,075

(i) Costs of issuing warrants attached to the subordinated dentures

Contributed Surplus

	2006	2005
Balance, beginning of year	**$405,420**	$233,984
Stock options expensed	**54,997**	1,387
Stock options exercised	—	—
Balance, end of quarter	**$460,417**	$235,371

Notes to Consolidated Financial Statements

11. 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, 2005 – 5,500,000) 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 quarter are as follows:

	2006		2005	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**3,108,500**	**$1.40**	1,732,000	$0.47
Expired/cancelled	**(4,500)**	**2.05**	—	—
Outstanding, end of quarter	**3,104,000**	**$1.40**	1,732,000	$0.47

Notes to Consolidated Financial Statements

11. Stock Options and Warrants (continued)

The following table summarizes the stock options outstanding at:

	March 31, 2006		December 31, 2005	
Exercise prices	**Number of Options Outstanding**	**Remaining Contractual Life**	Number of Options Outstanding	Remaining Contractual Life
$0.30	**471,000**	**1.15 years**	471,000	1.40 years
$0.30	**10,000**	**1.19 years**	10,000	1.44 years
$0.56	**200,000**	**2.19 years**	200,000	2.44 years
$0.65	**608,500**	**2.19 years**	608,500	2.44 years
$1.30	**10,000**	**2.67 years**	10,000	2.92 years
$1.69	**29,500**	**2.71 years**	29,500	2.96 years
$2.00	**10,000**	**3.67 years**	10,000	3.92 years
$2.05	**1,765,000**	**4.17 years**	1,769,500	4.42 years
	3,104,000		3,108,500	

Included in the above figures are 1,439,677 options at an average exercise price of $2.05, that were not exercisable at March 31, 2006, as they had not vested (December 31, 2005 – 1,528,052 options at an average exercise price of $2.04).

Warrants

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

	March 31, 2006		December 31, 2005	
Exercise price	**Number of Warrants Outstanding**	**Remaining Contractual Life**	Number of Warrants Outstanding	Remaining Contractual Life
$0.95	**500,000**	**2.41 years**	500,000	2.66 years
$3.60	**1,388,889**	**6.76 years**	—	—
$3.80	**1,315,789**	**6.76 years**	—	—
	3,204,678		500,000	

The 500,000 warrants at $0.95 were issued upon obtaining the credit facility and expire August 27, 2008. The warrants priced at $3.60 and $3.80 are the warrants attached to the subordinated debentures issued by the Company in the first quarter of 2006 (see note 8).

12. Per Share Information

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

	2006	2005
Basic	**81,333,537**	74,856,631
Fully diluted	**84,089,252**	76,539,616

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

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 three months ended March 31, 2006 and 2005 are set out as follows:

As at and for the three months ended March 31, 2006

	Multi-family Apartments	Manufactured Home Communities	Corporate	Total
Revenue	**$13,014,900**	**$3,151,576**	**$118,691**	**$16,285,167**
Property operating expenses	**6,616,757**	**1,288,065**	**—**	**7,904,822**
Earnings from property operations	**$6,398,143**	**$1,863,511**	**$118,691**	**$8,380,345**
Capital assets (net)	**$404,065,379**	**$84,614,859**	**$1,012,241**	**$489,692,479**

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

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

Notes to Consolidated Financial Statements

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 as compared to book value has remained relatively consistent with the December 31, 2005 values.

As at March 31, 2006, the Company had $27,975 worth of oil futures contracts outstanding (December 31, 2005 - $167,729).

15. Related Party Transactions

During the first quarter of 2006 the Company paid real estate commissions of $17,698 to a company controlled by a director. The commission was based on market rates and there is no continuing contractual obligation to use the service of the related party.

16. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for 2006.