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 the Company's 2005 Annual Report and the Company's 2005 Annual Information Form. These documents are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available at May 2, 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 the first quarter of 2006.

Financial Performance Summary provides a high-level overview of the Company and its financial performance in the first quarter of 2006. Please note that a more detailed discussion of the results is provided in latter sections of the MD&A.

Financial Statement Analysis provides a detailed discussion and analysis of the Company's financial performance for the first quarter of 2006 and financial position as at March 31, 2006.

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

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

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

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

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 2005 and 2006.

Management's Discussion and Analysis:

Corporate Overview

Killam Properties Inc. ("Killam") is a publicly traded real estate company focused on the acquisition, re-development and management of multi-family apartments and manufactured home communities (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.

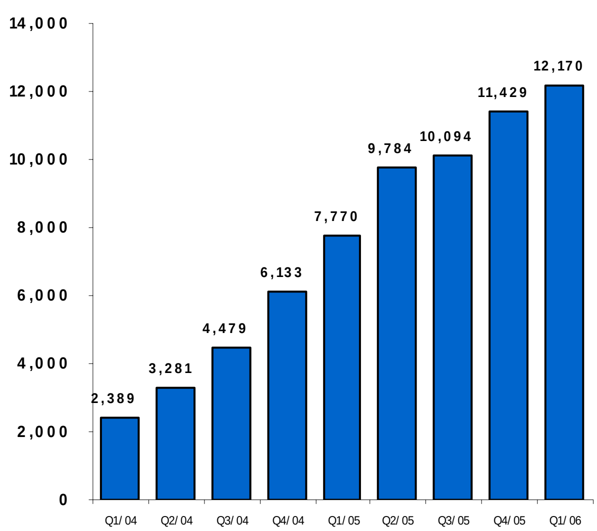
Killam continued to consolidate the rental market during the first quarter of 2006 with the acquisition of ten properties representing 741 units to bring the Company's total portfolio to 12,170 units.

Portfolio Summary

By Unit Type and Location

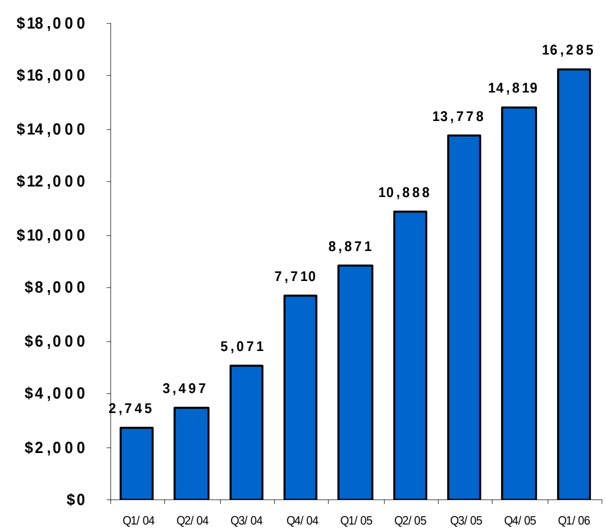
	Apartments	MHCs	Total
Halifax	3,472	291	3,763
Moncton	841	1,160	2,001
Saint John	1,062	100	1,162
Fredericton	248	176	424
St. Johns/Grand Falls	679	86	765
Sydney	156	217	373
PEI	588	-	588
Other NS	-	984	984
Other NB	-	86	86
Ontario	-	1,777	1,777
Saskatchewan	-	247	247
Total	7,046	5,124	12,170
Percentage by unit count	57.9%	42.1%	
Percentage by dollar value	82.6%	17.4%	

Unit Growth



Revenue Growth

(in $000's)



Management's Discussion and Analysis:

Financial Performance Summary

As at and for the three months ended,

	March 31, 2006	March 31, 2005	December 31, 2005
Total assets	**$513,193,382**	$283,750,702	$469,516,525
Mortgages payable	**327,030,503**	191,204,176	302,821,105
Shareholders' equity	**93,682,784**	77,914,113	94,843,668
Total revenue	**16,285,167**	8,870,567	14,820,759
Net operating income	**8,380,345**	4,639,634	8,287,979
Funds from operations	**2,057,690**	1,596,803	3,137,947
Net loss	**(1,205,266)**	(61,818)	(292,620)
Net loss per share - basic	**(0.0148)**	(0.00008)	(0.0036)
- diluted	**(0.0148)**	(0.00008)	(0.0036)

Total Assets increased to $513.2 million (3.3%) over December 31, 2005 as a result of completing the acquisition of ten properties during the first quarter of 2006. These acquisitions added 741 units to our rental portfolio.

Total Revenue for the first quarter of 2006 increased $7.4 million (83.6%) over 2005 driven by the unit growth during 2006.

Funds from Operations (FFO) increased by $0.5 million (28%) over the first quarter of 2005 as a result of the increase in the rental portfolio during 2006.

Net Loss of $1.2 million for the first quarter of 2006 is higher than 2005 as a result of a number of factors including higher energy costs and $2.0 million of depreciation related to the Company's building assets. In addition, the first quarter of 2006 included $1.2 million of additional interest related to Killam's convertible debenture interest ($0.7 million) and credit facility interest ($0.5 million). Please see a detailed discussion later in the MD&A.

Revenues per acquisition year

(In $000s)

	2005				2006
	Q1	**Q2**	**Q3**	**Q4**	**Q1**
Revenue from 2002 acquisitions	$ 632	$ 646	$ 652	$657	$665
Revenue from 2003acquisitions	1,683	1,690	1,690	1,647	1,645
Revenue from 2004 acquisitions	6,339	6,319	6,498	6,644	6,829
Revenue from 2005 acquisitions	200	2,114	4,917	5,761	6,393
Revenue from 2006 acquisitions	-	-	-	-	635
	$8,854	$10,796	$13,757	$14,709	$16,167

The above revenue excludes corporate revenues.

Management's Discussion and Analysis:

Financial Statement Analysis

Consolidated Statement of Income

Revenue

For the three months ended March 31	**2006**	2005	% change
Rental income	**$16,051,521**	$8,832,496	82%
Interest income	**17,372**	12,689	37%
Other income	**216,274**	25,382	752%
	$16,285,167	$8,870,567	84%

Rental revenue increased $7.2 million or 82% compared to the prior year. The increase is due primarily to the completion of accretive acquisitions over the past twelve months.

The annualized rental revenue of the properties the Company owned as at March 31, 2006 is approximately $64.1 million based on the rental and vacancy rates as at quarter-end. Killam, as with all real estate rental operators, is sensitive to vacancy rates. However, Killam believes its portfolio is quite defensive given our diversification in terms of multiple locations and two asset classes. Based on our current rents, a 1% change in vacancy rates would impact the annualized rental revenues by $0.68 million.

Other income for 2006 includes commissions on the Company's exclusivity agreement with Aliant Inc., a gain on debt settlement and other sundry revenue from tenants.

The following table presents our revenues by operating segment:

For the three months ended March 31	**2006**	2005	% change
Apartments	**$13,014,900**	$7,702,713	69%
Manufactured Home Communities	**3,151,576**	1,151,436	173%
Corporate	**118,691**	16,418	622%
	$16,285,167	$8,870,567	84%
Weighted average rent per unit			
Apartments	**$670**	$646	4%
Manufactured Home Communities	**$195**	$186	5%

Weighted average rent per unit increased for both apartments and MHCs in 2006 over 2005. Both of these increases are primarily the result of new acquisitions in the relatively more expensive sub-markets of Halifax for apartments and southwestern Ontario for MHCs.

The following table presents our revenues by operating segment as a percentage of total revenue

For the three months ended March 31	**2006**	2005
Apartments	**79.9%**	86.8%
Manufactured Home Communities	**19.4%**	13.0%
Corporate	**0.7%**	0.2%

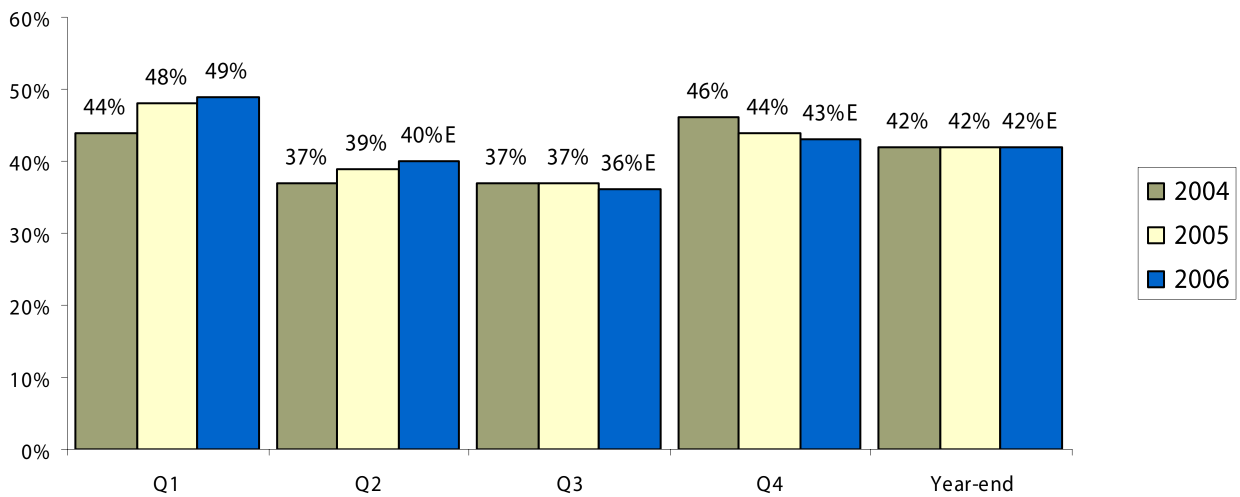
Management's Discussion and Analysis:

Property Operating Expenses

For the three months ended March 31	**2006**	2005	% change
Apartments	**$6,616,757**	$3,840,680	72%
Manufactured Home Communities	**1,288,065**	390,253	230%
	$7,904,822	$4,230,933	87%
As a Percentage of Rental Revenue	**49.2%**	47.9%	

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 primarily to the increase in the size of the portfolio.

Operating Costs as a Percentage of Rental Revenue



Property operating expenses as a percentage of rental revenue increased slightly to 49.2% in 2006 from 47.9% in 2005. This increase was minimized through effective cost management even with large increases in the following costs and other factors:

- Oil increased 27% in Q1-2006 versus Q1-2005 while natural gas prices increased 21% in the same period. The Company hedged approximately 75% of its oil consumption for the first quarter of 2006 which kept its oil prices to a 20% increase.
- In many of our markets, property taxes and water and sewer rates continue to rise by 5-15% over the previous quarter.
- 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 and into 2006 the Company has initiated rental increases in those markets where we have a significant presence.

The property operating expense percentage is a key performance indicator for Killam as it represents the Company's ability to effectively manage its portfolio. In addition, the Company compares the "same store" results for properties which we have owned since January 1, 2005. A comparison of these results is presented below.

Management's Discussion and Analysis:

Same Store Results

The following table sets out the results of operations for 58 properties (5,942 units) we have owned for equivalent periods in 2006 and 2005.

For the three months ended March 31	**2006**	2005	% change
Rental revenues	**$8,647,487**	$8,470,725	2%
Property operating expenses	**4,317,600**	4,053,739	6%
Earnings from property operations	**$4,329,887**	$4,416,986	(2)%
Operating expenses as a percentage of rental revenue	**49.9%**	47.9%	

Earnings from property operations decreased slightly ($87,099 or 2%) compared to the prior year. Rental revenues increased 2% as a result of beginning to lease units which had been undergoing renovations as well as increased rents at re-leasing. The 6% increase in property operating costs over the same quarter of 2005 is well below the general rate increases seen in utility costs, water and sewer rates and property taxes as the Company minimized these increases through effective cost management.

Mortgage and Loan Interest

Financing expenses were higher in 2006 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 during the remainder of 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 the MD&A.

Killam is sensitive to interest rate changes, however, the Company manages this risk by entering into fixed-rate mortgages and staggering the maturity dates of the mortgages. The reader should review the section on debt discussed later in the MD&A. An annualized 1% change in the interest rate on Killam's debt at March 31, 2006 would affect financing costs by $3.3 million per year were all of Killam's debt maturing within one year. However, as an example, only $66.5 million of Killam's mortgages are due within the next three years and that same interest rate change would only impact Killam by $0.67 million per annum.

Depreciation Expense

Depreciation expense increased $1.9 million compared to 2005. The increase in amortization is a result of the increased portfolio as well as Killam's capital improvement program.

General and Administrative Expenses

For the three months ended March 31	**2006**	2005	% change
Total	**$712,590**	$526,895	35%
As a Percentage of Rental Revenue	**4.4%**	6.0%	

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 percentage has decreased from 2005 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.

Management's Discussion and Analysis:

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 $49,086 in 2005 to $72,033 in 2006 is largely the result of the Company's private equity and debt placement in May 2005.

Income Tax

For the three months ended March 31	**2006**	2005	% change
Current	**$22,322**	$ 19,752	13%
Future	**(650,000)**	(25,783)	N/A%
	$(627,678)	$ (6,031)	N/A%

Current income tax expense represents federal large corporation's tax. The increase over 2005 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 recovery representing the future tax benefit of Killam's 2006 net loss at an effective rate of approximately 35%.

Consolidated Balance Sheet

Capital Assets

As at	**March 31 2006**	December 31 2005	% change
Net book value	**$489,692,479**	$452,076,153	8.3%

Capital assets increased to $489.7 million from $452.1 million, as a result of ten property acquisitions totaling 741 units in the first quarter of 2006.

The following table is a summary of the Company's acquisitions for the first quarters ended March 31, 2006 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.

For the three months ended March 31	**2006**	2005	% change
Apartment Acquisitions			
Value of acquisitions	**$31,632,000**	$12,315,000	157%
Units acquired	**578**	257	125%
Average price per unit	**$54,727**	$47,918	14%
MHC Acquisitions			
Value of acquisitions	**$3,525,000**	$26,350,000	(87)%
Units acquired	**163**	1,380	(88)%
Average price per unit	**$21,626**	$19,094	13%

Management's Discussion and Analysis:

During 2006, Killam continued to expand its geographic reach with the acquisition of an additional MHC in Ontario and an additional 243 units in St. John's, NL. Many of Killam's 2006 acquisitions are adjacent to Killam's existing buildings and MHCs which enable the Company to better control the neighborhood, provide a more consistent level of service and achieve efficiency cost savings.

Capital Improvements

In addition to property acquisitions, the Company has invested $5.0 million in property improvements during the first quarter of 2006 (Q1-2005 $1.8 million) as set out below:

	Q1 - 2006	Q1 - 2005
Project improvements	**$2,778,000**	$1,282,000
Suite improvements	**1,609,000**	412,000
Equipment	**396,000**	26,000
Appliances	**133,000**	45,000
Furniture & Fixtures	**33,000**	15,000
Parking Lots	**2,000**	2,000
Total	**$4,951,000**	$1,782,000

Of the $5 million invested in the first quarter of 2006, approximately $2.1 million relates to revenue enhancing suite and common area upgrades and the balance was invested in elevator, roof, window and heating plant upgrades which enhance revenue over the longer term.

Deferred Financing

As at	**March 31 2006**	December 31 2005	% change
Deferred financing costs	**$6,692,667**	$5,872,356	14%
Less: accumulated amortization	**(1,357,642)**	(1,104,360)	(23)%
	$5,335,025	$4,767,996	12%

Deferred financing costs (net of amortization) increased $0.6 million largely as a result of the January and March subordinated debt issuances 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 and subordinated debentures are amortized over the terms of the debentures.

Other Assets

As at	**March 31 2006**	December 31 2005	% change
Prepaid property taxes	**$916,799**	$ 514,368	78%
Prepaid insurance	**768,410**	282,353	172%
Other	**390,548**	406,814	(4)%
Deferred charges	**415,751**	354,485	17%
Goodwill	**4,500,000**	4,500,000	- %
	$6,991,508	$6,058,020	15%

The increase in prepaids over the December 31, 2005 balance is due to the increased size of the portfolio as well as the timing of property tax payments in various provinces and the payment of insurance premiums for 2006.

Management's Discussion and Analysis:

Mortgages and Loans Payable

As at	**March 31 2006**	December 31 2005	% change
Mortgages	**$315,775,117**	$291,760,750	8%
Vendor financing	**11,255,386**	11,060,355	2%
	$327,030,503	$302,821,105	8%
Weighted average years to maturity	**5.4**	5.5	
Mortgage debt as a percentage of GBV	**64.5%**	65.0%	
Weighted average interest rate	**5.6%**	5.6%	

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 2006 weighted average interest rate remained steady at 5.6%. 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 slightly from December 31, 2005 to 5.4 years as a result of the assumption of mortgages during the first quarter of 2006 which have a shorter term to maturity than the Company's usual financing terms.

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 2006 *($000's)***	**Average Int. Rate %**
2006	13,165	6.13
2007	9,683	5.21
2008	43,620	6.11
2009	69,341	5.30
2010	50,066	5.26
2011	10,012	5.82
2012	4,771	6.17
2013	10,752	6.17
2014	34,423	5.85
2015	58,441	5.44
Thereafter	22,757	5.43

Management's Discussion and Analysis:

Convertible Debenture

As at	**March 31 2006**	December 31 2005
Convertible debentures	**$40,765,287**	$40,718,111

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

Subordinated Debentures

As at	**March 31 2006**	December 31 2005
Subordinated debentures	**$10,000,000**	$Nil

On January 5 and March 17, 2006 the Company completed $5 million private placements of unsecured subordinated debentures and warrants. The debentures and warrants have terms of seven years. The debentures bear coupon rates of 5.92% and 6.06% respectively. The warrants are convertible into common shares of the Company at exercise prices of $3.60 and $3.80 per share respectively.

Shareholders' Equity

	March 31 2006	December 31 2005	% change
Capital stock	**$92,889,608**	$92,900,223	- %
Contributed surplus	**460,417**	405,420	14%
Other paid-in capital	**1,601,693**	1,601,693	- %
Deficit	**(1,268,934)**	(63,668)	N/A%
	$93,682,784	$94,843,668	1%

Other paid-in capital represents the fair value of the holder's conversion option of the Company's May 2005 issuance of convertible subordinated dentures. The change in the contributed surplus account is as result of the expensing of stock options which have vested during 2006.

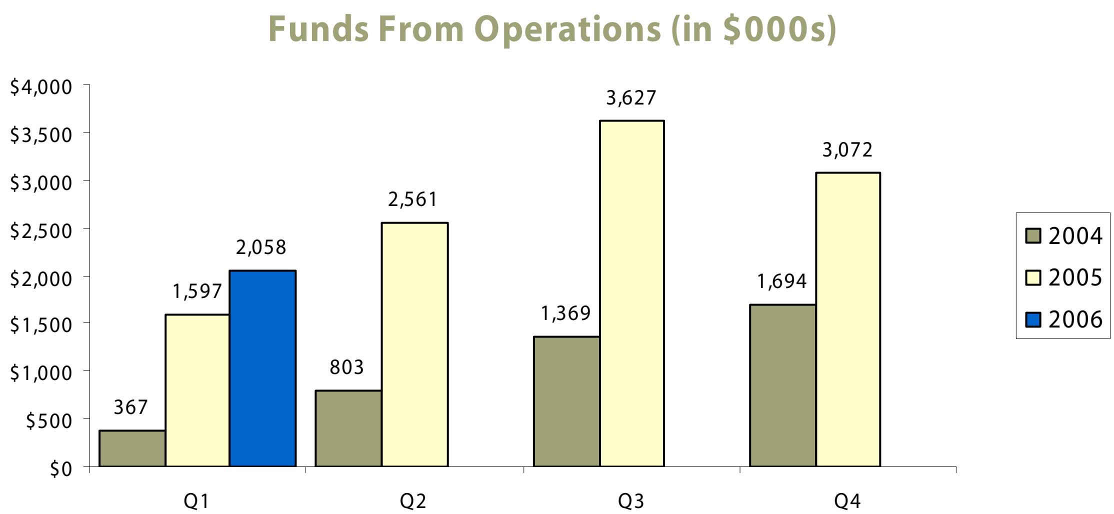
Management's Discussion and Analysis:

Consolidated Statement of Cash Flows

Operating Activities

For the three months ended	**2006**	2005	% change
Funds from operations	**$2,057,690**	$1,596,803	29%
FFO/share	**$0.03**	$0.02	50%

The Company's funds from operations continued to grow on a total dollar and per share basis during 2006 largely as a result of the expanded portfolio during 2005 and 2006.



Financing Activities

Issuance of Subordinated Debentures

As discussed earlier in the MD&A, during the first quarter of 2006, the Company completed the private placement of two $5 million subordinated debentures.

Deferred Financing

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

Credit Facility

During the first quarter of 2006 Killam has drawn an additional $6.85 million on its Credit Facility associated with its continued acquisitions.

Financing of Capital Assets

During the first quarter of 2006 the financing of new acquisitions and the re-financing of existing properties totaled $16.7 million compared to $31.5 million during the same period of 2005. These amounts exclude mortgages assumed on acquisition. See the section on Mortgages Payable elsewhere in the MD&A for a further discussion of financing.

Management's Discussion and Analysis:

Investing Activities

As discussed earlier in the MD&A, the Company completed the acquisition of ten properties representing 741 units during the first quarter of 2006. The purchase of capital assets amount in the cash flow statement is shown net of any debt assumed. In addition the Company completed approximately $5.0 million of capital improvements to its properties during the first quarter of 2006.

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 March 31, 2006 the Company had available $4.0 million of cash. In addition, the Company has credit facilities totaling $40 million of which the Company has drawn $23.8 million on these facilities as at March 31, 2006. The cash on hand and credit facilities provide the Company with sufficient capital to continue its acquisitions in the short term. 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 described in detail in the Management's Discussion and Analysis found in Killam's 2005 Annual Report. These factors still exist at the end of this interim period and remain relatively unchanged.

Critical Accounting Estimates

The Company's accounting policies are described in Note 2 of the consolidated financial statements. The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires management to make estimates and assumptions. The Company's critical accounting estimates remain unchanged from those set out in Killam's 2005 Annual Report

Future Objectives

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

2006 Goals and Objectives

- Continue to grow our portfolio through accretive acquisitions.
- Increase rental incomes from existing properties at tenant turnover and renewal.
- Lower costs through operational efficiencies.
- Maximize potential in our current portfolio through increases in occupancy rates.
- Grow our MHC business through community expansions utilizing our existing vacant land in the communities.
- Crystallize the value of our apartment surplus land through development agreements or sales.