Consolidated Balance Sheets

(Unaudited)

As at

	March 31 2007	December 31 2006
ASSETS		
Real estate properties *(note 4)*	**$ 595,604,655**	$ 567,098,601
Cash and cash equivalents *(note 3)*	**10,239,150**	3,029,276
Restricted cash *(note 3)*	**4,550,730**	3,181,703
Accounts receivable	**934,632**	979,014
Other assets *(note 5)*	**7,850,966**	7,409,389
Deferred financing costs (net) *(note 2)*	**-**	5,680,417
Future income taxes	**2,827,097**	993,404
	$ 622,007,230	$ 588,371,804
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgages and loans payable *(note 6)*	**$ 404,435,025**	$ 389,278,082
Convertible debentures *(note 7)*	**39,456,904**	40,910,212
Subordinated debentures *(note 8)*	**18,421,661**	19,165,653
Credit facility *(note 9)*	**-**	19,278,000
Accounts payable and accrued liabilities	**9,792,794**	7,447,518
Dividends payable	**1,246,171**	-
Income tax payable	**8,156**	236,123
Security deposits	**1,571,586**	1,520,075
Future income taxes	**2,882,849**	2,882,849
	477,815,146	480,718,512
Shareholders' Equity		
Capital stock *(note 10)*	**148,269,848**	108,318,171
Contributed surplus *(note 10)*	**577,411**	688,021
Other paid-in capital *(notes 7 and 8)*	**2,467,878**	2,467,878
Deficit	**(7,123,053)**	(3,820,778)
	144,192,084	107,653,292
	$ 622,007,230	$ 588,371,804

See accompanying notes

On behalf of the Board

G. Wayne Watson
Director

Philip Fraser
Director

Consolidated Statements of Income

(Unaudited)

For the 3 months ended March 31	**2007**	2006
Revenue		
Rental income	**$ 19,260,779**	$ 15,757,217
Other operating income	**93,651**	116,296
Corporate income	**122,763**	118,690
	19,477,193	15,992,203
Property expenses		
Property operating expenses	**9,190,336**	7,642,458
	10,286,857	8,349,745
Mortgage and loan interest	**5,327,261**	4,249,874
Convertible debenture interest	**736,384**	732,926
Subordinated debenture interest	**336,975**	82,040
Credit facility interest	**242,855**	447,706
Depreciation	**5,102,054**	3,559,585
Amortization of deferred financing	**514,521**	251,199
General and administrative	**1,067,110**	747,544
Provincial capital taxes	**73,717**	72,033
Interest and bank charges	**77,084**	39,773
	13,477,961	10,182,680
Loss before income taxes	**(3,191,104)**	(1,832,935)
Recovery of (provision for) income taxes		
- current	**-**	(22,332)
- future	**1,135,000**	650,000
Net loss	**(2,056,104)**	(1,205,267)
Net loss per share		
- basic	**$ (0.0212)**	$ (0.0148)
- diluted	**$ (0.0212)**	$ (0.0148)

See accompanying notes

Consolidated Statements of Deficit

(Unaudited)

For the 3 months ended March 31

	2007	2006
Deficit, beginning of period	**$ (3,820,778)**	$ (63,668)
Net loss	**(2,056,104)**	(1,205,267)
Dividends	**(1,246,171)**	-
Deficit, end of period	**(7,123,053)**	(1,268,935)

Consolidated Statements of Other Comprehensive Income

(Unaudited)

For the 3 months ended March 31

	2007	2006
Net loss	**$ (2,056,104)**	$ (1,205,267)
Other comprehensive income	**-**	-
Comprehensive loss	**(2,056,104)**	(1,205,267)

Consolidated Statements of Accumulated Other Comprehensive Income

(Unaudited)

For the 3 months ended March 31

	2007	2006
Balance, beginning of period	**$ -**	$ -
Transition adjustment *(note 2)*	**(116,353)**	-
Settlement of futures contracts	**116,353**	-
Balance, end of period	**-**	-

Consolidated Statements of Cash Flows

(Unaudited)

For the 3 months ended March 31,	**2007**	2006
OPERATING ACTIVITIES		
Net loss	**$ (2,056,104)**	$ (1,205,266)
Add items not affecting cash		
Depreciation and amortization	**5,616,575**	3,810,783
Non-cash debenture interest	**85,918**	47,176
Non-cash compensation expense	**94,775**	54,997
Future income taxes	**(1,135,000)**	(650,000)
Net change in non-cash working capital items related to operations	**3,062,796**	2,217,655
Cash provided by operating activities	**5,668,960**	4,275,345
FINANCING ACTIVITIES		
Increase in deferred financing	**(466,479)**	(818,228)
Issuance of common shares for cash (net of issue costs)	**39,047,599**	(16,490)
Issuance of subordinated debentures and warrants (net)	**-**	10,000,000
(Decrease) increase in credit facility	**(19,278,000)**	6,845,000
Repayment of long term debt	**(3,974,102)**	(1,961,325)
Issuance of long-term debt	**15,745,978**	16,697,935
Dividends	**(1,246,171)**	-
Cash provided by financing activities	**29,828,825**	30,746,892
INVESTING ACTIVITIES		
Increase in restricted cash	**(1,369,027)**	(512,371)
Purchase of capital assets	**(26,918,884)**	(31,700,753)
Cash used in investing activities	**(28,287,911)**	(32,213,124)
Net increase in cash and cash equivalents	**7,209,874**	2,809,113
Cash and cash equivalents, beginning of period	**3,029,276**	1,211,738
Cash and cash equivalents, end of period	**$ 10,239,150**	$ 4,020,851

See accompanying notes

Notes to Consolidated Financial Statements

(Unaudited)

1. Incorporation

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

2. Summary of Significant Accounting Policies

Basis of presentation

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

The financial statements follow the same accounting policies and their methods of application as the Company's consolidated financial statements for the year ended December 31, 2006 except as described below. The Company's interim consolidated financial statements do not include all disclosures required by GAAP for annual financial statements and accordingly, should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended December 31, 2006.

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. Estimates include but are not limited to the following;

(i) Economic useful life of buildings for purposes of calculating depreciation.
(ii) Forecast of economic indicators in order to measure fair values of buildings for purposes of determining net recoverable amounts under GAAP.
(iii) Amount of capitalized wages which relates to suite renovations and project improvements.

There were no material changes to the Company's critical accounting estimates during the quarter from those disclosed in the consolidated financial statements for the year ended December 31, 2006. Interim financial statements may, however employ a greater use of estimates than annual financial statements. Actual results could differ from those estimates.

Seasonality

The Company's results for the three months ended March 31, 2007 and 2006 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in utility, landscaping and snow removal costs. The Company has historically experienced higher utility expenses in the first and fourth quarters as a result of the winter months.

Notes to Consolidated Financial Statements

(Unaudited)

2. Summary of Significant Accounting Policies (continued)

New Accounting Policies

Effective January 1, 2007, the Company has adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

Section 1530 – Comprehensive Income

This section provides reporting and disclosure requirements for certain gains and losses that otherwise are not immediately recorded in income. It requires an entity to recognize certain unrealized gains and losses in accumulated other comprehensive income, a new component of shareholders' equity and to present a new statement of comprehensive income. The Company has set up an opening transition adjustment in the accumulated other comprehensive income statement for fuel cash flow hedges in place as at January 1, 2007. The Company currently has no financial instruments or other transactions which require the recognition of other comprehensive income during the three months ended March 31, 2007.

Section 3855 – Financial Instruments – Recognition and Measurement

This section provides guidance on when a financial instrument must be recognized on the balance sheet, how it must be measured and also provides guidance on the presentation of gains and losses on financial instruments. As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents as held-for-trading for accounting purposes, which are measured on the balance sheet at fair value. Accounts receivable are classified as loans and receivables and are recorded at amortized cost. Accounts payable and accrued liabilities, security deposits and long-term debt are classified as other financial liabilities and are measured at amortized cost.

Section 3855 also provides guidance on costs incurred upon acquisition of financial assets and issuance of financial liabilities. Transaction costs are now deducted from the related financial liability and are amortized using the effective interest method over the expected life of the related liability. As a result, deferred financing fees relating to mortgages and loans payable and debentures, of $5.7 million as at January 1, 2007 have been reclassified from deferred financing to the related debt amount on the balance sheet.

Section 3861 – Financial Instruments – Disclosure and Presentation

This section establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them.

Section 3865 – Hedges

Hedge accounting requires that the Company document its risk strategy objectives and the relationships between the hedging instrument and the hedged item. The Company is also required to assess the effectiveness of the hedging relationship throughout its term and that it remains consistent with the Company's risk strategy. As at March 31, 2007 the Company is not involved in any hedging relationships.

Notes to Consolidated Financial Statements

(Unaudited)

3. Cash and Restricted Cash

	March 31, 2007	December 31, 2006
Real estate deposits and property tax reserves	**$ 3,654,889**	$2,366,574
Tenant security deposits	**895,841**	815,129
Restricted cash	**4,550,730**	3,181,703
Cash	**10,239,150**	3,029,276
Total cash and cash equivalents	**$14,789,880**	$6,210,979

4. Real Estate Properties

	March 31, 2007		December 31, 2006	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$59,399,242**	**$ —**	$ 55,956,584	$ —
Buildings	**410,946,146**	**19,426,591**	394,353,361	17,017,749
Roads and driveways	**53,899,307**	**3,427,836**	49,585,397	2,946,684
Water and sewer	**53,924,019**	**5,075,947**	49,610,109	4,375,278
Equipment	**4,909,355**	**519,568**	4,688,694	415,465
Suite renovations	**18,748,652**	**3,695,810**	16,825,684	2,977,718
Project improvements	**24,476,880**	**2,567,061**	22,345,537	2,045,296
Other assets	**4,690,867**	**948,712**	4,313,749	802,324
Intangibles	**292,380**	**20,667**	—	—
	$631,286,848	**$35,682,193**	$597,679,115	$30,580,514
Less: accumulated amortization	**(35,682,193)**		(30,580,514)	
	$595,604,655		$567,098,601	

During the quarter ended March 31, 2007 the Company capitalized indirect costs of $0.3 million (2006 - $0.3 million) as part of its project improvement and suite renovation program. In addition, during the quarter ended March 31, 2007, $89,500 of interest expense was capitalized as part of the Company's repositioning projects related to properties which were off-line (2006 - $116,000).

5. Other Assets

	March 31, 2007	December 31, 2006
Prepaids	**$1,505,042**	$1,265,459
Notes receivable	**1,026,850**	1,026,850
Other assets	**462,453**	425,406
Deferred charges	**356,621**	191,674
Goodwill	**4,500,000**	4,500,000
	$7,850,966	$7,409,389

Goodwill presented above is the tax effect of the Company's acquisition of two properties through share purchase transactions. The offsetting liability is presented in future income taxes. $652,000 of the notes receivable is non-interest bearing and receivable within the next twelve months. The remaining $375,000 bears interest at prime rate plus 1%. Both notes are secured through charges on the lands sold to third parties.

Notes to Consolidated Financial Statements

(Unaudited)

6. Mortgages and Loans Payable

	Maturities	Interest Rates	Balance
Mortgages	May 2007 – July 2019	3.62% - 8.47%	$400,619,763
Vendor Financing	Sept 2007 – June 2016	0.00% - 9.20%	7,170,728
Total mortgages and loans			$407,790,491
Less: deferred financing charges			(3,355,466)
			$404,435,025

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, 2007 was 5.5% (December 31, 2006 – 5.5%).

Principal repayments of mortgages and loans are due as follows:

Year	$000s
2007	$19,167
2008	45,236
2009	72,114
2010	51,023
2011	52,866
Thereafter	167,384
	$407,790

7. Convertible 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%. The balance sheet amount at March 31, 2007 is net of $1.5 million of deferred financing charges.

8. Subordinated Debentures

The Company's unsecured subordinated debentures mature January 2013 and consist of the following;

Face Amount	Interest Rate %	# of attached warrants	Exercise Price	Balance March 31, 2007
$ 5,000,000	5.92%	1,388,889	$3.60	$4,829,154
5,000,000	6.06%	1,315,789	$3.80	4,822,932
10,000,000	6.33%	3,267,974	$3.06	9,542,541
$20,000,000				$19,194,628
		Less: Deferred financing charges		(772,967)
				$18,421,661

The Company has calculated the fair value of the warrants issued with the subordinated debentures as $0.9 million. This amount is reflected in "Other paid-in capital". The weighted average effective interest rate on the remaining liability component of the debentures is calculated at 6.8%.

Notes to Consolidated Financial Statements

(Unaudited)

9. Credit Facilities

The Company has negotiated credit facilities set out as follows:

An operating facility which consists of a $750,000 revolving demand facility for general business purposes, bearing interest at the lender's prime rate plus 1%. As at March 31, 2007 the Company had letters of credit totaling $374,900 outstanding against this facility (December 31, 2006 - $374,900). The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

The Company has arranged a new secured revolving credit facility with the Royal Bank of Canada which replaced its previous acquisition facility. The $40 million facility, comprised of two tranches, will be used to finance the Company's ongoing acquisition program. The first tranche of $30 million is an interim facility at rates that average prime plus 200 basis points on prime rate advances, or 300 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. The second tranche increases the line to $40 million at improved rates of prime plus 75 basis points on prime rate advances, or 175 basis points over BAs. No amounts were drawn on this facility as at March 31, 2007.

The Company's previous acquisition facility consisted of the following;

(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 December 31, 2006 the Company had a $19,278,000 balance outstanding related to this facility.

(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 December 31, 2006, the Company had a $Nil balance outstanding (December 31, 2005 - $Nil) related to this facility.

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:

For the three months ended March 31,	**2007**		2006	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**88,252,645**	**$108,318,171**	81,333,537	$92,900,223
Issued during the quarter				
Issued for cash [(i)]	**17,400,000**	**38,433,912**	—	(17,120)
Stock options exercised [(ii)]	**1,159,000**	**819,072**	—	—
Tax benefit of issuance costs	—	**698,693**	—	6,505
Balance, end of quarter	**106,811,645**	**$148,269,848**	81,333,537	$92,889,608

(i) Net of issuance costs of $1,934,088 (2006 - $17,120)
(ii) Net of issuance costs of $184 (2006 - $Nil)

Notes to Consolidated Financial Statements

(Unaudited)

Contributed Surplus

For the three months ended March 31,	**2007**	2006
Balance, beginning of year	**$ 688,021**	$405,420
Stock options expensed	**94,776**	54,997
Stock options exercised	**(205,385)**	—
Balance, end of quarter	**$577,411**	$460,417

11. Stock Options and Warrants

Under the terms of the stock option plan:

(i) from time to time the Company designates 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, 2006 – 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 3 months ended March 31 are as follows:

For the three months ended March 31,	**2007**		2006	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**3,868,000**	**$1.60**	3,108,500	$1.40
Exercised	**(1,159,000)**	**0.53**	—	—
Expired/forfeited	—	—	(4,500)	2.05
Outstanding, end of quarter	**2,709,000**	**$2.06**	3,104,000	$1.40

Notes to Consolidated Financial Statements

(Unaudited)

11. Stock Options and Warrants (continued)

The following table summarizes the stock options outstanding at:

	March 31, 2007			December 31, 2006		
Exercise Prices	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$0.30	**115,000**	**0.15 years**	**115,000**	461,000	0.40 years	461,000
$0.30	**—**	**—**	**—**	10,000	0.44 years	10,000
$0.56	**—**	**—**	**—**	200,000	1.44 years	200,000
$0.65	**8,500**	**1.19 years**	**8,500**	608,500	1.44 years	608,500
$1.30	**10,000**	**1.67 years**	**6,771**	10,000	1.92 years	6,271
$1.69	**26,500**	**1.71 years**	**23,090**	29,500	1.96 years	25,590
$2.00	**10,000**	**2.67 years**	**4,816**	10,000	2.92 years	4,316
$2.05	**1,754,500**	**3.17 years**	**686,813**	1,754,500	3.42 years	599,938
$2.48	**10,000**	**4.25 years**	**1,516**	10,000	4.50 years	1,016
$2.40	**224,500**	**4.30 years**	**39,735**	224,500	4.55 years	28,985
$2.35	**550,000**	**4.36 years**	**70,130**	550,000	4.61 years	42,630
	2,709,000		**956,371**	3,868,000		1,988,246

The exercisable options had a weighted average exercise price of $1.85 at March 31, 2007 ($1.06 as at December 31, 2006).

Warrants

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

	March 31, 2007		December 31, 2006	
Exercise price	**Number of Warrants Outstanding**	**Remaining Contractual Life**	Number of Warrants Outstanding	Remaining Contractual Life
$0.95	**500,000**	**1.41 years**	500,000	1.66 years
$3.60	**1,388,889**	**5.76 years**	1,388,889	6.01 years
$3.80	**1,315,789**	**5.76 years**	1,315,789	6.01 years
$3.06	**3,267,974**	**5.76 years**	3,267,974	6.01 years
	6,472,652		6,472,652	

The 500,000 warrants at $0.95 were issued upon obtaining the previous credit facility and expire August 27, 2008. The warrants priced at $3.60, $3.80 and $3.06 are the warrants attached to the subordinated debentures issued by the Company during 2006 (see note 8).

Notes to Consolidated Financial Statements

(Unaudited)

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:

	2007	2006
Basic	**96,925,745**	81,333,537
Fully diluted	**98,708,979**	84,089,252

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, 2007 and 2006 are set out as follows:

As at and for the quarter ended March 31, 2007

	Apartments	**Manufactured Home Communities**	**Corporate**	**Total**
Rental revenue	**$15,475,341**	**$3,785,438**	**$ —**	**$19,260,779**
Other income	**68,365**	**25,286**	**—**	**93,651**
Corporate income	**—**	**—**	**122,763**	**122,763**
	15,543,706	**3,810,724**	**122,763**	**19,477,193**
Property operating expenses	**7,750,446**	**1,439,890**	**—**	**9,190,336**
Earnings from properties	**$7,793,260**	**$2,370,834**	**$122,763**	**$10,286,857**
Capital assets (net)	**$475,504,844**	**$118,984,351**	**$1,115,460**	**$595,604,655**

As at and for the quarter ended March 31, 2006

	Apartments	Manufactured Home Communities	Corporate	Total
Rental revenue	$12,919,977	$2,836,815	$ —	$15,757,217
Other income	94,923	21,798	—	116,296
Corporate income	—	—	118,690	118,690
	13,014,900	2,858,613	118,690	15,992,203
Property operating expenses	6,647,358	995,100	—	7,642,458
Earnings from properties	$6,367,542	$1,863,513	$118,690	$8,349,745
Capital assets (net)	$404,065,379	$84,614,859	$1,012,241	$489,692,479

Notes to Consolidated Financial Statements

(Unaudited)

14. Financial Risks

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.

15. Related Party Transactions

During the first quarter of 2007 the Company paid real estate commissions of $16,406 to a Company controlled by a Director (2006 – $17,698). The commissions 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 April 1 to May 7, 2007 the Company completed two property acquisitions representing 94 units. The total purchase price of the acquisitions was $1.8 million which was satisfied through mortgages totaling $1.3 million with the remainder in cash.

On April 18, 2007, the Company announced a dividend of $0.011667 per share, payable on May 15, 2007 to shareholders of record on April 30, 2007.

17. Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation adopted for 2007.