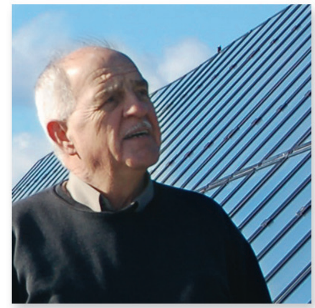



Q3



KILLAM PROPERTIES INC

2006 THIRD QUARTER REPORT

Third Quarter 2006 Highlights

$30 million in aquisitions

$573 million in assets

$19 million in revenue, a 38% increase over third quarter 2005

$12 million in net operating income, a 40% increase over third quarter 2005

$4 million in funds from operations, a 6.3% increase over third quarter 2005

97.1% occupancy in apartment portfolio at Sept 30, 2006

99.1% occupancy in MHC portfolio at Sept 30, 2006

President's Message to Shareholders

On behalf of the board of directors, I am pleased to present Killam's third quarter 2006 results and discussion of operations. Killam continues to grow with the acquisition of an additional 604 units in the third quarter, bringing our total units to 13,626 as at September 30, 2006.

Business Initiatives

We had a productive quarter, making progress toward our key objectives for 2006, including:

- Completing the development and lease-up of 61 lots at our Greenhill Estates MHC. Expansion plans and permitting are progressing on another four communities totaling 170 lots that are expected to be completed over the next two years.
- Killam received approval for the development of a 70 unit residential building on its Kelly & Alton street land located in Halifax. During the third quarter Killam sold a 50% interest in this lot to a local developer resulting in a gain of $0.4 million. Killam and the developer will jointly construct the apartment building, with the project scheduled to start in the fourth quarter of 2006. This sale is another example of the opportunities that Killam is pursuing to provide additional capital from its current asset base to fund future growth opportunities.
- Finally, we invested $6.9 million in our apartment & MHC portfolios through capital upgrades to reposition certain assets by improving their functionality and overall presentation during the quarter.

Financial Highlights

We are pleased with Killam's operating results in the third quarter, however overall results were slightly less than our expectations due primarily to several one-time general and administrative charges. Revenues grew by approximately 38% over the third quarter of 2005. More importantly funds from operations (FFO) were $3.8 million in the third quarter of 2006, an increase of 6.3% from the same period in 2005. Our net loss of $0.7 million was generated by $4.4 million of building amortization as we are required by generally accepted accounting principles to amortize our buildings even though they do not decrease in value over time.

New Acquisitions

We are very excited about our first acquisition in Alberta with the recent purchase of Lynwood Park, in Slave Lake, Alberta. Lynwood Park is an 18 acre, 110 site manufactured home community located in the Town of Slave Lake, an oil & gas community, situated two hours north of Edmonton, Alberta. We continue to explore opportunities to expand our MHC business across Canada.

Operating Highlights

We are pleased with our overall occupancy level of 98.0% as at September 30, 2006. The apartment portfolio had an occupancy level of 97.1%, a 1.7 percentage point increase from the second quarter of 2006. The manufactured home community portfolio has an occupancy level of 99.1%. Approximately 146 additional vacant apartments units were undergoing renovation and therefore unavailable for renting and are not included in the vacancy results, compared to 237 at June 30, 2006. Our same store sales showed improvement in the quarter, with revenues up 3.7% and operating income up 2.0% from the third quarter of 2005.

Evaluating Potential REIT Conversion

Our board of directors has reviewed a proposal for the reorganization of Killam into a real estate investment trust (REIT), and concluded that the REIT structure has the potential to enhance shareholder value. RBC Capital Markets has been engaged to provide financial advisory services to Killam in this regard and to further evaluate whether a REIT conversion would be in the best interest of Killam and its shareholders. We look forward to providing updates on this initiative over the coming months.

Looking Forward

I would like to thank our shareholders for their continued support and I look forward to our next quarterly report to update you on our progress

Sincerely,

Philip Fraser
President and Chief Executive Officer

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 September 30, 2006 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 November 7, 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.

- Net operating income is calculated as operating revenue less property operating expenses.
- Funds from operations (FFO) are calculated as net (loss) income plus amortization, stock compensation, non-cash debenture interest and future income taxes.
- Same store results are rental revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2005 and 2006.

Corporate Overview

Killam Properties Inc. ("Killam") is a publicly traded real estate company focused on the acquisition, re-development and management of apartments and manufactured home communities (MHCs). Killam's corporate strategy is based on consolidating and the application of professional property management to apartment buildings in Atlantic Canada and MHCs throughout Canada.

As at the end of Q3, Killam owned and operated 13,626 rental units, comprised of 7,664 apartment units and 5,962 MHC units.

Killam has been focused on growth through acquisitions for the last four years. Killam continued to consolidate the rental market during the third quarter of 2006 with the acquisition of eight properties representing 604 units to bring the Company's total portfolio to 13,626 units. Our growth in unit numbers over the last eleven quarters is highlighted on the following page.

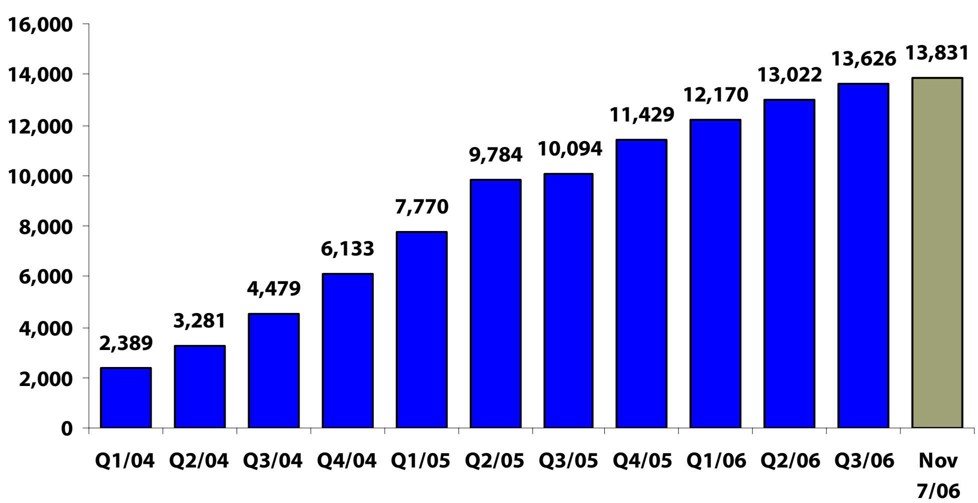
Management's Discussion and Analysis:

Portfolio Summary

By Unit Type and Location

	Apartments	MHCs	Total
Halifax	3,604	466	4,070
Moncton	961	1,160	2,121
Saint John	1,062	100	1,162
Fredericton	578	686	1,264
St. Johns/Grand Falls/Cornerbrook	715	170	885
Sydney	156	217	373
PEI	588	-	588
Other NS	-	984	984
Other NB	-	86	86
Ontario	-	1,846	1,846
Saskatchewan	-	247	247
Total	7,664	5,962	13,626
Percentage by unit count	56.2%	43.8%	
Percentage by gross book value	81.2%	18.8%	

Unit Growth



Management's Discussion and Analysis:

Review of Operations

Rental Operations

	3 months ended September 30		9 months ended September 30	
	2006	2005	**2006**	2005
Rental revenue	**$18,026,905**	$13,488,106	**$50,249,224**	$32,877,684
Other operating revenue (1)	**128,084**	46,983	**323,083**	115,950
Total operating revenue	**18,154,989**	13,535,089	**50,572,307**	32,993,634
Property operating expenses				
Operating expenses	**3,186,335**	2,365,672	**9,400,538**	5,599,205
Utilities	**1,697,742**	1,357,192	**7,092,056**	4,761,814
Property taxes	**1,702,570**	1,184,792	**4,440,860**	2,910,121
Total property operating expenses	**6,586,647**	4,907,656	**20,933,454**	13,271,140
Net operating income	**$11,568,342**	$8,627,433	**$29,638,853**	$19,722,494
Operating expense percentage	**36.3%**	36.3%	**41.4%**	40.2%

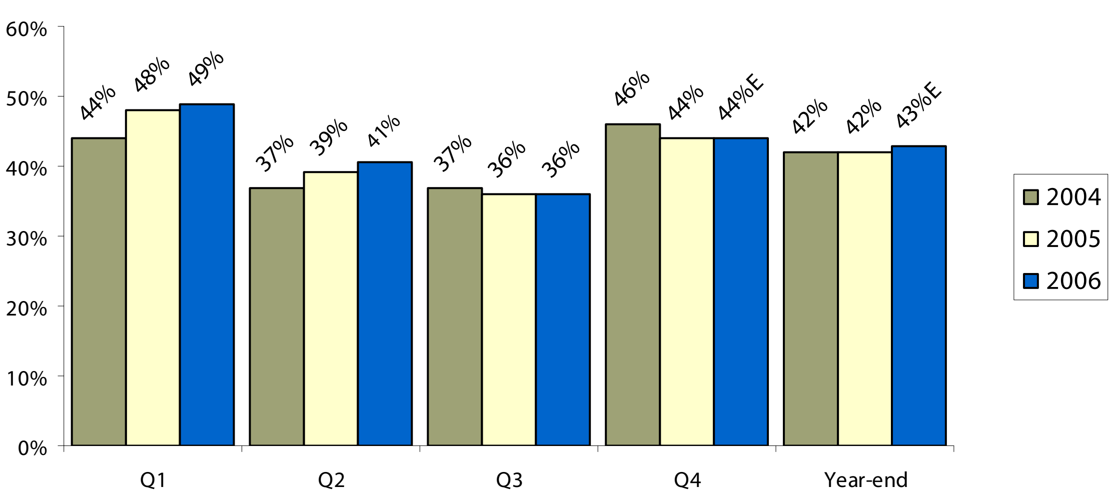
(1) 2006 revenue excludes gains on land sales of $401,100 and $656,783 in Q3 and Q2, 2006 respectively

Rental revenue increased $4.6 million, or 34.2%, and $17.4 million, or 52.8%, compared to the third quarter and first nine months of 2005, respectively. The increase is due primarily to the completion of acquisitions over the past twelve months. Killam's initiation of rent increases, which started in the first quarter, has also positively impacted revenue.

The annualized rental revenue, including laundry and parking revenue, of the properties the Company owned as at September 30, 2006 is approximately $74.5 million based on current rents and 4% vacancy. Killam, as with all real estate rental operators, is sensitive to vacancy rates. However, Killam believes its portfolio is quite defensive given its diversification in terms of multiple locations and two distinct asset types. Based on our current rents, a 1% change in vacancy rates would impact the annualized rental revenues by $0.8 million.

Property operating expenses as a percentage of revenue for the third quarter remained consistent at 36.3% while the percentage for the nine months ended September 30 is 41.4% versus 40.2%. This increase is due primarily to increased repair and maintenance related costs during the first half of 2006.

Operating Costs as a Percentage of Rental Revenue



Management's Discussion and Analysis:

Total utility costs increased in the quarter due to the increased unit count, however as a percentage of rental revenue, decreased to 9.4% from 10.1%. Killam has converted 1,543 units to natural gas and have a further 666 units under conversion resulting in approximately 30% of its apartment portfolio being fueled by natural gas for the 2006/07 heating season.

In many of our markets, property taxes and water and sewer rates have increased by 5-15% over the previous year. Property taxes as a percentage of revenue have increased largely as a result of assessments at the Company's Cabot and Lakefront properties in Nova Scotia.

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 stabilized properties which we have owned since January 1, 2005. A comparison of these results is presented below.

Same Store Results

The following table sets out the results of operations for 57 stabilized properties (5,803 units) we have owned for equivalent periods in 2006 and 2005.

	3 months ended September 30		*9 months ended September 30*	
	2006	2005	**2006**	2005
Revenues (1)	**$8,566,686**	$8,257,056	**$25,393,320**	$24,567,386
Property operating expenses	**3,284,703**	3,112,555	**11,057,158**	10,447,646
Net operating income	**$5,281,983**	$5,144,501	**$14,336,162**	$14,119,740
Operating expense percentage	**38.3%**	37.7%	**43.5%**	42.5%

(1) 2006 revenue excludes gains on land sales of $401,100 and $656,783 in Q3 and Q2, 2006 respectively

Same store sales revenue improved $309,630, or 3.7% quarter over quarter. Higher rents and increased occupancy accounted for 55% and 45% of this increase, respectively.

Property operating expenses increased $172,000 in the third quarter versus the same period last year. Higher property taxes account for $133,000, or 77%, of this increase as final property tax assessments for a number of Killam's properties were increased for the 2006/2007 year. Included in taxes are $96,000 of increased property tax costs at the Company's Cabot and Lakefront properties following increased assessments. Approximately $40,000 of the increased property tax costs recorded in the third quarter relate to the second quarter as final increases were not known until the August of 2006.

The remaining expense variance relates to slight increases in utility and repair and maintenance costs. These costs were partially offset by efficiencies in staffing and a decrease in contract services.

Excluded from the above analysis is the Company's Kent Street property which has been undergoing major renovations during the winter and spring of 2006.

Gain on Sale of Land

During the third quarter, Killam completed the sale of a 50% interest in 2.38 acres of surplus land associated with its Alton/Kelly property. The sale price of $525,000 resulted in a gain of $400,000. This land has received municipal approval for the construction of a 70 unit apartment building. As well during the second quarter, Killam received development approval on a 1.5 acre lot for a 60 unit residential building. Management is currently evaluating options regarding this opportunity.

This sale and the sale of 1.8 acres of surplus land in the second quarter of 2006 are examples of opportunities that Killam is pursuing to provide additional capital from its current asset base to fund its future growth opportunities. Management has identified another 28.1 acres of land that could be developed or sold following appropriate municipal approvals.

Management's Discussion and Analysis:

Segment Review

Apartments

	3 months ended September 30		9 months ended September 30	
	2006	2005	**2006**	2005
Rental revenue	**$14,451,106**	$11,051,956	**$40,754,592**	$27,288,886
Other operating revenue *(1)*	**35,187**	34,350	**190,321**	84,080
Total operating revenue	**14,486,293**	11,086,306	**40,944,913**	27,372,966
Property operating expenses				
Operating expenses	**2,506,878**	1,990,045	**7,558,237**	4,722,680
Utilities	**1,389,106**	1,103,619	**6,202,769**	4,194,031
Property taxes	**1,523,404**	1,042,388	**4,010,790**	2,637,826
Total property operating expenses	**5,419,388**	4,136,052	**17,771,796**	11,554,537
Net operating income	**$9,066,905**	$6,950,254	**$23,173,117**	$15,818,429
Operating expense percentage	**37.4%**	37.3%	**43.4%**	42.2%
Weighted average rent per unit	**$679**	$669		

(1) 2006 revenue excludes gains on land sales of $401,100 and $656,783 in Q3 and Q2, 2006 respectively

Killam's apartment business accounted for 78.4% of net operating income (excluding land sale gains) in the quarter, compared to 80.6% in the same quarter of 2005.

The portfolio apartment occupancy at the end of September, 2006 was 97.1% for stable units, compared to 95.4% at September 2005, a 1.7 percentage point increase in occupancy

Operating expenses as a percentage of revenues increased by 10 basis points to 37.4%, from 37.3%. This increase was primarily attributable to property taxes, which represent 10.5% of rental revenue in the third quarter of 2006 compared to 9.5% in the same period in 2005. The increase is a result of two significantly higher tax assessments for two of our Nova Scotia properties along smaller increases to a number of properties. These higher costs were offset by lower utility and operating costs as a percentage of revenue.

MHCs

	3 months ended September 30		*9 months ended September 30*	
	2006	2005	**2006**	2005
Rental revenue	**$3,575,799**	$2,436,150	**$9,494,632**	$5,588,798
Other operating revenue	**92,897**	12,633	**132,762**	31,870
Total operating revenue	**3,668,696**	2,448,783	**9,627,394**	5,620,668
Property operating expenses				
Operating expenses	**679,457**	375,627	**1,842,301**	876,525
Utilities	**308,636**	253,573	**889,287**	567,783
Property taxes	**179,166**	142,404	**430,070**	272,295
Total property operating expenses	**1,167,259**	771,604	**3,161,658**	1,716,603
Net operating income	**$2,501,437**	$1,677,179	**$6,465,736**	$3,904,065
Operating expense percentage	**31.8%**	31.5%	**32.8%**	30.5%
Weighted average rent per unit	**$211**	$197		

Rental revenue from Killam's MHCs has increased by $1.1 million, or 46.8%, from the third quarter in 2005 due primarily to the significant increase in properties.

Occupancy rates in MHCs remain high, at approximately 99.1%, compared to 99.2% in September 2005.

Killam's MHC operating costs increased slightly to 31.8% of operating revenues, from 31.5%. The most significant increases were seen in repairs and maintenance and general administrative costs associated with compliance with the Ontario Ministry of Environment legislation which impact our water and sewer costs. A portion of these costs are associated with deferred maintenance on new properties.

Mortgage and Loan Interest

Financing expenses were higher during the third quarter and first nine months of 2006 on a gross dollar basis compared to the prior year due to the increase in the mortgage portfolio related to acquisitions. As a percentage of rental income, total interest expense has remained consistent at 27.1% on a quarter over quarter basis.

Mortgage and loan interest is expected to continue to increase in 2006 as the Company continues to expand its portfolio. Killam expects to continue to finance properties at favorable rates throughout 2006 and into 2007. Please see further discussion in the Liquidity and Capital Resources section of the MD&A.

Killam is sensitive to interest rate changes. The Company manages this risk by entering into fixed rate mortgages and staggering the maturity dates of the mortgages. An annualized 1% change in the interest rate on Killam's mortgage and vendor debt at September 30, 2006 would affect financing costs by approximately $3.9 million per year. However, as an example, only $57.1 million of Killam's mortgage and vendor debt are due by the end of 2008 and that same interest rate change would only impact Killam by $0.6 million per annum.

Management's Discussion and Analysis:

Depreciation Expense

Depreciation expense increased $1.5 million compared to the third quarter of 2005 and $5.1 million versus the first nine months of 2005. As a percentage of rental revenue depreciation expense was 24.6% in the quarter, compared to 21.8% in the same quarter in 2005. The increase in depreciation is a result of the portfolio growth as well as Killam's capital improvement plan.

General and Administrative Expenses

	3 months ended September 30		*9 months ended September 30*	
	2006	2005	**2006**	2005
Total	**$1,587,184**	$520,747	**$3,131,859**	1,640,313
As a percentage of rental revenue	**8.8%**	3.9%	**6.2%**	5.0%

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, professional fees and other head office expenses.

General and administrative expenses increased significantly in the third quarter of 2006 versus 2005 due to several one-time charges. Following an external consultant's review initiated by the Board's Compensation Committee, bonuses of $495,000 were paid to senior management. Other expenses in the quarter include $75,000 of professional fees related to the Company Business Acquisition Report filing requirements and initial REIT conversion discussions. In addition, $82,000 of advertising costs were incurred related to the Company's two summer leasing campaigns. The benefit of these campaigns is expected be realized in the fourth quarter and 2007 with improved vacancy. Adjusting for these charges would generate a general and administrative expense ratio of 5.2% for the third quarter and 4.9% year-to-date.

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

Income Tax

	3 months ended September 30		*9 months ended September 30*	
	2006	2005	**2006**	2005
Current expense	**$177,008**	$57,624	**$199,340**	$122,376
Future expense (recovery)	**(337,500)**	189,604	**(1,190,500)**	257,323
	$(160,492)	$247,228	**$(991,160)**	$379,699

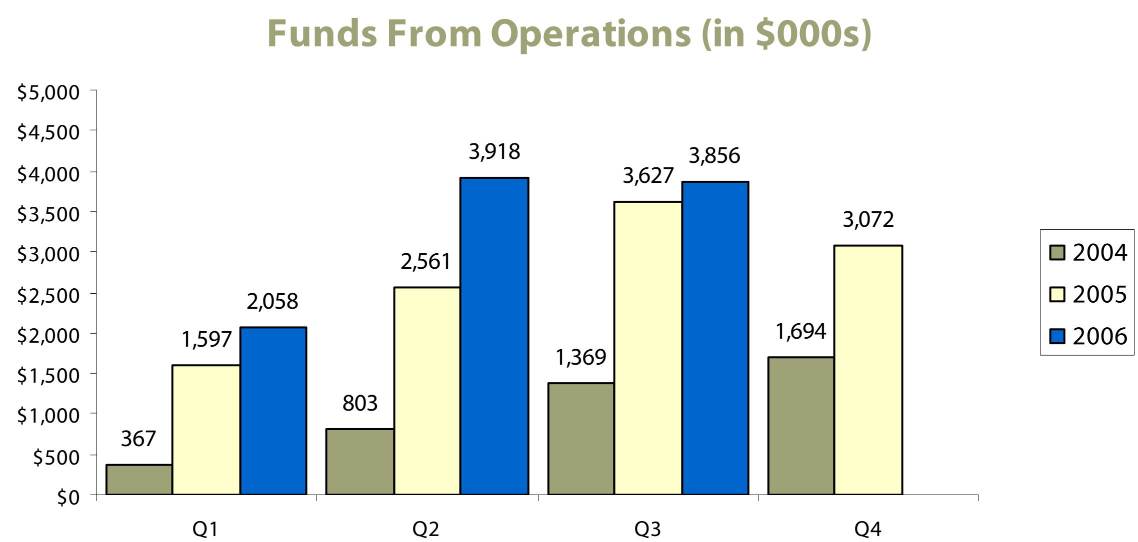
Current income tax expense represents federal large corporation's tax. In addition, the Company has booked a future income tax recovery for 2006 representing the future tax benefit on Killam's 2006 loss.

Management's Discussion and Analysis:

Funds from Operations (FFO)

	3 months ended September 30		*9 months ended September 30*	
	2006	2005	**2006**	2005
Net (loss) income	**$(683,487)**	$251,729	**$(2,040,129)**	$297,467
Depreciation and amortization	**4,738,502**	3,084,670	**12,719,256**	7,039,442
Non cash debenture interest	**48,874**	45,536	**143,226**	74,267
Non cash share compensation	**89,480**	54,997	**199,487**	117,672
Future income tax (recovery) expense	**(337,500)**	189,604	**(1,190,500)**	257,323
Funds from operations	**3,855,869**	3,626,536	**9,831,340**	7,786,171
FFO/share	**$0.05**	$0.04	**$0.12**	$0.10

The Company's funds from operations continued to grow on a total dollar and per share basis during the third quarter of 2006 compared to the same period in 2005 largely as a result of the expanded portfolio during late 2005 and the first nine months of 2006 and the successful sale of excess land. These positive contributions to FFO were partially offset by non-operating costs incurred in the third quarter as highlighted under general and administrative expenses on the previous page.



Management's Discussion and Analysis:

Consolidated Balance Sheet

The following is a discussion of the changes in the Company's balance sheet from the end of the last fiscal year, December 31, 2005 to the end of the third quarter, September 30, 2006.

Real Estate Assets

As at	**September 30 2006**	December 31 2005	% change
Net book value	**$550,036,136**	$452,076,153	22%

Capital assets increased to $550.0 million from $452.1 million, as a result of the acquisition of ten properties totaling 741 units in the first quarter, eight properties totaling 852 units in the second quarter and 8 properties totaling 604 units in the third quarter. Many of Killam's 2006 acquisitions are adjacent to Killam's existing buildings and MHCs which enable the Company to have more influence in the neighbourhood, provide a more consistent level of service and achieve efficiency cost savings.

The following table is a summary of the Company's acquisitions for the three and nine months ended September 30, 2006. The acquisition value set out below excludes third party costs such as legal, environmental and other costs paid as part of the acquisition process.

	3 months ended September 30, 2006	**9 months ended September 30, 2006**	**Total Portfolio**
Apartment Acquisitions			
Value of acquisitions	**$26,930,000**	**$68,962,000**	**$412,780,000**
Units acquired	**451**	**1,196**	**7,664**
Average price per unit	**$59,712**	**$68,962**	**$53,860**
MHC Acquisitions			
Value of acquisitions	**$2,825,000**	**$20,750,000**	**$101,282,000**
Units acquired	**153**	**1,001**	**5,962**
Average price per unit	**$18,464**	**$20,729**	**$16,988**

Capital Improvements

In addition to property acquisitions, the Company has invested $6.9 million in property improvements in the third quarter of 2006 ($17.5 million on a year-to-date basis) as set out below:

	Q1	**Q2**	**Q3**	**Total YTD**
Development projects	$25,400	$867,800	$1,036,800	$1,930,000
Major repositioning projects	690,500	840,400	596,800	2,127,700
Project improvements	2,162,100	1,365,400	1,737,100	5,264,600
Suite improvements	1,509,000	1,864,000	2,813,600	6,186,600
Equipment	396,000	285,800	159,200	841,000
Appliances	133,000	232,000	289,200	654,200
Furniture & Fixtures	33,000	149,000	61,800	243,800
Parking lots	2,000	Nil	205,400	207,400
Total	$4,951,000	$5,604,400	$6,899,900	$17,455,300

Of the $17.5 million invested in the first nine months of 2006, approximately $1.9 million relates to the expansion of the Company's Greenhill and Cowan MHCs. An additional $13.6 million relates to revenue enhancing suite and common area upgrades and the balance was invested in elevator, roof, window and heating plant upgrades that enhance revenue or reduce costs over the longer term.

Management's Discussion and Analysis:

Deferred Financing

As at	**September 30 2006**	December 31 2005	% change
Deferred financing costs	**$7,687,654**	$5,872,356	31%
Less: accumulated amortization	**(1,967,757)**	(1,104,360)	(78)%
	$5,719,897	$4,767,996	20%

Deferred financing costs (net of amortization) increased $1.0 million largely as a result of the subordinated debt issuances during 2006 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	**September 30 2006**	December 31 2005	% change
Prepaid property taxes	**$2,280,287**	$ 514,368	343%
Prepaid insurance	**515,595**	282,353	83%
Notes receivable	**1,175,000**	—	- %
Other	**413,488**	406,814	2%
Deferred charges	**574,003**	354,485	62%
Goodwill	**4,500,000**	4,500,000	- %
	$9,458,373	$6,058,020	56%

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. The notes receivable relates to the land sales during 2006. The notes are secured through charges on the land sold to the third parties. The deferred charges include $279,000 of manufactured homes for sale at the Company's Greenhill Estates property.

Management's Discussion and Analysis:

Liquidity and Capital Resources

Mortgages and Loans Payable

As at	**September 30 2006**	December 31 2005	% change
Mortgages	**$360,547,435**	$291,760,750	24%
Vendor financing	**8,216,244**	11,060,355	(26)%
Convertible debentures	**40,861,337**	40,765,287	- %
Subordinated debentures	**20,000,000**	—	- %
Credit facility	**16,533,000**	16,943,000	2%
	$446,178,016	$360,529,392	24%

Weighted average years to maturity of mortgage and vendor debt	**5.4**	5.5
Mortgage and vendor debt as a percentage of GBV	**64.0%**	62.6%
Total debt as a percentage of GBV	**77.5%**	74.6%
Weighted average interest rate of mortgage and vendor debt	**5.6%**	5.6%
Weighted average interest rate of total debt	**5.9%**	5.9%

The Company's long-term debt consists largely of fixed-rate, long-term mortgage financing. In certain cases the Company will also utilize vendor-take-back mortgages as part of an acquisition. Mortgages are secured by a first or second charge against the individual properties and the vendor financing is secured by a general corporate guarantee. The increase in mortgages payable is due to the continued growth of the Company.

Killam's 2006 weighted average interest rate remained steady at 5.6%. 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 mortgage and vendor debt by the year of maturity:

Year of Maturity	**Balance September 30, 2006 *($000's)***	**Average Int. Rate %**
2006	414	5.90
2007	13,832	5.89
2008	42,821	6.13
2009	65,644	5.35
2010	49,438	5.24
2011	41,614	5.67
2012	4,720	6.17
2013	10,635	6.17
2014	36,866	5.83
2015	54,905	5.45
2016	44,137	5.34
Thereafter	3,738	6.94

Management's Discussion and Analysis:

During the first nine months of 2006 Killam used its acquisition bridge facility to fund a number of acquisitions. This facility bears interest at variable rates. The average interest rate is currently 480 basis points above our average mortgage rate. Use of this facility in the quarter has resulted in increased interest expenses.

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 September 30, 2006 the Company had available $0.7 million of cash. In addition, the Company has credit facilities totaling $40 million of which the Company has drawn $16.6 million as at September 30, 2006. Subsequent to September 30, 2006 the Company refinanced certain properties providing an additional $8.6 million in cash. 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 when available. The Company is constantly reviewing 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.

Consolidated Balance Sheets

As at

	September 30 2006	December 31 2005
ASSETS		
Capital assets *(note 4)*	**550,036,136**	452,076,153
Cash and cash equivalents *(note 3)*	**3,309,280**	4,885,126
Accounts receivable	**875,375**	544,683
Other assets *(note 5)*	**9,458,373**	6,058,020
Deferred financing costs (net)	**5,719,897**	4,767,996
Future income taxes	**3,158,994**	1,184,547
	572,558,055	469,516,525
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgages and loans payable *(note 6)*	**368,763,679**	302,821,105
Convertible debentures *(note 7)*	**40,861,337**	40,718,111
Subordinated debentures *(note 8)*	**20,000,000**	-
Credit facility *(note 9)*	**16,553,000**	16,943,000
Accounts payable & accrued liabilities	**10,047,277**	7,057,797
Income tax payable	**341,098**	173,139
Security deposits	**1,517,172**	1,349,199
Future income taxes	**6,069,814**	5,610,506
	464,153,377	374,672,857
Shareholders' Equity		
Capital stock *(note 10)*	**108,303,115**	92,900,223
Contributed surplus *(note 10)*	**603,667**	405,420
Other paid-in capital *(note 7)*	**1,601,693**	1,601,693
Deficit	**(2,103,797)**	(63,668)
	108,404,678	94,843,668
	572,558,055	469,516,525

See accompanying notes

Consolidated Statements of Income and Deficit

	For the 3 months ended September 30		*For the 9 months ended September 30*	
	2006	2005	**2006**	2005
	$	$	**$**	$
Revenue				
Rental income	**18,026,479**	13,488,108	**50,246,829**	32,877,684
Other operating income	**529,610**	21,833	**1,383,361**	154,432
Corporate income	**141,219**	45,280	**392,139**	116,273
	18,697,308	13,555,221	**52,022,329**	33,148,389
Property expenses				
Property operating expenses	**6,586,647**	4,907,656	**20,933,454**	13,271,140
	12,110,661	8,647,565	**31,088,875**	19,877,249
Mortgage and loan interest	**4,882,302**	3,654,416	**13,554,002**	9,003,569
Convertible debenture interest	**734,624**	731,286	**2,200,476**	1,180,751
Subordinated debenture interest	**260,453**	-	**492,798**	-
Credit facility interest	**618,172**	-	**1,674,084**	-
Depreciation	**4,428,335**	2,935,062	**11,863,707**	6,720,663
Amortization of deferred financing	**310,167**	149,608	**855,549**	318,779
General and administrative	**1,587,184**	520,747	**3,131,859**	1,640,313
Provincial capital taxes	**93,976**	132,957	**238,042**	287,043
Interest and bank charges	**39,427**	24,532	**109,647**	48,965
	12,954,640	8,148,608	**34,120,164**	19,200,083
Income (loss) before income taxes	**(843,979)**	498,957	**(3,031,289)**	677,166
(Provision for) recovery of income taxes				
- current	**(177,008)**	(57,624)	**(199,340)**	(122,376)
- future	**337,500**	(189,604)	**1,190,500**	(257,323)
Net income (loss)	**(683,487)**	251,729	**(2,040,129)**	297,467
Deficit, beginning of period	**(1,420,309)**	(22,777)	**(63,668)**	(68,515)
Deficit, end of period	**(2,103,796)**	228,952	**(2,103,797)**	228,952
Net income (loss) per share				
- basic	**$ (0.0081)**	$ 0.0031	**$ (0.0245)**	$ 0.0038
- diluted	**$ (0.0081)**	$ 0.0030	**$ (0.0245)**	$ 0.0037

See accompanying notes

Consolidated Statements of Cash Flows

	For the 3 months ended September 30		For the 9 months ended September 30	
	2006	2005	**2006**	2005
	$	$	**$**	$
OPERATING ACTIVITIES				
Net (loss) income	**(683,487)**	251,729	**(2,040,129)**	297,467
Add items not affecting cash				
Depreciation and amortization	**4,738,502**	3,084,670	**12,719,256**	7,039,442
Non-cash debenture interest	**48,874**	45,536	**143,226**	74,267
Non-cash compensation expense	**89,480**	54,997	**199,487**	117,672
Future income taxes	**(337,500)**	189,604	**(1,190,500)**	257,323
Funds from operations	**3,855,869**	3,626,536	**9,831,340**	7,786,171
Gain on land sale	**(401,100)**	-	**(1,057,883)**	-
Net change in non-cash working capital items related to operations	**1,157,714**	1,654,674	**(405,633)**	1,494,865
Cash provided by operating activities	**4,612,483**	5,281,210	**8,367,824**	9,281,036
FINANCING ACTIVITIES				
Increase in deferred financing	**(803,310)**	(303,399)	**(1,807,450)**	(3,586,624)
Issue of common shares for cash (net of issue costs)	**14,253,398**	(3,352)	**14,241,008**	14,470,657
Issuance of convertible subordinated debentures	**10,000,000**	-	**20,000,000**	40,132,504
Repayment of credit facility	**(14,020,000)**	-	**(390,000)**	-
Repayment of long term debt	**(11,646,261)**	(2,727,529)	**(20,676,828)**	(6,021,288)
Issuance of long-term debt	**33,173,528**	8,030,500	**76,538,240**	84,039,238
Cash provided by financing activities	**30,957,355**	4,996,220	**87,904,970**	129,034,487
INVESTING ACTIVITIES				
Purchase of capital assets	**(35,964,938)**	(18,858,714)	**(97,848,640)**	(140,036,107)
Cash used in investing activities	**(35,964,938)**	(18,858,714)	**(97,848,640)**	(140,036,107)
Net decrease in cash and cash equivalents	**(395,100)**	(8,581,284)	**(1,575,846)**	(1,720,584)
Cash and cash equivalents, beginning of period	**3,704,380**	11,028,801	**4,885,126**	4,168,071
Cash and cash equivalents, end of period	**3,309,280**	2,447,517	**3,309,280**	2,447,487

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") without audit or review by the Company's auditors. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The accounting principles used in these interim consolidated financial statements are consistent with those used in the Company's December 31, 2005 annual consolidated financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 2005 Annual Report.

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

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 futures contracts to hedge its exposure to rising energy 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.

Seasonality

The Company's results for the three and nine months ended September 30, 2006 and 2005 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

3. Cash and Cash Equivalents

	September 30, 2006	December 31, 2005
Cash	**$739,220**	$1,211,738
Tenant security deposits	**784,555**	539,589
Restricted cash	**1,785,505**	3,133,799
	$3,309,280	$4,885,126

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

4. Capital Assets

	September 30, 2006		December 31, 2005	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 54,545,793**	**$ —**	$ 45,525,506	$ —
Buildings	**387,645,942**	**14,742,778**	319,637,430	8,499,728
Roads and driveways	**46,725,221**	**2,475,527**	36,924,444	1,303,561
Water and sewer	**46,749,578**	**3,677,852**	36,950,269	1,947,734
Suite renovations	**13,645,298**	**2,277,771**	6,819,881	1,003,152
Project improvements	**18,832,871**	**1,611,478**	14,690,865	714,438
Other assets	**7,700,317**	**1,023,478**	5,473,155	476,784
	$575,845,020	**$25,808,884**	$466,021,550	$13,945,397
Less: accumulated amortization	**(25,808,884)**		(13,945,397)	
	$550,036,136		$452,076,153	

During the three and nine months ended September 30, 2006, the Company capitalized indirect costs of $0.4 million and $1.2 million (2005- $0.4 million and $0.8 million) as part of its project improvement and suite renovation program. In addition, during the three and nine months ended September 30, 2006, $147,000 and $415,600 of interest expense was capitalized as part of the Company's repositioning projects related to properties which were off-line (2005 - $20,690 and $33,979).

5. Other Assets

	September 30, 2006	December 31, 2005
Prepaids	**$2,795,882**	$1,203,535
Deferred charges	**987,491**	354,485
Notes receivable	**1,175,000**	—
Goodwill	**4,500,000**	4,500,000
	$9,458,373	$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.

The notes receivable are non interest bearing and are secured through a charge on the lands sold to a third parties.

Notes to Consolidated Financial Statements

6. Mortgages and Loans Payable

Mortgages payable bear interest at rates from 3.32% to 8.47% with maturity dates ranging from October 2006 to July 2019. Vendor mortgages and loans payable bear interest at fixed rates from 0.00% to 9.20% with maturity dates ranging from February 2009 to June 2016. 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 September 30, 2006 was 5.6% (December 31, 2005 – 5.6%).

Principal repayments of mortgages and loans are due as follows:

Year	
2006	$2,505,149
2007	21,662,962
2008	49,488,100
2009	66,525,880
2010	49,697,961
Thereafter	178,883,627
	$368,763,679

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%.

8. Subordinated Debentures

The Company's $20 million unsecured subordinated debentures mature January 2013 and consist of the following;

Amount	Interest Rate %	# of attached warrants	Exercise Price
$5,000,000	5.92%	1,388,889	$3.60
5,000,000	6.06%	1,315,789	$3.80
10,000,000	6.33%	3,267,974	$3.06

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 September 30, 2006 the Company had letters of credit totaling $374,900 outstanding against this facility (December 31, 2005 - $Nil). 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 September 30, 2006 the Company had a $16,553,000 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 September 30, 2006, the Company had a $Nil 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 1st 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
Issued during 2nd quarter				
Stock options exercised	**2,000**	**5,340**	—	—
Issued for cash (ii)	—	—	6,000,000	14,474,009
Tax benefit of issuance costs	—	—	—	313,877
Balance, end of quarter	**81,335,537**	**$92,894,948**	80,856,631	$92,596,961
Issued during 3rd quarter				
Warrants issued (i)	—	**(16,695)**	—	—
Issued for cash (ii)	**6,560,000**	**14,270,093**	—	(3,352)
Issued on property acquisitions (iii)	**347,108**	**836,635**	84,906	225,001
Tax benefit of issuance costs	—	**318,134**	—	1,274
Balance, end of quarter	**88,242,645**	**$108,303,115**	80,941,537	$92,819,884

(i) Cost of issuing warrants attached to the subordinated debentures
(ii) Net of issuance costs of $817,907 (2005 - $825,991)
(iii) Net of issuance costs of $3,367 (2005 - $Nil)

Contributed Surplus

	2006	2005
Balance, beginning of year	**$405,420**	$233,984
Stock options expensed	**54,997**	1,387
Balance, end of 1st quarter	**$460,417**	$235,371
Stock options expensed	**55,010**	61,288
Stock options exercised	**(1,240)**	—
Balance, end of 2nd quarter	**$514,187**	$296,659
Stock options expensed	**89,480**	—
Balance, end of 3rd quarter	**$603,667**	$351,656

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 three and nine months ended September 30 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 1st quarter	**3,104,000**	**$1.40**	1,732,000	$0.47
Granted	**10,000**	**2.48**	1,779,500	2.05
Exercised	**(2,000)**	**2.05**	—	—
Outstanding, end of 2nd quarter	**3,112,000**	**$1.40**	3,511,500	$1.27
Granted	**774,500**	**2.36**	—	—
Outstanding, end of 3rd quarter	**3,886,500**	**$1.60**	3,511,500	$1.27

11. Stock Options and Warrants (continued)

The following table summarizes the stock options outstanding at:

	September 30, 2006		December 31, 2005	
Exercise prices	**Number of Options Outstanding**	**Remaining Contractual Life**	Number of Options Outstanding	Remaining Contractual Life
$0.30	**471,000**	**0.65 years**	471,000	1.40 years
$0.30	**10,000**	**0.69 years**	10,000	1.44 years
$0.56	**200,000**	**1.19 years**	200,000	2.44 years
$0.65	**608,500**	**1.19 years**	608,500	2.44 years
$1.30	**10,000**	**2.17 years**	10,000	2.92 years
$1.69	**29,500**	**2.21 years**	29,500	2.96 years
$2.00	**10,000**	**3.17 years**	10,000	3.92 years
$2.05	**1,763,000**	**3.67 years**	1,769,500	4.42 years
$2.48	**10,000**	**4.75 years**	—	—
$2.40	**224,500**	**4.80 years**	—	—
$2.35	**550,000**	**4.86 years**	—	—
	3,886,500		3,108,500	

Included in the above figures are 2,013,546 options at an average exercise price of $2.17, that were not exercisable at September 30, 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:

	September 30, 2006		December 31, 2005	
Exercise price	**Number of Options Outstanding**	**Remaining Contractual Life**	Number of Options Outstanding	Remaining Contractual Life
$0.95	**500,000**	**1.91 years**	500,000	2.66 years
$3.60	**1,388,889**	**6.26 years**	—	—
$3.80	**1,315,789**	**6.26 years**	—	—
$3.06	**3,267,974**	**6.26 years**	—	—
	6,472,652		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, $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

12. Per Share Information

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

Three months ended September 30,

	2006	2005
Basic	**84,259,015**	80,930,462
Fully diluted	**86,283,887**	83,118,750

Nine months ended September 30,

	2006	2005
Basic	**83,232,746**	78,111,970
Fully diluted	**85,190,557**	80,301,169

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 and nine months ended September 30, 2006 and 2005 are set out as follows:

As at and for the three months ended September 30, 2006

	Apartments	Manufactured Home Communities	Corporate	Total
Rental revenue	**$14,451,106**	**$3,575,799**	**$ —**	**$18,026,905**
Other income	**35,187**	**92,897**	**141,219**	**269,303**
Gain on land sales	**401,100**	**—**	**—**	**401,100**
	14,887,693	**3,668,696**	**141,219**	**18,697,308**
Property operating expenses	**5,419,388**	**1,167,259**	**—**	**6,586,647**
Earnings from properties	**$9,468,305**	**$2,501,437**	**$141,219**	**$12,110,661**
Capital assets (net)	**$445,955,788**	**$103,039,377**	**$1,040,971**	**$550,036,136**

Notes to Consolidated Financial Statements

As at and for the three months ended September 30, 2005

	Apartments	Manufactured Home Communities	Corporate	Total
Revenue	$11,086,306	$2,448,783	$20,132	$13,555,221
Property operating expenses	4,136,052	771,604	—	4,907,656
Earnings from property operations	$6,950,254	$1,677,179	$20,132	$8,647,565
Capital assets (net)	$331,366,432	$69,487,336	$614,381	$401,468,149

For the nine months ended September 30, 2006

	Apartments	Manufactured Home Communities	Corporate	Total
Rental revenue	**$40,754,592**	**$9,494,632**	**$ —**	**$50,249,224**
Other income	**190,321**	**132,762**	**392,139**	**715,222**
Gain on land sales	**1,057,883**	**—**	**—**	**1,057,883**
	42,002,796	**9,627,394**	**392,139**	**52,022,329**
Property operating expenses	**17,771,796**	**3,161,658**	**—**	**20,933,454**
Earnings from properties	**$24,231,000**	**$6,465,736**	**$392,139**	**$29,638,838**

For the nine months ended September 30, 2005

	Apartments	Manufactured Home Communities	Corporate	Total
Revenue	$27,372,966	$5,620,668	$154,755	$33,148,389
Property operating expenses	11,554,537	1,716,603	—	13,271,140
Earnings from property operations	$15,818,429	$3,904,065	$154,755	$19,877,249

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 September 30, 2006 and December 31, 2005 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.

15. Related Party Transactions

During the third quarter the Company paid a real estate commission of $16,537 to a company controlled by a director ($46,765 year-to-date). 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 October 1 to November 7, 2006 the Company completed two property acquisitions representing 205 units. The total purchase price of the acquisitions was $5.5 million which was satisfied through mortgages totaling $4.3 million and $1.2 million from the Company's cash and acquisition facilities.

The Company has also agreed to acquire an MHC property which is expected to close by November 24, 2006 that contains 148 units. The purchase price of $0.7 million will be satisfied through a mortgage of $490,000 and from the Company's cash.

Subsequent to September 30, 2006 the Company incurred a non-recurring interest penalty of $562,000 to refinance Quinpool Towers. The interest penalty was incurred to discharge security under a $8.4 million 7.13% existing mortgage maturing in 2008. The existing mortgage was replaced with a 10 year fixed rate mortgage of $17.6 million bearing interest at 5.135%. As a result of the refinancing savings of approximately $180,000 per year for the next two years will be realized.

17. Comparative Figures

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

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