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 March 31, 2005 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 2004 Annual Report and the Company's 2004 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 3, 2005. 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 in the first quarter of 2005.

Financial Performance Summary provides a high-level overview of the Company and its financial performance in the first quarter of 2005. 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 and financial position at March 31, 2005.

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 2005.

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 Management's Discussion and Analysis 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 loss plus amortization and future income taxes.
- Same store results are rental revenues and property operating expenses for properties the Company has owned for equivalent periods in 2004 and 2005.

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 in Eastern Canada. Killam's objectives are:

- Increase shareholder value by becoming the dominant owner of multi-family apartments and manufactured home communities in those markets where we operate, thereby growing earnings.
- Provide our employees with a challenging and fulfilling work environment that recognizes, attracts, and fosters highly motivated, high-performing team members.
- Provide our tenants a high-quality living environment and promptly address their needs with thoughtfulness and concern.

Killam's growth continued during the first quarter of 2005 with the addition of 1,637 units to bring the Company's total portfolio to 7,770 units, an increase of 27% since December 31, 2004. On March 31, 2005 the Company completed its largest single MHC acquisition with the closing of Pine Tree Manufactured Home Community in Moncton, NB. Pine Tree is situated on 260 acres of land and is the largest land leased community in Atlantic Canada. Of Pine Tree's 840 sites, 820 are occupied, with an average monthly rent of $200/month. The purchase price was approximately $15.8 million ($18,809/site). Killam considers Pine Tree to be one of the premier land leased communities in Canada and the model for MHC living.

Subsequent to the quarter-end the Company announced it has established the terms of a private placement. The private placement will generate aggregate gross proceeds of $57.5 million by issuing and selling $42.2 million principal amount of convertible, unsecured, subordinated debentures at a price of $1,000 per debenture, and 6 million common shares at a price of $2.55 per common share. The debentures will have a seven year term, bear a coupon of 6.50%, and will be convertible into common shares at a price of $3.10 per share.

Portfolio Summary
(March 31, 2005)

	Number of Units	Percentage
Halifax	2,267	29.2%
Saint John	950	12.2%
Moncton	1,759	22.6%
Fredericton	340	4.4%
St. Johns/Grand Falls	384	4.9%
Sydney	139	1.8%
PEI	207	2.7%
Other NS	1,114	14.3%
Ontario	610	7.9%
Total	7,770	100%
Apartments	4,319	55.6%
MHCs	3,451	44.4%
Total	7,770	100%

Management's Discussion and Analysis:

Financial Performance Summary

As at and for the three months ended

	March 31, 2005	March 31, 2004	December 31, 2004
Total assets	**$283,750,702**	$88,143,221	$242,845,701
Long-term debt	**191,204,176**	55,516,210	159,900,874
Shareholders' equity	**77,914,113**	31,090,580	77,974,544
Total revenue	**8,870,567**	2,745,047	7,772,179
Net (loss) income	**(61,818)**	(144,750)	175,100
Funds from operations	**1,596,803**	366,627	1,693,887
Net income (loss) per share - basic	**(0.0008)**	(0.0030)	0.0024
- fully diluted	**(0.0008)**	(0.0028)	0.0023

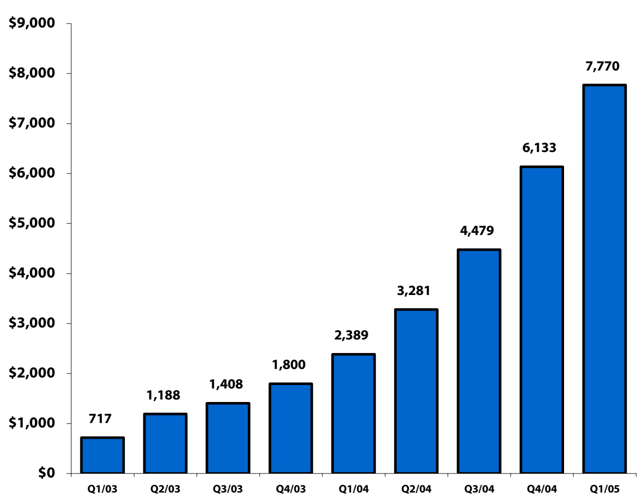
Total Assets increased $40.9 million (16.8%) over December 31, 2004 as a result of completing nine acquisitions during the first quarter of 2005. These acquisitions added 1,637 units to our rental portfolio.

Total Revenue for the first quarter of 2005 increased $6.1 million (223%) over the same period in 2004 and 14.1% over the fourth quarter 2004 driven by the unit growth during 2005 and the effects of a full quarter of revenue from properties acquired during the last quarter of 2004.

Net Loss of $61,818 is affected by seasonal variations in utility 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.

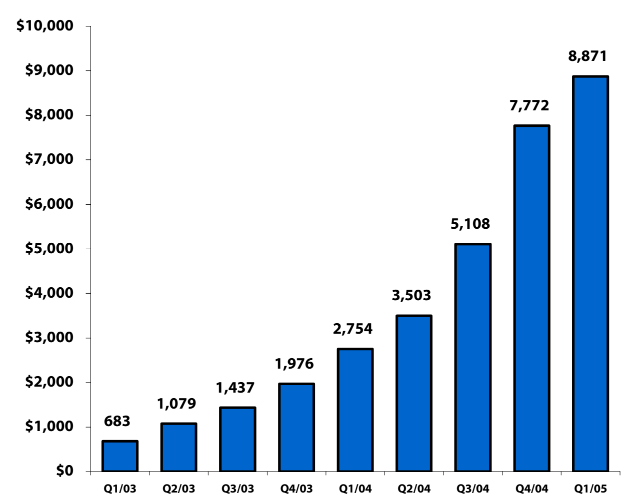
Funds from Operations (FFO) increased by $1.2 million over the first quarter of 2004 as a result of the increase in the rental portfolio. FFO was slightly lower than the fourth quarter of 2004 as a result of the seasonal variations noted above.

Unit Growth



Revenue Growth

(in $000's)



Management's Discussion and Analysis:

Financial Statement Analysis

Consolidated Statement of Income

Revenue

	2005	2004	% change
Rental income	**$8,832,496**	$2,699,817	227%
Interest income	**12,689**	38,358	(67)%
Other income	**25,382**	6,872	269%
	$8,870,567	$2,745,047	223%

Rental revenue increased $6.1 million or 227% compared to the first quarter of 2004. 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, 2005 is approximately $41.5 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% increase in vacancy rates would impact the annualized rental revenues by $4.1 million.

The following table presents our revenues by operating segment;

	2005	2004	% change
Apartments	**$7,702,713**	$2,366,919	225%
Manufactured Home Communities	**1,151,436**	341,448	237%
Corporate	**16,418**	26,680	(38)%
	$8,870,567	$2,745,047	223%

Weighted average rent per unit		
Apartments	**$646**	$653
Manufactured Home Communities	**$186**	$143

Property Operating Expenses

	2005	2004	% change
Apartments	**$3,840,680**	$1,077,361	256%
Manufactured Home Communities	**390,253**	154,316	152%
	$4,230,933	$1,231,677	244%
As a Percentage of Rental Revenue	**47.9%**	45.6%	

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 to the increase in the size of the portfolio.

Management's Discussion and Analysis:

Financial Statement Analysis (continued)

Property operating expenses as a percentage of rental revenue increased to 47.9% in 2005 from 45.6% in the first quarter of 2004. There are a number of factors which contributed to this increase during 2005:

- Killam has seen general increases in oil (during 2004 the cost of fuel rose by approximately 9.3% over 2003 prices), property taxes, water and other costs.
- Killam has not actively pursued rental increases to offset these rising operating costs as it continues to consolidate the marketplace and increases in rent will have the effect of raising the cost of acquiring other buildings within those markets.

The property operating expense percentage is a key performance indicator for Killam as it represents the Company's ability to effectively manage its portfolio. However, the Company believes that the better analysis of operating effectiveness is the comparison of results for properties which we have owned for at least twenty four months as it takes approximately a year to stabilize these properties. A comparison of these "same store" results is presented later in this MD&A.

Mortgage and Loan Interest

Financing expenses were higher in 2005 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 is expected to continue to increase in 2005 as the Company continues to expand its portfolio. However, Killam expects to finance properties at favorable rates throughout 2005. 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, 2005 would increase financing costs by approximately $1.9 million per year.

Amortization Expense

Amortization expense increased $1.1 million compared to the first quarter of 2004. The increase in amortization is a result of the increased portfolio.

General and Administrative Expenses

	2005	2004	% change
Total	**$526,895**	$300,970	75%
As a Percentage of Rental Revenue	**6.0%**	11.1%	

General and administrative expenses include expenses which are not specific to an individual property. These expenses include management salaries and benefits, office rent, communication costs, office equipment leases and other head office expenses. The percentage has decrease from the first quarter of 2004 as there is a relatively fixed component of these expenses which continues to be spread over a greater amount of revenue as Killam continues to expand its portfolio.

Management's Discussion and Analysis:

Financial Statement Analysis (continued)

Provincial Large Corporation Tax (Capital Tax)

The Company is required to pay provincial capital tax in Nova Scotia and New Brunswick based on the total taxable capital invested in those provinces. 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 for the first quarter of 2005 is a result of the Company's share offering in June 2004.

Income Tax

	2005	2004	% change
Current	**$ 19,752**	$10,374	90%
Future	**(25,783)**	(78,400)	67%
	$(6,031)	$(68,026)	91%

Current income tax expense represents federal large corporation's tax. The increase over the first quarter of 2004 is a result of the Company's continued expansion and certain tax planning strategies which have begun to reverse. In addition, the Company has booked a future income tax recovery representing the future tax recovery on Killam's first quarter 2005 net loss at a rate of approximately 37%.

Same Store Results

In 2004 we have begun to analyze property results on a "same store" basis. The following table sets out the results of operations for 17 properties we have owned for equivalent periods in 2005 and 2004.

	2005	2004	% change
Rental revenues	**$2,315,052**	$2,277,152	1.7%
Property operating expenses	**1,036,287**	1,070,473	(3.2)%
Earnings from property operations	**$1,278,765**	$1,206,679	6.0%

Earnings from property operations increased $72,000 or 6.0% compared to the prior year as a result of an increased effort to reduce costs. Rental revenues increased 1.7% as a result of beginning to lease units which had been undergoing renovations as well as increased rents at re-leasing. Property operating expense as a percentage of revenue for 2005 fell to 44.8% from 47.0% in the previous year as the Company continues to focus on cost reductions.

Management's Discussion and Analysis:

Financial Statement Analysis (continued)

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, 2004 to the end of the first quarter, March 31, 2005.

Capital Assets

	March 31 2005	December 31 2004	% change
Net book value	**$274,942,828**	$235,199,298	17%

Capital assets increased to $274.9 million from $235.2 million, as a result of 9 acquisitions totaling 1,637 units in the first quarter of 2005.

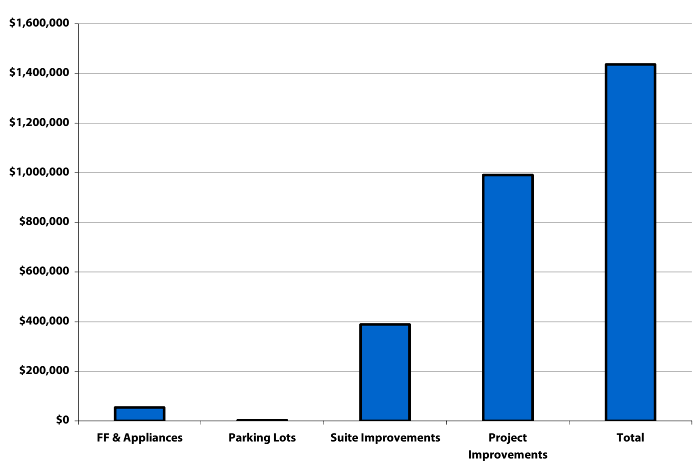
The following table is a summary of the Company's acquisitions during the first quarter of 2005. The acquisition value set out below is the purchase price paid by the Company and excludes third party costs such as legal, environmental and other costs paid as part of the acquisition process.

Apartment Acquisitions	
Value of acquisitions	**$12,315,000**
Units acquired	**257**
Average price per unit	**$47,918**
MHC Acquisitions	
Value of acquisitions	**$26,350,000**
Units acquired	**1,380**
Average price per unit	**$19,094**

During the first quarter of 2005 Killam continued to expand its geographic reach with the acquisition of additional MHC units in Ontario. In addition, Killam completed its largest single MHC acquisition with the purchase of the 840 unit Pine Tree Home Community in Moncton, NB. Pine Tree is situated on 260 acres of land next to Royal Oaks Golf Course and is the largest land leased community in Atlantic Canada. A number of the acquisitions in 2005 are adjacent to Killam's existing buildings and MHCs which allow the Company to have greater control in providing a consistent level of service and achieve cost savings through better utilization of resources.

In addition to property acquisitions, the Company has invested significantly in capital improvements to the properties. During the first quarter of 2005 the Company spent approximately $1.4 million on building and suite improvements, paving, appliances and other equipment.

Capital Improvements



Management's Discussion and Analysis:

Financial Statement Analysis (continued)

Deferred Financing

	March 31 2005	December 31 2004	% change
Deferred financing costs	**$1,875,593**	$1,533,939	22%
Less: accumulated amortization	**(582,614)**	(511,010)	14%
	$1,292,979	$1,022,929	26%

Deferred financing costs (net of amortization) increased $0.34 million as a result of 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. CHMC insurance fees are amortized over the amortization period of the mortgage.

Prepaid Expenses

	March 31 2005	December 31 2004	% change
Property taxes	**$991,827**	$295,780	235%
Insurance	**156,853**	230,616	(32)%
Other	**266,037**	197,181	35%
	$1,414,717	$723,577	96%

The large increase in prepaids over the December 31, 2004 balance is due to the increased size of the portfolio as well as the timing of property tax payments in various provinces.

Credit Facility

	March 31 2005	December 31 2004	% change
Credit facility	**$8,400,000**	$Nil	—%

During the first quarter of 2005 the Company utilized its Acquisition Bridge Facility to complete the acquisition of certain properties. The facility will be paid down during the second quarter of 2005 with a portion of the proceeds of the Company's private placement. See further discussion of the private placement in the Liquidity and Capital Resources section of the MD&A.

Mortgages Payable

	March 31 2005	December 31 2004	% change
Mortgages	**$181,463,136**	$154,085,874	18%
Vendor financing	**9,741,040**	5,815,000	68%
	$191,204,176	$159,900,874	20%
Weighted average years to maturity	**6.0**	6.1	
Debt as a percentage of NBV	**69.5%**	68.0%	
Weighted average interest rate	**5.8%**	5.9%	

Management's Discussion and Analysis:

Financial Statement Analysis (continued)

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 weighted average interest rate fell to 5.8% at March 31, 2005 from 5.9% as at December 31, 2004. It is anticipated that Killam will continue to benefit from the low interest rate environment throughout 2005 and as a result the weighted average interest rate is expected to continue to decline.

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 March 31, 2005 *($000's)***	**Average Int. Rate %**
2005	2,723	6.48
2006	7,884	6.19
2007	6,790	5.27
2008	28,533	6.21
2009	48,440	5.51
2010	24,055	5.31
2011	—	—
2012	3,382	6.15
2013	10,974	6.16
2014	27,968	5.99
2015	26,458	5.77
Thereafter	3,997	6.94

Shareholders' Equity

	March 31 2005	December 31 2004	% change
Capital stock	**$77,809,075**	$77,809,075	—
Contributed surplus	**235,371**	233,984	0.6%
Deficit	**(130,333)**	(68,515)	90%
	$77,914,113	$77,974,544	—

The Company did not issue any shares during the first quarter of 2005. The change in the contributed surplus account is as result of the expensing of stock options which have vested during the first quarter of 2005.

Management's Discussion and Analysis:

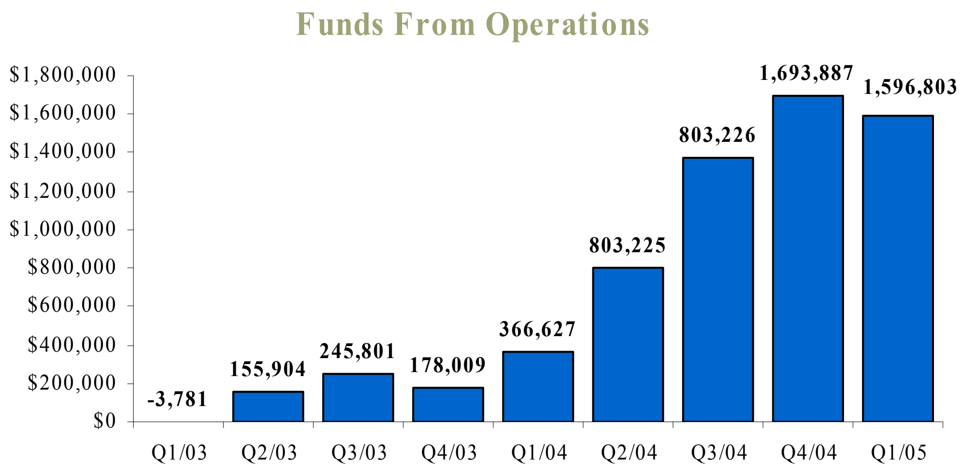
Financial Statement Analysis (continued)

Consolidated Statement of Cash Flows

Operating Activities

	2005	2004	% change
Funds from operations	**$1,596,803**	$366,627	336%
FFO/share	**$0.020**	$0.008	150%

The Company's funds from operations continued to grow during the first quarter of 2005 compared to the same period in 2004 largely as a result of the expanded portfolio during 2004 and the first quarter of 2005. However, FFO declined 6% in the first quarter of 2005 compared to the fourth quarter of 2004 due to the seasonality affect of the winter months. In addition acquisitions in the first quarter of 2005 were heavily weighted to the end of the quarter.



Financing Activities

Credit Facilities

As discussed earlier in the MD&A, the Company utilized $8.4 million of the Acquisition Bridge Facility to complete certain acquisitions in the first quarter of 2005.

Financing of Capital Assets

During the first quarter of 2005 the financing of new acquisitions and the re-financing of existing properties totaled $31.5 million compared to $7.6 million during the same period of 2004. These amounts exclude mortgages assumed on acquisition. See the section on Mortgages Payable elsewhere in the MD&A for a further discussion of financing.

Investing Activities

As discussed earlier in the MD&A, the Company completed the acquisition of 9 properties representing 1,637 units during the first quarter of 2005. This compares to 7 properties representing 589 units in the same quarter of 2004. The purchase of capital assets amount in the cash flow statement is shown net of the value of shares issued to complete the acquisitions and debt assumed. In addition the Company completed approximately $1.4 million of capital improvements to its properties during the first quarter of 2005.

Management's Discussion and Analysis:

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, 2005 the Company had available $1.6 million of cash. These funds along with the Company's acquisition bridge facility that consists of a $10 million revolving secured facility ($1.6 million available at March 31, 2005) and a $10 million non-revolving term facility provide the Company with sufficient capital to continue its acquisitions in the short term. We will continue to finance new properties at 75% of their value through new mortgages or placing second mortgages when available and the Company is constantly reviewing existing mortgages to ensure the properties are appropriately leveraged to maximize access to historically low mortgage rates.

Subsequent to March 31, 2005 the Company announced that it had established the terms of a private placement. Killam will generate aggregate gross proceeds of $57.5 million by issuing and selling $42.2 million principal amount of convertible, unsecured, subordinated debentures at a price of $1,000 per debenture, and 6 million common shares at a price of $2.55 per common share. The debentures will have a seven year term, bear a coupon of 6.50%, and will be convertible into common shares at a price of $3.10 per share.

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 2004 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, found in the 2004 Annual Report. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions.

Building Amortization

The key estimate that management makes is regarding the depreciation of its building assets. Since January 1, 2004 the Company has used the straight-line method of amortization in accordance with Section 1100 of the Canadian Institute of Chartered Accountants (CICA) Handbook. If management's assumptions of estimated useful life or allocation of purchase price to building assets proves incorrect, the computation of depreciation could be materially different than recorded amounts.

Property Acquisitions

Under EIC 140 the purchase price of an acquisition must be allocated to land, building and intangible assets. This allocation of the components involves substantial estimates and judgment by management. The Company frequently purchases properties requiring a considerable amount of capital improvement. This often involves the replacement of tenants occupying buildings at the time of acquisition. Upon review of the leases and the tenants' relationships relating to the acquired buildings, the Company has established that there is little or no value associated with the above and below market value leases

Management's Discussion and Analysis:

Future Objectives

Killam continued its growth during the first quarter of 2005. With the proceeds from our May private placement, acquisition facilities and re-financing opportunities, Killam is well positioned to continue its aggressive growth strategy. Subsequent to quarter-end we closed three properties representing 84 units and have an additional 10 properties under contract which we anticipate will close by the end of the first half of 2005.

As set out in the 2004 Annual Report our goals for 2005 remain to:

- Continue to grow our portfolio through accretive acquisitions.
- Increase rental incomes from existing properties at lease rollover and renewal.
- Review existing mortgages to maximize our leverage position and ensure we are taking advantage of the continued low interest rate environment and staggering the maturity dates of our mortgages.
- Maintain our focus on utilities consumption and review opportunities for added efficiencies and cost savings going forward.

Management is confident that Killam is well positioned to continue its accretive growth and that market fundamentals remain strong.