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 June 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 August 8, 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 Q2, Killam owned and operated over 13,000 rental units, comprised of 7,213 apartment units and 5,809 MHC units.

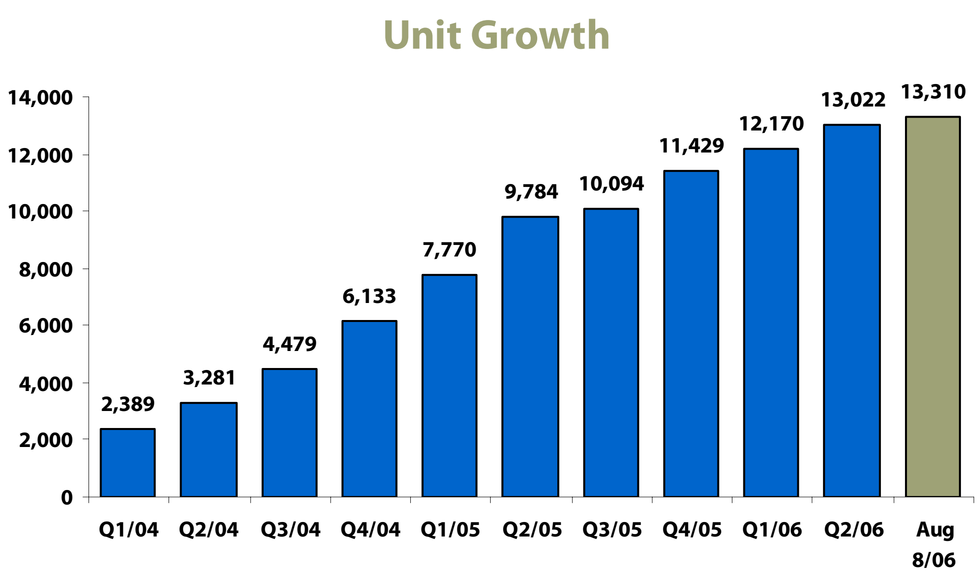
Killam has been focused on growth through acquisitions for the last four years. Killam continued to consolidate the rental market during the second quarter of 2006 with the acquisition of eight properties representing 852 units to bring the Company's total portfolio to 13,022 units. Our growth in unit numbers over the last ten quarters is highlighted below.

Management's Discussion and Analysis:

Portfolio Summary

By Unit Type and Location

	Apartments	MHCs	Total
Halifax	3,472	466	3,938
Moncton	961	1,160	2,121
Saint John	1,062	100	1,162
Fredericton	295	686	981
St. Johns/Grand Falls	679	86	765
Sydney	156	217	373
PEI	588	-	588
Other NS	-	984	984
Other NB	-	86	86
Ontario	-	1,777	1,777
Saskatchewan	-	247	247
Total	7,213	5,809	13,022
Percentage by unit count	55.4%	44.6%	
Percentage by gross book value	80.5%	19.5%	



Management's Discussion and Analysis:

Review of Operations

Rental Operations

	3 months ended June 30		6 months ended June 30	
	2006	2005	**2006**	2005
Rental revenue	**$16,463,132**	$10,580,659	**$32,222,317**	$19,389,577
Other operating revenue (1)	**80,673**	47,315	**195,000**	68,967
Total operating revenue	**16,543,805**	10,627,974	**32,417,317**	19,458,544
Property operating expenses				
Operating expenses	**3,126,831**	1,736,851	**6,183,602**	3,341,143
Utilities	**2,193,284**	1,528,591	**5,394,314**	3,322,551
Property taxes	**1,384,234**	890,688	**2,738,289**	1,699,790
Total property operating expenses	**6,704,349**	4,156,130	**14,316,205**	8,363,484
Net operating income	**$9,839,456**	$6,471,844	**$18,101,112**	$11,095,060
Operating expense percentage	**40.5%**	39.1%	**44.2%**	43.0%

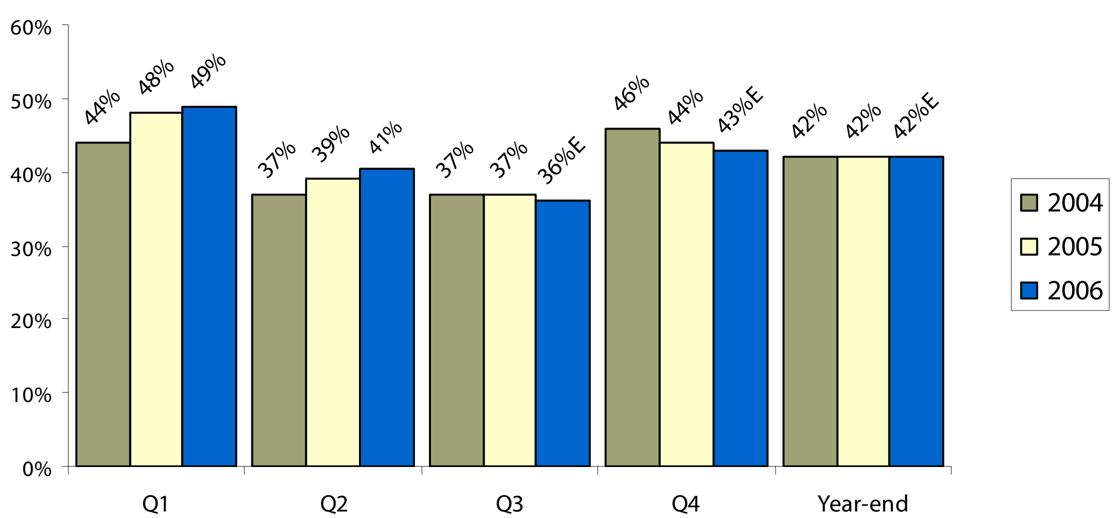
(1) 2006 revenue excludes a $656,783 gain on sale of land

Rental revenue increased $5.9 million, or 56%, and $12.8 million, or 66%, compared to the second quarter and first half 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, have also positively impacted earnings.

The annualized rental revenue of the properties the Company owned as at June 30, 2006 is approximately $68.6 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 types of assets. Based on our current rents, a 1% change in vacancy rates would impact the annualized rental revenues by $0.7 million.

Property operating expenses as a percentage of revenue increased to 40.5% from 39.1% due primarily to increased repair and maintenance related costs as Killam focuses on delivering quality living space and service to its tenants.

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 13.3% from 14.4%. Oil prices increased 33% in Q2-2006 versus Q2-2005 while natural gas prices fell 6% in the same period. 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 quarter, however, as a percentage of revenue, stayed in line with the second quarter of 2006.

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.

Gain on Sale of Land

During the second quarter, Killam completed the sale of 1.8 acres of surplus land associated with its Lakefront property. The sale price of $900,000 resulted in a gain of $657,000.

This sale is one example 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 30.5 acres of land that could be developed or sold following appropriate municipal approvals.

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.

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 June 30		*6 months ended June 30*	
	2006	2005	**2006**	2005
Revenues [(1)]	**$8,418,244**	$8,152,067	**$16,826,634**	$16,310,329
Property operating expenses	**3,577,314**	3,397,570	**7,772,455**	7,335,088
Net operating income	**$4,840,930**	$4,754,497	**$9,054,179**	$8,975,241
Operating expense percentage	**42.5%**	41.7%	**46.2%**	45.0%

(1) 2006 revenue excludes a $656,783 gain on sale of land

Same store revenue improved $266,000, or 3.3% quarter over quarter. Higher rents, which increased an average of 2.0%, accounted for $177,000 of this improvement. Laundry revenue and contributions from Killam's furnished suites business also contributed positively to operations, with revenues increasing 19% and 17%, respectively.

Operating expenses increased by 80 basis points or $180,000 in the second quarter versus the same quarter of 2005 due primarily to higher repairs and maintenance costs associated with plumbing and ventilation costs and professional fees associated with appealing property tax assessment increases.

Same store property net operating income increased by $86,000 quarter over quarter and $79,000 year-to-date for the six months of 2006.

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

Management's Discussion and Analysis:

Segment Review

Apartments

	3 months ended June 30		6 months ended June 30	
	2006	2005	**2006**	2005
Rental revenue	**$13,381,114**	$8,553,709	**$26,303,486**	$16,236,929
Other operating revenue *(1)*	**62,606**	30,237	**155,135**	49,730
Total operating revenue	**13,443,720**	8,583,946	**26,458,621**	16,286,659
Property operating expenses				
Operating expenses	**2,527,092**	1,425,433	**5,020,757**	2,840,245
Utilities	**1,919,734**	1,338,960	**4,813,663**	3,008,341
Property taxes	**1,258,224**	813,412	**2,487,387**	1,569,899
Total property operating expenses	**5,705,050**	3,577,805	**12,321,807**	7,418,485
Net operating income	**$7,738,670**	$5,006,141	**$14,136,814**	$8,868,174
Operating expense percentage	**42.4%**	41.7%	**46.6%**	45.5%
Weighted average rent per unit	**$673**	$666		

(1) 2006 revenue excludes a $656,783 gain on sale of land

Killam's apartment business accounted for 78.6% of net operating income in the quarter, compared to 77.4% in the same quarter of 2005. Year-to-date apartments contributed 78.1% of net operating income, a decline from 79.9% in 2005 due to Killam increase in its MHC portfolio over the last year. The MHC unit count grew by 38.5% compared to a 29.0% growth in apartment units.

The portfolio apartment vacancy at the end of June was 2.8% for stable units, compared to 3.0% at June 2005. Vacancy rates for July 2006 have improved and activity for September 2006 move-ins is also up. Killam expects occupancy will be strong for the balance of 2006.

Operating expenses as a percentage of revenues increased by 70 basis points to 42.4%, from 41.7%. This increase relates to those points highlighted earlier in the MD&A.

Management's Discussion and Analysis:

MHCs

	3 months ended June 30		6 months ended June 30	
	2006	2005	**2006**	2005
Rental revenue	**$3,082,018**	$2,026,950	**$5,918,831**	$3,152,648
Other operating revenue	**18,067**	17,078	**39,865**	19,237
Total operating revenue	**3,100,085**	2,044,028	**5,958,696**	3,171,885
Property operating expenses				
Operating expenses	**599,739**	311,418	**1,162,845**	500,898
Utilities	**273,550**	189,631	**580,651**	314,210
Property taxes	**126,010**	77,276	**250,902**	129,891
Total property operating expenses	**999,299**	578,325	**1,994,398**	944,999
Net operating income	**$2,100,786**	$1,465,703	**$3,964,298**	$2,226,886
Operating expense percentage	**32.2%**	28.3%	**33.5%**	29.8%
Weighted average rent per unit	**$199**	$183		

Rental revenue from Killam's MHCs has increased by $1,055,000, or 52%, from the second quarter in 2005 due primarily to the significant increase in properties. As well, of the properties that were acquired, many were in the higher rental markets of Ontario.

Vacancy rates in MHCs remain low, at approximately 0.8%, compared to 0.7% in June 2005.

Killam's MHC operating costs increased to 32.2% of operating revenues, from 28.3%. The most significant increases were seen in repairs and maintenance and general administrative costs associated with compliance with the Ontario Ministry of Environment legislation. As well, two of Killam's newer Ontario communities are seasonal communities and the majority of revenue is earned during the third quarter, although expenses are incurred throughout the year.

Mortgage and Loan Interest

Financing expenses were higher during the first half 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 increased to 35.9% from 32.1% in the same quarter of 2005. This increase is due primarily to Killam's use of its acquisition bridge facility during the first half of the year to complete acquisition opportunities. Killam considers this facility to be a temporary financing option for acquisitions. Subsequent to June 30, Killam raised $10 million in debentures and announced a $15 million private placement of capital stock to decrease its reliance on the acquisition bridge facility.

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. 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 June 30, 2006 would affect financing costs by approximately $3.5 million per year. However, as an example, only $67.1 million of Killam's mortgage and vendor debt are due within the next three years and that same interest rate change would only impact Killam by $0.7 million per annum.

Management's Discussion and Analysis:

Depreciation Expense

Depreciation expense increased $1.7 million compared to the second quarter of 2005 and $3.6 million versus the first half of 2005. As a percentage of rental revenue depreciation expense was 23.5% in the quarter, compared to 20.5% 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 June 30		*6 months ended June 30*	
	2006	2005	**2006**	2005
Total	**$797,131**	$565,960	**$1,575,275**	1,119,566
As a percentage of rental revenue	**4.8%**	5.3%	**4.9%**	5.8%

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. The percentage has decreased from 2005 as there is a relatively fixed component of these expenses which continues to be spread over increased revenue as Killam continues to grow its portfolio.

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 June 30		*6 months ended June 30*	
	2006	2005	**2006**	2005
Current expense	**$ —**	$45,000	**$22,332**	$64,752
Future expense (recovery)	**(203,000)**	93,502	**(853,000)**	67,719
	$(203,000)	$138,502	**$(830,668)**	$132,471

Current income tax expense (recovery) represents federal large corporation's tax. The decrease over the same period of 2005 is largely a result of the elimination of the federal capital tax. In addition, the Company has booked a future income tax recovery for 2006 representing the future tax benefit on Killam's 2006 net loss.

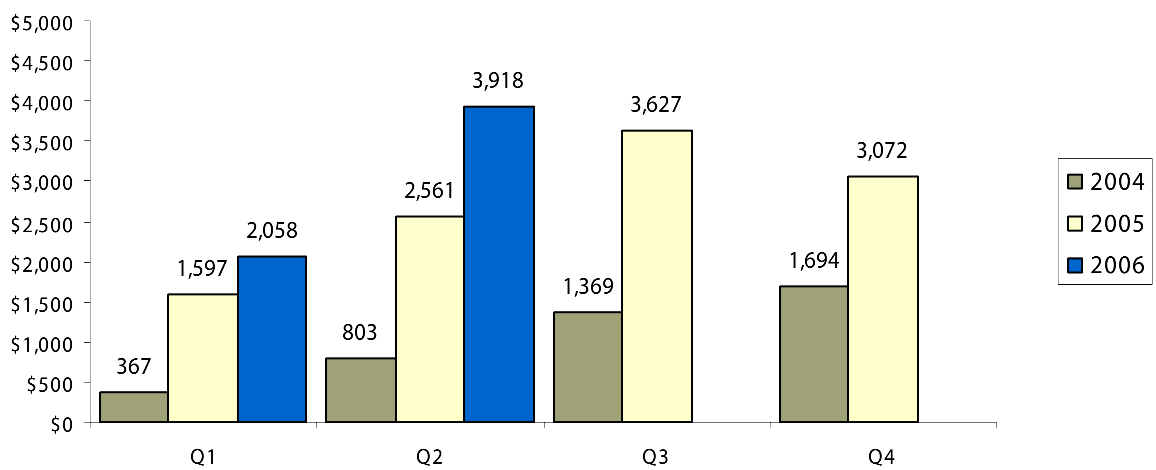
Management's Discussion and Analysis:

Funds from Operations (FFO)

	3 months ended June 30		6 months ended June 30	
	2006	2005	**2006**	2005
Net (loss) income	**$(151,375)**	$107,556	**$(1,356,641)**	$45,738
Depreciation and amortization	**4,169,970**	2,270,368	**7,980,754**	3,954,772
Non cash debenture interest	**47,176**	28,731	**94,352**	28,731
Non cash share compensation	**55,010**	61,228	**110,007**	62,675
Future income tax (recovery) expense	**(203,000)**	93,502	**(853,000)**	67,719
Funds from operations	**3,917,781**	2,561,445	**5,975,472**	4,159,635
FFO/share	**$0.05**	$0.03	**$0.07**	$0.05

The Company's funds from operations continued to grow on a total dollar and per share basis during the second quarter of 2006 compared to the same periods in 2005 largely as a result of the expanded portfolio during late 2005 and the first half of 2006.

Funds From Operations (in $000s)



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 second quarter, June 30, 2006.

Real Estate Assets

As at	**June 30 2006**	December 31 2005	% change
Net book value	**$516,847,777**	$452,076,153	14%

Capital assets increased to $516.8 million from $452.1 million, as a result of the acquisition of ten properties totaling 741 units in the first quarter and eight properties totaling 852 units in the second quarter of 2006. Many of Killam's 2006 acquisitions are adjacent to Killam's existing buildings and MHCs which enable the Company to better control 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 six months ended June 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 June 30, 2006	**6 months ended June 30, 2006**	**Total Portfolio**
Apartment Acquisitions			
Value of acquisitions	**$10,400,000**	**$42,030,000**	**$385,850,000**
Units acquired	**167**	**745**	**7,213**
Average price per unit	**$62,275**	**$56,419**	**$53,934**
MHC Acquisitions			
Value of acquisitions	**$14,400,000**	**$17,925,000**	**$98,457,000**
Units acquired	**685**	**848**	**5,809**
Average price per unit	**$21,022**	**$21,138**	**$16,949**

Capital Improvements

In addition to property acquisitions, the Company has invested $5.6 million in property improvements in the second quarter of 2006 ($10.6 million on a year-to-date basis) as set out below:

	Q1	**Q2**	**Total YTD**
Development projects	$25,400	$867,800	$893,200
Major repositioning projects	690,500	840,400	1,530,900
Project improvements	2,162,100	1,365,400	3,527,500
Suite improvements	1,509,000	1,864,000	3,373,000
Equipment	396,000	285,800	681,800
Appliances	133,000	232,000	365,000
Furniture & Fixtures	33,000	149,000	182,000
Parking lots	2,000	Nil	2,000
Total	$4,951,000	$5,604,400	$10,555,400

Of the $10.6 million invested in the first half of 2006, approximately $8.0 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	**June 30 2006**	December 31 2005	% change
Deferred financing costs	**$6,881,462**	$5,872,356	17%
Less: accumulated amortization	**(1,654,708)**	(1,104,360)	(50)%
	$5,226,754	$4,767,996	10%

Deferred financing costs (net of amortization) increased $0.5 million largely as a result of the January and March 2006 subordinated debt issuances with the remainder due to the increase in the portfolio. The costs related to mortgage assumption; application fees and legal costs are amortized over the term of the respective mortgage. CMHC insurance fees are amortized over the amortization period of the mortgage. The costs associated with the convertible and subordinated debentures are amortized over the terms of the debentures.

Other Assets

As at	**June 30 2006**	December 31 2005	% change
Prepaid property taxes	**$2,030,465**	$ 514,368	295%
Prepaid insurance	**654,745**	282,353	132%
Note receivable	**800,000**	—	- %
Other	**389,875**	406,814	(4)%
Deferred charges	**404,963**	354,485	14%
Goodwill	**4,500,000**	4,500,000	- %
	$8,780,048	$6,058,020	45%

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 note receivable relates to the land sale in the quarter and is non interest bearing and receivable in quarterly installments with repayment not to exceed 15 months. The note is secured through a charge on the land sold to a third party.

Management's Discussion and Analysis:

Liquidity and Capital Resources

Mortgages and Loans Payable

As at	**June 30 2006**	December 31 2005	% change
Mortgages	**$337,594,557**	$291,760,750	16%
Vendor financing	**9,227,832**	11,060,355	(17)%
Convertible debentures	**40,812,463**	40,765,287	- %
Subordinated debentures	**10,000,000**	—	- %
Credit facility	**30,573,000**	16,943,000	80%
	$428,207,852	$360,529,392	19%

Weighted average years to maturity of mortgage and vendor debt	**5.3**	5.5
Mortgage and vendor debt as a percentage of GBV	**61.5%**	62.6%
Total debt as a percentage of GBV	**76.0%**	74.6%
Weighted average interest rate of mortgage and vendor debt	**5.6%**	5.6%
Weighted average interest rate of total debt	**6.1%**	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 June 30, 2006 *($000's)***	**Average Int. Rate %**
2006	12,373	6.21
2007	11,958	5.69
2008	42,759	6.15
2009	65,786	5.35
2010	49,692	5.26
2011	21,366	5.70
2012	4,745	6.17
2013	10,694	6.17
2014	37,018	5.84
2015	55,181	5.45
Thereafter	35,250	5.50

Management's Discussion and Analysis:

During the first half 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 June 30, 2006 the Company had available $1.0 million of cash. In addition, the Company has credit facilities totaling $40 million of which the Company has drawn $30.6 million as at June 30, 2006. Subsequent to June 30, 2006 the Company raised $10 million of debt financing and expects to close $15 million of equity financing with the majority of the proceeds being used to reduce the credit facility. 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.