Looking Both Ways

Killam Properties Inc. | Annual Report 06

2006 HIGHLIGHTS

Acquired 2,654 units, increasing the apartment unit count by 20% and the MHC unit count by 27%

Increased average portfolio occupancy rate to 97.4% from 97.1% in 2005

Increased revenue by $23 million, or 48%

Increased NOI for same store properties by 2.6%

Converted property management and operating system software, adding enhanced financial and operational controls

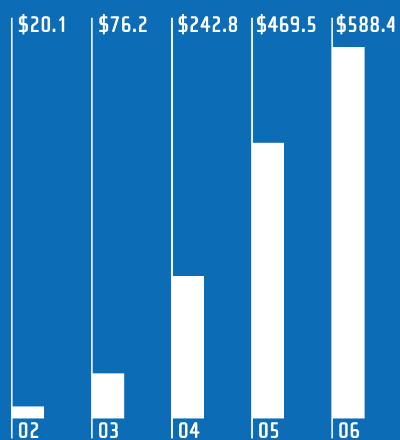
Realized gain of $1.1 million on sales of excess land

Killam Properties Inc. is Atlantic Canada's largest residential landlord; owning and operating multi-family apartments located in the East Coast's six major urban centres. Killam is also one of Canada's largest owners and operators of manufactured home communities ("MHCs"), or land lease communities, with 38 MHCs across the country. Killam's portfolio includes in excess of 14,000 rental units, with over 7,700 apartment units and over 6,300 MHC sites.

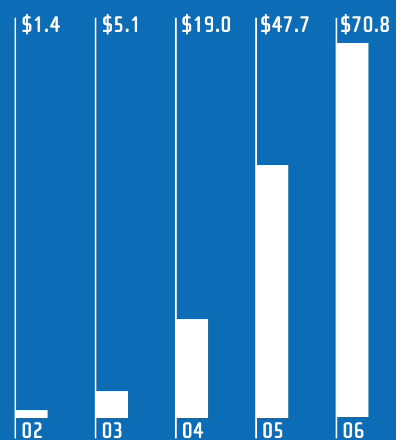
Since its first real estate acquisition in February 2002, management has grown the Company by consolidating the Atlantic Canadian rental market. Growth through acquisitions continued in 2006 with $103 million in purchases, increasing capital assets by 28.2%. In addition to acquisitions, internal growth was realized in 2006 with a 2.6% improvement in year-over-year net operating earnings for properties owned for equivalent periods in 2005 and 2006, and through the sale of two lots of excess land.

Killam's portfolio will continue to grow in 2007, with investments through acquisition expected to be between $100 and $125 million.

Total Assets (M)



Total Revenue (M)



Feb-02 First multi-residential acquisitions

Feb-02 $1.4M in common shares issued to fund first acquisition

Dec-02 Ends 2002 with 331 units

02

Mar-03 Purchase of first MHC

Apr-03 Killam graduates to TSX

Nov-03 $22M in common shares issued

Dec-03 Ends 2003 with 1,800 units

03

Jun-04 $42M in common shares issued

04

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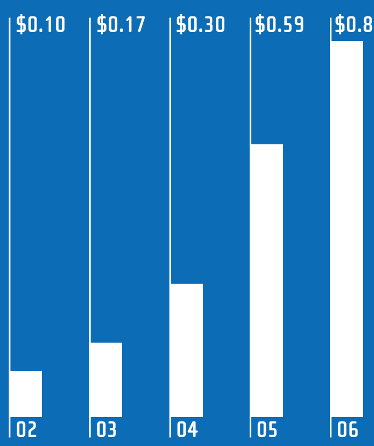
Selected Financial and Operational Data

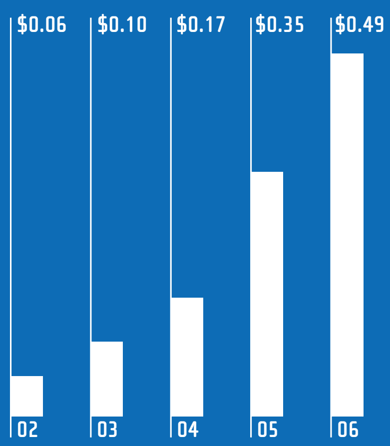
FOR THE YEAR ENDED (M)	2006	2005	2004	2003	2002
Total Revenue	$71	$48	$19	$5	$1
Net Operating Income	$42	$28	$11	$3	$1
Funds from Operations	$12	$11	$4	$1	$0
Shares* (basic)	84	79	61	29	13
Shares* (fully diluted)	86	81	64	31	15
PER FULLY DILUTED COMMON SHARES					
Net Operating Income	$0.49	$0.35	$0.17	$0.10	$0.06
Funds from Operations	$0.15	$0.13	$0.07	$0.02	$0.01
AT YEAR END (M)					
Total Assets	$588	$470	$243	$76	$20
Total Debt	$480	$375	$165	$45	$12
Shareholders' Equity	$108	$95	$78	$31	$8

* weighted average number of shares outstanding

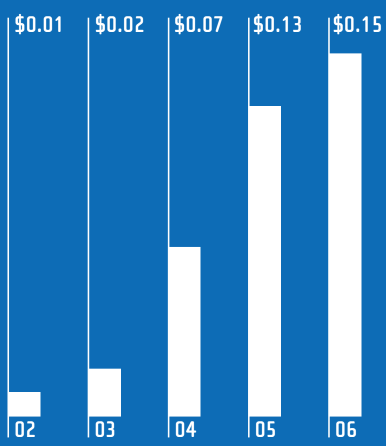
Revenue per Fully Diluted Share



Net Operating Income per Fully Diluted Share



FFO per Fully Diluted Share



Nov-04
Completes first MHC acquisition in Ontario

Dec-04
Ends 2004 with 6,133 units

05

May-05
$42M in debentures and $15M in common shares issued

Dec-05
Ends 2005 with 11,429 units

06

Jan-July 06
$20M of debentures with warrants raised

Apr-06
First expansion projects begin with two MHC communities

Aug-06
$15M in common shares issued

Nov-06
Evaluation of REIT conversion announced

Dec-06
Ends 2006 with 14,093 units

07

Jan-07
Annual dividend of $0.14 announced

Feb-07
$40M in common shares issued

WHY ATLANTIC CANADA?

Killam has focused on Atlantic Canada because:

Management knows the market

Urbanization trend leading to growth in Atlantic Canada's six largest cities

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Historically attractive yields relative to the rest of the country

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Stable economy with historic low unemployment rates in urban centres

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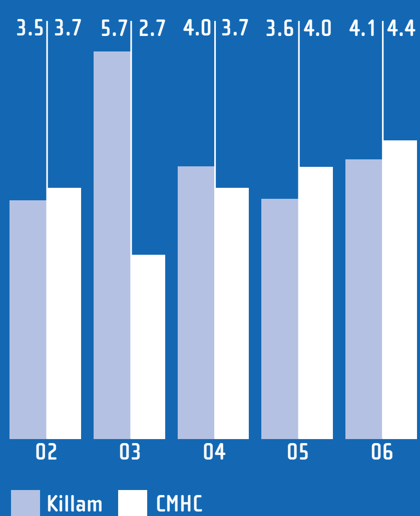
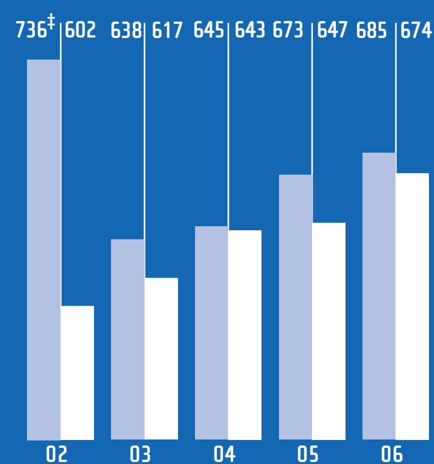
Highly fragmented market offers consolidation opportunity

Apartment Vacancy in Atlantic Canada (%)*



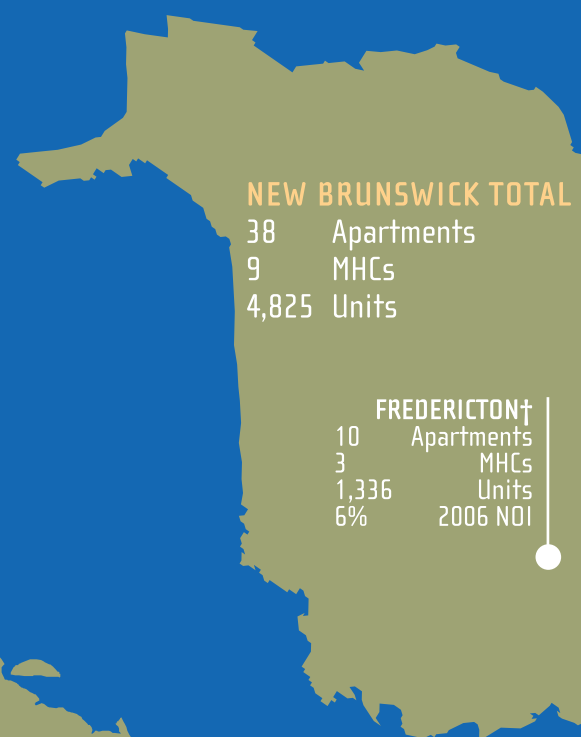
Average Apartment Rent in Atlantic Canada ($)*

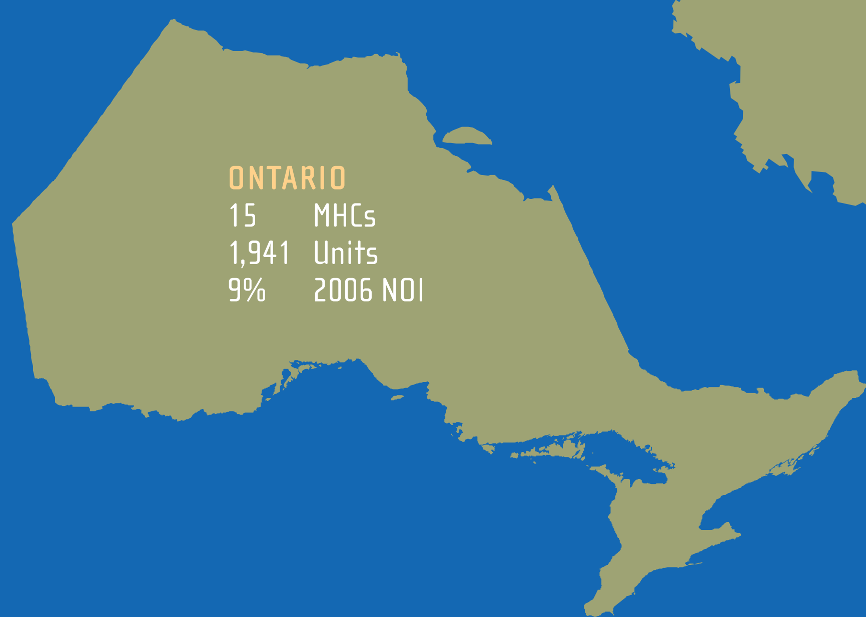


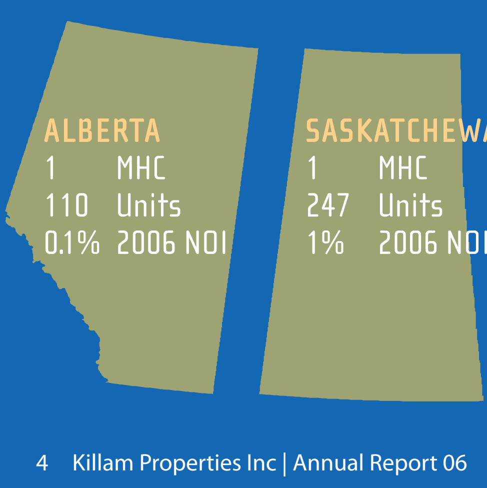
** (source: CMHC) weighted average of Atlantic Canada's six largest cities, based on CMHC unit count*

Killam statistics based on year-end results.

‡ based on 311 units owned as at December 31, 2002







Why does Halifax represent 46% of NOI?

Halifax is the economic hub of Atlantic Canada. Home to 16% of the Atlantic Canadian population, Halifax represents the biggest market east of Quebec City. Killam's asset weighting in Halifax is representative of the apartment market in Atlantic Canada. According to CMHC, 44% of the total apartment universe in Atlantic Canada is located in Halifax.

How much more opportunity is there for Killam to buy in Atlantic Canada?

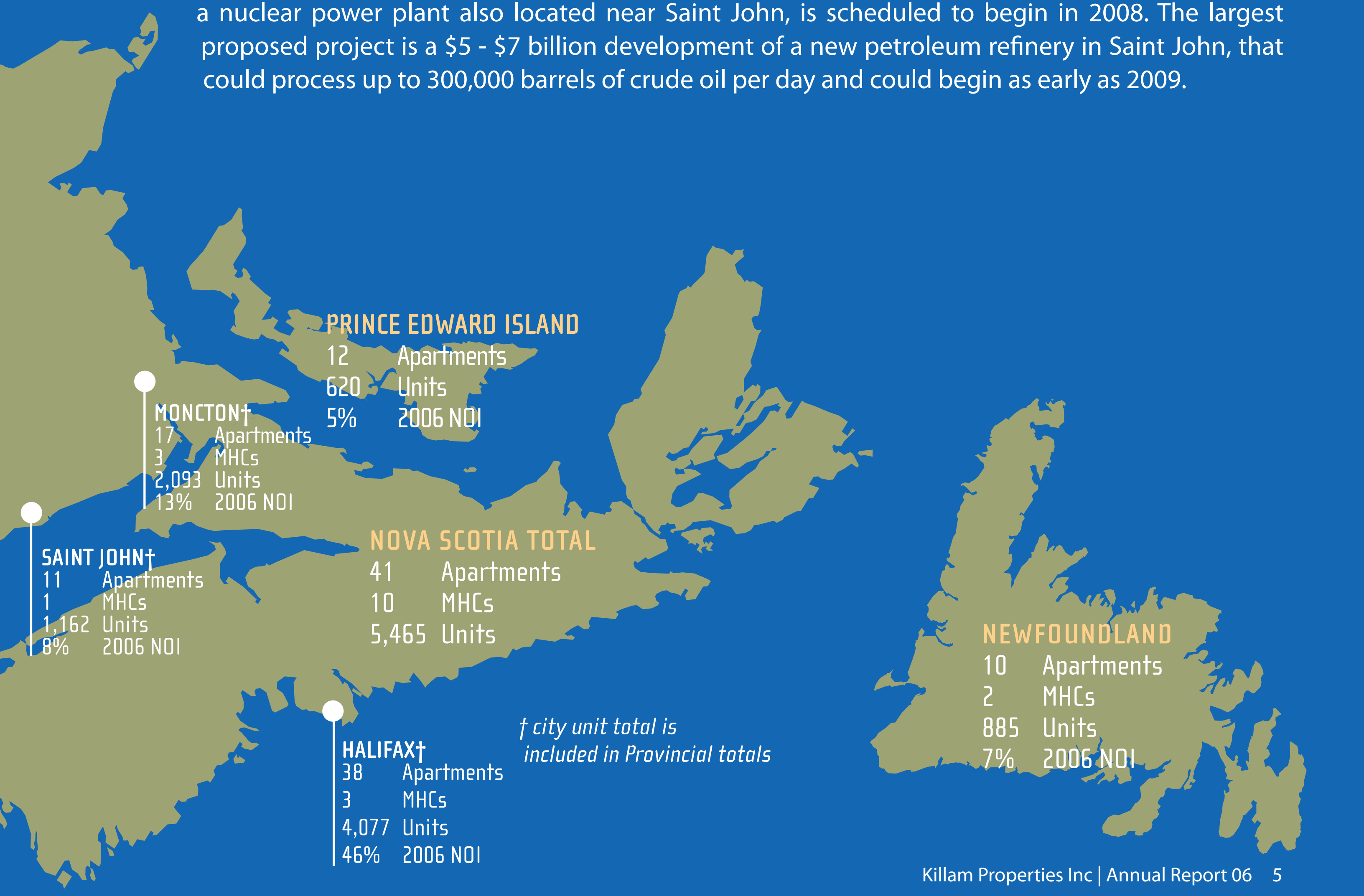
Killam has defined its core markets as the six largest cities in Atlantic Canada; Halifax, Moncton, Saint John, Fredericton, Charlottetown and St. John's. These cities have a rental universe of approximately 73,000 units. Killam believes it has the potential to increase its market share within this core market to 15%, from its current level of 10%.

Is the population in Atlantic Canada growing?

Atlantic Canada is home to 2.3 million people, approximately 40% of whom live in the six largest cities. Although the total population base in Atlantic Canada has remained relatively consistent over the last five years, the population of the six largest cities has grown by approximately 4%. The trend toward urbanization is strong in all four Atlantic provinces.

Are any specific energy projects expected to drive growth in Atlantic Canada?

There are a number of energy related projects, and proposed projects, expected to drive investment and construction growth in Atlantic Canada. Currently under construction in Saint John is a $750 million liquefied natural gas terminal. NB Power's $1 billion refurbishment of its Point Lepreau Generating Station, a nuclear power plant also located near Saint John, is scheduled to begin in 2008. The largest proposed project is a $5 - $7 billion development of a new petroleum refinery in Saint John, that could process up to 300,000 barrels of crude oil per day and could begin as early as 2009.



Dear Shareholders | I am pleased to review our fiscal 2006 results and lay the groundwork for our plans in 2007. Last year was another important year of growth for Killam Properties Inc. We continued to grow our asset base, increase our funds from operations (FFO) per share, and extensively upgraded our portfolio. However, last year was not without its challenges. Our share price fell 12%, to end the year at $2.53, down from $2.88 on January 1, 2006. This marks the first time in Killam's history that the stock experienced an annual decline in value.

We have grown our portfolio to $600 million in quality multi-residential assets.

During the last five years we have grown our portfolio to $600 million in quality multi-residential assets. Our 2002 prospectus noted "the corporation's stated business objectives are to build a portfolio of multi-family residential real estate properties and manufactured home communities (MHCs), generate a positive cash flow and increase the underlying net asset value of the properties owned and managed by the corporation". With a portfolio of 140 properties generating $42 million in net operating income during 2006, I am pleased to say that we have succeeded in what we set out to do, and faster than we had expected to do it. In many ways, however, it feels as if we are just getting started. We remain focused on the original objectives and continue to see accretive acquisition opportunities that should enable Killam to reach $1 billion in assets over the next several years.

This is our fifth annual report and we take this opportunity to reflect on Killam's history, on how we have arrived at where we are today, and to discuss what we have planned for the future. We have spent time "looking both ways", as the cover of this year's annual report states. Much of the report is dedicated to 2006 but we also discuss our future plans. We have included a question and answer section in this year's report to highlight issues we have faced in 2006 and to address specific questions posed by shareholders throughout the year. It is our hope that our comments will assist the reader to better understand our business, our financial performance, and where we are headed.

$103 million of acquisitions, including $76 million for 21 apartment buildings and $27 million for 10 MHCs.

Growth Through Acquisitions Continued in 2006

We continued to grow Killam's asset base during 2006 with $103 million in new acquisitions, including $76 million for 21 apartment buildings and $27 million for 10 MHCs. This investment was in-line with our expectation for 2006, but was less than the $200 million in acquisitions we reported in 2005. While one might speculate that Killam's growth is ending, I assure you that this is not the case. We continue to have an active pipeline of acquisition opportunities, many of which I am particularly excited about. At any given time, we are in various stages of assessing $100 million to $150 million of acquisition opportunities.

Philip Fraser
President & Chief Executive Officer

Getting to Know our Properties

We believe it takes twelve to eighteen months post acquisition to fully understand a new property. This includes getting to know the tenant base, the property's operating challenges, and the short-term and long-term capital requirements. The good news for Killam is that, starting in 2007, we will have owned 80% of our portfolio for more than a year, which gives us confidence in our ability to sustain our earnings and to improve profitability going forward.

Increased Rents Resulted in Same Store NOI Improvement

Same store sales results were positive for the year, achieving NOI growth of 2.6% year-over-year. Revenues improved 3.3% in 2006 due to increased rents and improved occupancy. We were focused on implementing rent increases last year and as a consequence average rents for same store properties increased by 2.6% and 4.7% for apartments and MHCs, respectively. We expect to implement rate increases in 2007 of approximately 5%, but due to the fact that rents can only be increased on the anniversary date of the lease, the reported increase for the year will likely average between 3% and 4% given the staggered anniversary dates of the leases throughout our portfolio.

The average occupancy in our same store sales increased during 2006, with the biggest improvement seen in Saint John, New Brunswick. We are bullish on Saint John and have been so for the last few years. It is encouraging to see the payback on our investment in 2006. Our vacancy in Saint John at year-end was 2.3%, compared to CHMC's average of 6.8%. Saint John is on the verge of a transformation and the growth prospects are strong – for example, there is noteworthy capital spending on energy projects such as a liquefied natural gas plant, the refurbishment of NB Power's Point Lepreau nuclear power plant, and Irving Oil's proposed new $5 - $7 billion oil refinery.

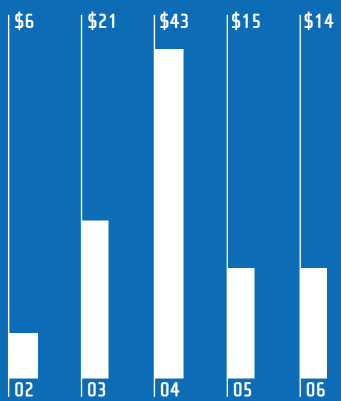
Like Saint John, our other markets are also performing well, buoyed by the urbanization of Atlantic Canada's six biggest centres. In particular, we are impressed by the business growth and strength of the Halifax market, home to 48% of our portfolio's asset value. A number of national and international firms, such as Research in Motion (1,250 jobs) and Citco Financial Services (350 jobs), among others, are opening operations in Halifax. These companies are attracted to the economic hub of Atlantic Canada, with its relative affordability and young, educated work force.

The gain from rental increases was partially offset by an increase in operating expenses, primarily property taxes. Killam has experienced significant increases in property tax assessments for many of its properties based on increasing market values. This has translated into increased tax expense for our properties. This is a one-time catch-up as the property assessments are increased to a market assessment and we would not expect to experience the level of tax cost increase we had in 2006 to be repeated in 2007.

We continue to have an active pipeline of acquisition opportunities.

Like Saint John, our other markets are also performing well, buoyed by the urbanization of Atlantic Canada's six biggest centres.

Equity Raises (M)



Killam owns more units in Atlantic Canada than all the national players combined.

Increased Interest Expense on Acquisition Line Impacted Earnings

The improvement in NOI noted earlier did not translate into an increase in FFO to the same degree for 2006 due primarily to increased interest expense from the use of our acquisition bridge facility this year. As well, given historically low interest rates, we issued debt in the form of debentures over the last two years which decreased the requirement for equity raises as shown in the adjacent graph.

Reliance on our acquisition bridge facility to fund much of our recent growth gave us the flexibility to react quickly to buying opportunities but this flexibility came with a price. For most of 2006, the first $20 million of our acquisition line cost 9.75% and the second $20 million cost 11.0%. With an average balance of approximately $21 million outstanding during the year the total interest cost on this line was $2.1 million, or $.03/share.

Subsequent to the end of 2006, we raised $40.4 million in equity to pay back the acquisition line and we finalized a new acquisition line with more attractive terms. We value the flexibility provided by a revolving credit line, but will employ it on a short-term basis going forward.

Capital Appreciation Coming to Atlantic Canada

During 2006, Killam experienced capitalization rate (cap rate) compression in its core markets, a trend we see repeated throughout the Canadian real estate market. We expect to see continued compression throughout 2007, as a result of an increased interest in Atlantic Canada from national buyers. More national and foreign equity continues to enter this segment of the real estate market which by any relative measure from a North American view-point is under-valued and poised for further growth. Killam is the largest beneficiary of this trend in Atlantic Canada and should be positively impacted by an increased net asset value (NAV).

Although we have witnessed increased buying competition in Atlantic Canada from other national buyers in 2006, we do not expect our market dominance to be challenged any time soon. Killam owns more units in Atlantic Canada than all the national players combined. Further, there is an ample supply of quality product left to acquire in the region to accommodate both Killam and other buyers. In fact, we expect to benefit from having new entrants in our market as these owners generally invest in their buildings and increase rents, which in turn should lead to higher rents in the overall market.

Manufactured Home Communities and Apartments Offer Diversification

Killam is the second largest owner of MHCs in Canada. We acquired our first community in 2003 and by year-end 2006, we owned 38 communities containing over 6,300 sites. MHCs represent 45% of Killam's portfolio on a unit count perspective and 20% on a total asset value perspective.

We believe MHCs are an asset class that has been overlooked in Canada. I'll take this opportunity to address this unique asset category and why we like it so much. With MHCs, Killam owns only the land and infrastructure supporting each community and leases the lot to the tenants, who own their own home and pay Killam a monthly lot rent. The average rent in our portfolio is $203/month, which offers great value and affordability to the tenant.

MHCs require less recurring capital investment and deliver a more predictable and stable cash flow than multi-family residential properties. The MHC homeowners are responsible for repairs, maintenance and operating costs, which removes a significant variable cost typically borne by

Killam with apartments. The operating margin in Killam's MHC business averaged 67% over the last two years, compared to 57% for traditional apartments. The largest capital cost in 2006 for the MHC portfolio related to the upgrading and maintaining of water and sewer systems.

Our MHCs enjoy a stable tenant base, with consistently strong occupancy at approximately 99%, and turnover of approximately 1% per year. Typically, should a tenant choose to leave one of our communities they sell their home, with the home remaining on the site and rent collection continuing uninterrupted with the new buyers.

In addition to a stable operating environment, internal growth prospects are strong for MHCs. Killam has already benefited from instituting rental increases in MHCs, as the former owners chose not to implement regular rent increases. Also, Killam is now an agent for new home sales in many of our communities and we have targeted to sell between 50 and 75 new homes during 2007 at an average profit of $10,000 per home. The profit on home sales typically covers the cost to build the expansion sites so the payback period on expansion is relatively short. Killam will collect a monthly rental fee on each expansion site as the homes are sold.

Overall we are extremely pleased with our MHCs. The diversification from a purely multi-residential apartment model distinguishes Killam from its peers and adds to financial stability and opportunity for internal growth.

Looking Forward

We are optimistic about what is ahead of us in 2007. Over the near-term, we see the opportunity to grow our apartment portfolio within our six key markets in Atlantic Canada to a 15% market share, from our current level of approximately 10%. We know these markets well and recognize the benefit of continuing to cluster our assets in these areas. In 2007, we will focus on our acquisition pipeline and expect to acquire $100 million to $125 million of new assets. Simultaneously, we will fine tune our properties and management team to maximize the funds from operations.

We are often asked if we will enter the apartment market outside of Atlantic Canada. We are open to this possibility and continue to monitor the investment opportunities in Ontario and Quebec in particular. We have already gained valuable experience beyond the East Coast with 35% of our MHC assets located outside Atlantic Canada.

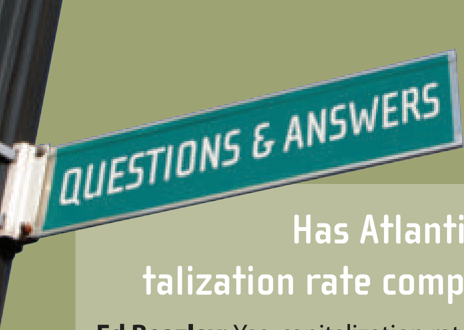
We look forward to continuing down the path of evaluating a REIT conversion once final legislation in respect to the taxation of income trusts, and the related exemptions of REITs, is confirmed. We will be in communication with shareholders as this process evolves. Until then, we will start to function more like a REIT, and our peers, with a monthly cash distribution in the form of a dividend.

I would like to thank Killam's board, management, and employees for their outstanding contributions during 2006. With a stable asset base, a clear plan for growth, and a newly implemented dividend policy, we look forward to delivering an improved shareholder return in 2007.

Philip Fraser
President & Chief Executive Officer

In 2007 we expect to acquire $100 million to $125 million of new assets.

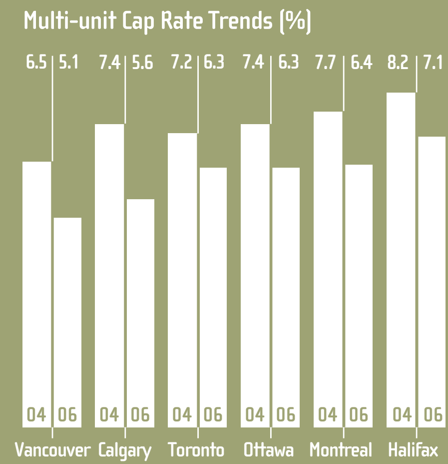
We see the opportunity to grow our apartment portfolio within our six key markets in Atlantic Canada to a 15% market share.



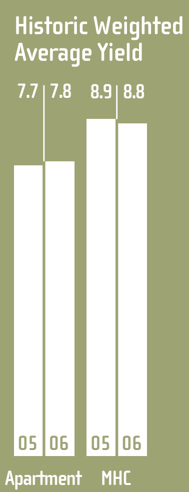
Has Atlantic Canada been experiencing capitalization rate compression?

Ed Beazley: Yes, capitalization rates have been decreasing in Atlantic Canada, as they have throughout Canada. The most notable compression has been in Halifax, where there has been an increased amount of buying interest from national real estate companies over the last 18 months. We expect to see continued compression during 2007.

Robert Richardson: With capitalization rates in the 7.0% to 9.0% range and low mortgage rate financing, currently at 5.0% to 5.3%, growth through acquisition remains accretive for shareholders.



Source: Altus InSite Investment Trends Survey: Fourth Quarter 2006 Report



What yields has Killam been earning on its assets, as a percentage of gross book value?

Keith Foster: During 2005 and 2006 Killam earned an NOI yield of 7.9% and 8.0%, respectively, on the weighted average gross book value of its real estate assets. Yields on MHCs have been approximately 100 basis points higher than on apartments, due primarily to increased energy costs, realty taxes and capital investments on apartments.

Killam has invested approximately $50 million in capital improvements in its properties over the last three years. The benefit of these investments, including increased rents, improved occupancy and cost efficiencies, are expected to be fully realized during 2007 and future years.

Was Killam able to raise rents in 2006?

Ruth Buckle-McIntosh: Yes, we did raise rents in 2006. The average rent increase for Killam's portfolio of units owned before 2005, and included in our same-store results, was 2.9%. Rents for the apartment units were increased by an average of 2.6% compared to an average increase of 4.7% for MHCs.

We anticipate average rent increases of 5% during 2007 as we increase rents to reflect market rates. PEI and Ontario are Killam's only locations with rent controls.

Why has Killam raised limited equity over the past few years?

Robert Richardson: Due to historic low interest rates and timing. During 2005 and 2006 Killam took advantage of low interest rates to fund a portion of its growth through debenture issues, raising $42 million in 2005 through convertible debentures and $20 million in subordinated debentures in 2006. We also used our acquisition line during 2005 and 2006 to fund acquisitions. Total common share equity raised during 2005 and 2006 combined was approximately $30 million. Subsequent to the end of 2006 we have raised $40 million in equity to pay down our acquisition line and fund future growth.

l to r: **Ruth Buckle-McIntosh**, VP, Property Management, **Pamela Crowell**, VP, Property Management (MHCs) **Robert Richardson**, Executive Vice President and Chief Financial Officer; **Philip Fraser**, President & Chief Executive Officer; **Ed Beazley**, VP, Acquisitions; **Jeremy Jackson**, VP, Marketing; **Keith Foster**, VP, Finance

What amount of leverage is management comfortable with?

Philip Fraser: We are comfortable with debt to a maximum of 75% of gross book value. At year-end our debt to GBV was at 75%, high due to $19 million outstanding on our acquisition line. This ratio has been decreased to approximately73% subsequent to year-end, following the $40 million equity raise in February 2007.

Looking forward, as a dividend paying company, we plan to reduce and maintain our debt to gross book value between 65% and 70%.

How much internal growth can we expect from Killam in 2007?

Robert Richardson: We expect 3% to 5% NOI growth for same store properties during 2007. The primary driver of this improvement is a 5% average increase to rental revenue. These increases are expected to be partially offset by increased operating costs.

In addition to NOI growth from our rental operations, we expect to augment earnings through the sale of new homes and through the continued development and sale of excess land relating to both our MHCs and apartments.

Can we expect more sales of excess land in 2007?

Philip Fraser: We have identified approximately 28 acres of excess land associated with our current portfolio, the majority of which is in Halifax. We evaluate the sale and development opportunities relating to these properties on a continual basis. We expect to move forward with opportunities for some of this land during 2007, but have no firm plans, or timing, to disclose at this time.

Will Killam's capital spending in 2007 be similar to 2006?

Ruth Buckle-McIntosh: No, capital spending is expected to decrease in 2007 to approximately $10 million on our current portfolio.

Spending in 2005 and 2006, at $20 million and $25 million, respectively, related to incorporating many new assets into our portfolio. This included five repositioning projects with investments costing approximately $4 million each year. Spending in 2006 also included $2 million for the expansion of two MHCs, which is considered new development.

The heavy lifting is complete on the majority of our properties. At the end of 2006 we had touched approximately 70% of our units and completed the majority of previously deferred maintenance. With the exception of two specific capital projects, the majority of capital in 2007 will relate primarily to the turnover of units.

Why is the evaluation of the REIT conversion taking so long?

Philip Fraser: The delay is due to uncertainties surrounding the federal government's new legislation on the taxation of certain trusts and related exemptions for REITs. Management plans to continue to evaluate the REIT structure once final legislation is approved. Although we look forward to progressing with the process, we have flexibility regarding timing as we do not expect to be cash taxable under our current corporate structure until 2010, or later.

In response to the delay around the potential conversion, we announced in January of 2007 that Killam will begin paying a monthly cash distribution to shareholders in the form of a dividend.

Why does Killam invest in Manufactured Home Communities?

Philip Fraser: The MHC business, representing approximately 20% of our asset base, is a strong complement to our apartment business. MHCs are a stable and predictable asset class with occupancy levels of approximately 99% and low turnover, of approximately 1%. We recognize that excellent consolidation opportunities exist for MHCs due to the fragmented ownership of an estimated 1,100 communities in Canada.

Our MHC tenants own their homes and lease the land on which their home is located. Killam is not exposed to the homes' maintenance and operating costs, including heat and electricity. With no common areas, windows or roofs to maintain, the capital expenditures for MHCs are much less than for apartments.

In addition to the profitability of our current communities, further growth opportunities exist by expanding some communities, and on earnings from new home sales.

What is the average size of your communities?

Pamela Crowell: The average community has 166 homes over 63 acres. Our largest community is Pine Tree in Moncton, New Brunswick, with 820 sites over 260 acres.

What is the monthly lot rent for Killam MHCs?

Pamela Crowell: Lot rent varies from a low of $122 to a high of $352. The average monthly rent in Atlantic Canada, Ontario and in the West is $183, $250, and $276, respectively.

Killam is now involved in new home sales. What role does Killam play?

Pamela Crowell: Killam acts as an agent for local home manufacturers to supply homes to our new and existing tenants.

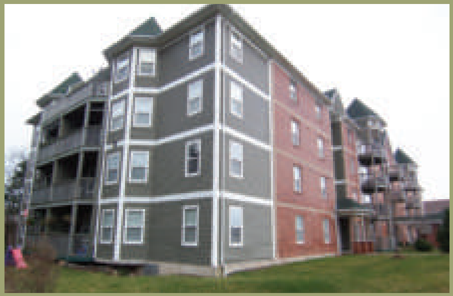
The houses are built in a factory, or manufacturing facility, and delivered by road to the site. Homes are available in many sizes and layouts, including a variety of standard and customized features.

Robert Richardson: 2007 is our second year for selling homes into our communities. We expect to complete 50 to 75 home sales during the year, earning an average of $10,000 per home.

PROPERTY PROFILES

Quinpool Towers | Halifax, NS | 233 units

303 Normandie | Moncton, NB | 70 units



31 Carrington | Halifax, NS | 38 units

Sheradon Place | Halifax, NS | 82 units

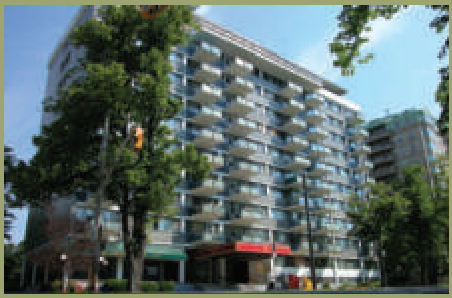
Elroy Apartments | Fredericton, NB | 194 units

360 Acadie | Moncton, NB | 60 units

1111 Main Street | Moncton, NB | 16 units

Quinpool Court | Halifax, NS | 198 units

Maplehurst Apartments | Halifax, NS | 268 units



Spring Garden Terrace | Halifax, NS | 201 units

Parkridge Place | Halifax, NS | 76 units

Cambridge Court | Moncton, NB | 45 units

Pine Tree | Moncton, NB | 820 sites | 260 acres

Property Portfolio | Apartment Buildings

Nova Scotia	Units	Year Built	Average Rent Dec-06	Average Rent Dec-05
Halifax				
10-214 Harlington	60	1978	$672	$645
159 Radcliffe Drive	25	1995	827	804
175 - 211 Harlington	60	1978	671	645
26 Alton Drive & 36 Kelly Street	80	1969	579	532
294 - 300 Main Street	58	1969	617	590
3 Dillman	60	1970s	593	573
3 Veronica Drive	70	1983	748	708
3565 Connaught	19	1958	681	649
50 Barkton Lane	63	1991	705	664
5206 Tobin Street	47	1993	871	823
57 Westgrove Place	41	1969	659	619
59 Glenforest/21 Plateau	153	1978	645	609
6 Jamieson	24	1965	630	599
67-141 Harlington Crescent	60	1978	659	625
75 Knightsridge Drive	41	1986	765	716
85-127 Harlington	60	1978	673	645
9 Bruce Street	60	1974	506	-
9 Sybyl Court	22	1975	613	583
95 Knightsridge	46	1984	820	760
38 Bedford Apartments	53	1987	594	572
Garden Park Apartments	42	1980	929	929
Glenforest Apartments	80	1969	795	782
Glenmoir Terrace	28	1972	596	567
Hillcrest Apartments	50	1980	671	-
Kent Street Properties	139	1950's	763	758
Lakefront Apartments	396	1954	627	622
Linden Lea & Pleasant Street	28	1950s	600	561
Maplehurst Apartments	268	1965	683	666
Maplehurst Houses	15	1965	702	689
Parker Street Apartments	239	1960-75	641	625
Parkridge Place	76	2002	862	860
Quinpool Court	198	1978	906	892
Quinpool Towers	233	1978	896	860
Shaunslieve	152	1978	712	711
Sheradon Place	82	1979	758	-
Spring Garden Terrace	201	1964	928	892
Victoria Gardens	198	1954	633	629
Waterview Place	82	1971	650	624
Halifax Total	**3,611**			
Sydney				
552 Kings Road	17	1974	553	553
Cabot House	88	1974	751	728
Moxham Court	51	1998	828	805
Sydney Total	**156**			
Nova Scotia Total	**3,767**			

New Brunswick	Units	Year Built	Average Rent Dec-06	Average Rent Dec-05
Fredericton				
127 & 157 Biggs Street	46	1985/92	$703	$ -
50,60 Greenfields & 190 Parkside	72	1977/86	619	-
260 Wetmore Road	38	1978	651	615
75 Greenfields Drive	44	1980	556	-
969 Regent	62	1997/01	765	741
Elroy Apartments	194	1973	740	-
Southgate	47	2003	854	-
Venus Apartments	54	1965	764	737
Westwood Apartments	45	1975	582	602
Wilsey	48	1975	621	602
Fredericton Total	**650**			
Moncton				
100 Archibald	60	2003	727	738
101 Archibald	60	1993	667	664
1111 Main	16	1957	1,429	1,407
276 - 350 Gauvin Road	84	1991-96	619	597
303 Normandie Street	70	1994	717	-
316 Acadie Avenue	48	1996	638	-
360 Acadie Avenue	60	1998	632	-
Cambridge Court	45	1994	768	765
Cambridge Place	63	1995	963	950
Cameron Street	81	1966/1967	570	540
Gordon/Bonaccord Street	41	1984/pre 1950	586	632
Lakeview Estates	48	1980/81	582	551
Lorentz	101	1969	646	620
Lutz & Kendra Street	40	1950/75	618	-
Pine Glen Apartments	54	1974	619	562
Suffolk Street	80	2000	642	-
108-118 Archibald	2	n/a	638	558
Moncton Total	**953**			
Saint John				
53 Somerset Place	16	1973	583	575
Carleton Towers	60	1968	586	564
Cedar Glen	204	1977	543	501
Ellerdale Apartments	154	1975	562	560
Fort Howe Apartments	153	1970	680	700
Parkwood	205	1947	556	547
Rocky Hill Apartments	42	2004	810	861
Sydney Arms	54	1961	626	602
The Anchorage	51	2003	832	827
Woodhaven	24	1977	495	480
Woodward Gardens	99	1962	681	684
Saint John Total	**1,062**			
New Brunswick Total	**2,665**			

Newfoundland	Units	Year Built	Average Rent Dec-06	Average Rent Dec-05
St. John's				
Blackshire Court	52	1981	$651	$642
Cornwall Manor	31	1976	523	544
Forest Manor	65	1978	549	545
Freshwater Road Apartments	159	1972	502	-
Mount Pleasant Manor	100	1976	553	552
Pleasantview Manor	36	1979	492	-
Torbay Road Apartments	84	1972	507	-
Village Manor	40	1978	559	559
St. John's Total	**567**			
Grand Falls				
Ridgeview Terrace Apartments	59	1975	496	444
Terrace Apartments	89	1970/90	676	660
Grand Falls Total	**148**			
Newfoundland Total	**715**			

Prince Edward Island	Units	Year Built	Average Rent Dec-06	Average Rent Dec-05
Charlottetown				
198 Spring Park Road	32	2006	$1,032	$ -
27 Longworth Avenue	24	1983	579	554
505-525 University Ave	35	2003	1,075	-
Browns Court	52	1997	941	934
Burns/University	95	2003	891	893
Country Place	39	1998-02	757	740
DesBarres House	51	1978	517	490
Kensington Court	105	1990	654	643
Queen Street	48	1978	545	540
Horton Park	69	1987	659	646
Shakespeare	22	2004	741	730
Charlottetown Total	**572**			
Summerside				
Nevada Court	48	1995	662	658
Prince Edward Island Total	**620**			
Total – Dec. 31, 2006	**7,767**		**$685**	**$673**

Property Portfolio | Manufactured Home Communities

Nova Scotia	Sites	Acres	Average Rent Dec-06	Average Rent Dec-05
Amherst	307	67	$135	$134
Birch Hill	175	73	167	-
Cairdeil Estates	159	37	150	129
Cowan Place	38	50	140	140
Fairview Estates	131	131	269	260
Glen Aire Estates	254	130	168	151
Greenhill Estates	62	30	189	157
Heather Estates	217	72	161	145
Maple Ridge Park	160	160	204	191
Valley View Hills	195	50	149	149
Nova Scotia Total	**1,698**			

New Brunswick	Sites	Acres	Average Rent Dec-06	Average Rent Dec-05
Burton	91	32	$200	$ -
Crown & Currie Park	176	140	194	194
Kent & Bayview	148	123	120	-
Park P'Tiso	86	18	135	-
Pine Tree - Moncton	820	260	220	200
Pine Valley	100	15	185	185
Riverview	109	72	200	200
Tamarak	419	75	212	-
White Frost Estates	211	51	183	183
New Brunswick Total	**2,160**			

Newfoundland	Sites	Acres	Average Rent Dec-06	Average Rent Dec-05
Lakeview Court	86	13	$142	$ -
Sunset Parkway	84	43	130	-
Newfoundland Total	**170**			

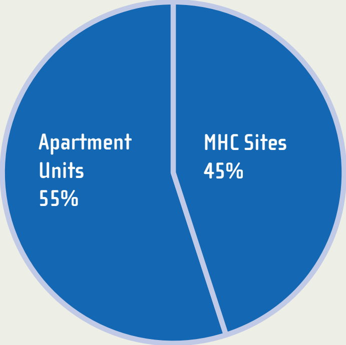
Ontario	Sites	Acres	Average Rent Dec-06	Average Rent Dec-05
Bayview Estates	146	60	$207	$199
Cedardale (1)	204	25	150	-
Fegushill Estates	152	49	295	284
Golden Horseshoe	241	33	283	275
Holiday Harbour (1)	143	15	143	-
Lakewood Estates	60	13	232	221
Lynnwood Gardens	64	54	235	229
Parkside Estates	144	80	276	267
Pinehurst Estates	82	16	196	190
Pine Tree Village	70	38	318	307
Rockdale Ridge	69	96	217	-
Silver Creek Estates	234	80	273	263
Sunny Creek Estates	160	53	166	158
Westhill Estates	95	8	247	-
The Village at Listowel	77	53	247	-
Ontario Total	**1,941**			

Saskatchewan	Sites	Acres	Average Rent Dec-06	Average Rent Dec-05
Sunset Estates	247	77	$268	$243

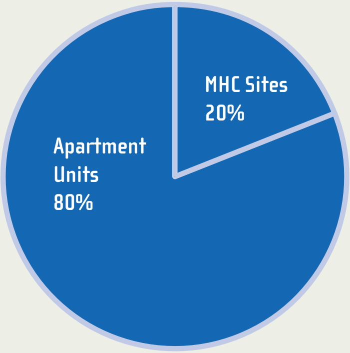
Alberta	Sites	Acres	Average Rent Dec-06	Average Rent Dec-05
Lynwood Estates	110	18	$294	$ -
Total – Dec. 31, 2006	**6,326**	**2,410**	**$203**	**$196**

(1) Property is seasonal. Average monthly rent shown equal to annual rent divided by 12.

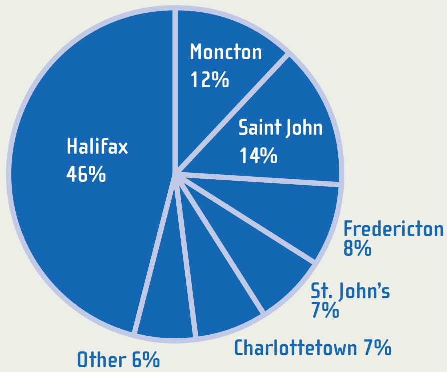
Asset Diversification
(As a % of total units)



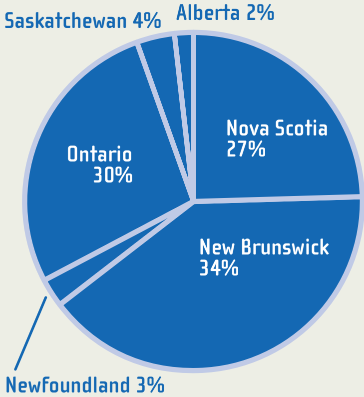
Asset Diversification
(As a % of gross book value)



Apartment Breakdown by City
(As a % of total units)



MHC Breakdown by Province
(As a % of total Sites)



Overview of the Structure of the MD&A

The following management's discussion and analysis ("MD&A") has been prepared by management and focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties. To ensure that the reader is obtaining the best overall perspective, this MD&A should be read in conjunction with material contained in the Company's audited consolidated financial statements for the years ended December 31, 2006 and 2005. These documents, along with the Company's Annual Information Form, are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available at March 7, 2007.

Forward-looking Statements

Certain statements in this MD&A constitute "forward-looking statements". In some cases, forward-looking statements can be identified by the use of words such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology, and by discussions of strategies that involve risks and uncertainties. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those anticipated or implied, or those suggested by any forward looking statements, including: competition within each of Killam's business segments, national and regional economic conditions and the availability of capital to fund further investments in Killam's business. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained, or incorporated by reference, in this MD&A.

By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Although management of Killam believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated. Neither Killam nor any other person assumes responsibility for the accuracy and completeness of any forward-looking statements, and no one has any obligation to update or revise any forward-looking statement, whether as a result of new information, future events, circumstances or such other factors which affect this information, except as required by law.

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

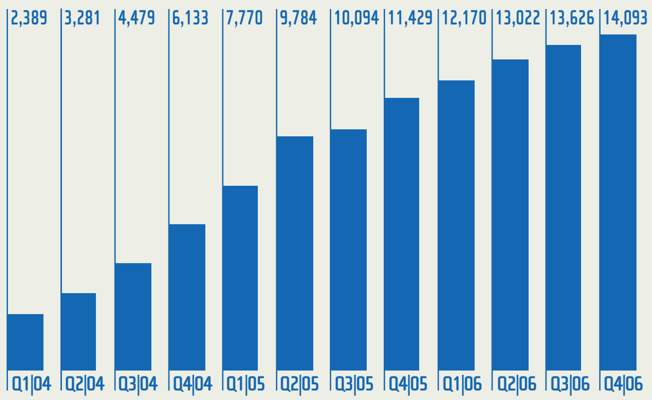
Corporate Overview

Killam Properties Inc. ("Killam" or the "Company") 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 2006, Killam owned and operated 14,093 rental units, comprised of 7,767 apartment units and 6,326 MHC units.

Killam has been focused on growth through acquisitions for the last four years. Killam continued to consolidate the rental market during 2006 with the acquisition of 31 properties representing 2,654 units to bring the Company's total portfolio to 14,093 units. The growth in unit numbers over the last twelve quarters is highlighted below.

Unit Growth



Portfolio Summary

By Unit Type and Location

As at December 31, 2006

	Apartments	MHCs	Total
Halifax	**3,611**	**466**	**4,077**
Moncton	**953**	**1,140**	**2,093**
Saint John	**1,062**	**100**	**1,162**
Fredericton	**650**	**686**	**1,336**
Newfoundland	**715**	**170**	**885**
Prince Edward Island	**620**	**–**	**620**
Other Nova Scotia	**156**	**1,232**	**1,388**
Other New Brunswick	**–**	**234**	**234**
Ontario	**–**	**1,941**	**1,941**
Saskatchewan	**–**	**247**	**247**
Alberta	**–**	**110**	**110**
Total	**7,767**	**6,326**	**14,093**
% by unit count	**55.1%**	**44.9%**	
% by gross book value	**80.4%**	**19.6%**	

As at December 31, 2005

	Apartments	MHCs	Total
Halifax	3,396	291	3,687
Moncton	663	1,160	1,823
Saint John	1,062	100	1,162
Fredericton	202	176	378
Newfoundland	436	86	522
Prince Edward Island	553	–	553
Other Nova Scotia	156	1,201	1,357
Other New Brunswick	–	1,700	1,700
Ontario	–	247	247
Saskatchewan	–	–	–
Alberta	–	–	–
Total	6,468	4,961	11,429
% by unit count	56.6%	43.4%	
% by gross book value	81.7%	18.3%	

Killam's unit count increased by 2,664 during 2006, including acquisitions and MHC expansions. The Company developed 72 MHC lots during 2006 which are brought into the total unit count as they are leased. As at December 31, 2006, twenty-three of the newly developed lots are included in the unit count.

Review of Operations

Rental Operations

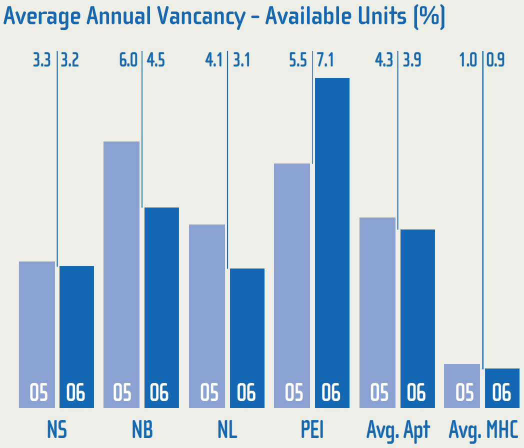
For the years ended December 31,	**2006**	2005	% change
Rental revenue	**$68,809,973**	$47,141,016	46%
Other operating revenue (1)	**469,435**	324,680	45%
Total operating revenue	**69,279,408**	47,465,696	46%
Property operating expenses			
Operating expenses	**12,769,485**	8,513,324	50%
Utilities	**9,926,079**	6,997,438	42%
Property taxes	**6,162,756**	4,056,629	52%
Total property operating exp.	**28,858,320**	19,567,391	47%
Net operating income	**$40,421,088**	$27,898,305	45%
Operating expense percentage	**41.7%**	41.2%	

(1) 2006 revenue excludes gains on land sales of $1.1 million.

Operating Revenue

Operating revenue increased 46% during 2006 due primarily to the completion of acquisitions during 2005 and 2006. Rent increases and improved occupancy levels also contributed positively to revenue. Laundry and parking revenues of $1.1 million and $0.3 million, respectively, are included in rental revenue in 2006, compared to $0.8 million and $0.2 million during 2005. Other operating revenue includes home sales and other sundry tenant related fees.

The annualized rental revenue, including laundry and parking revenue, of the properties the Company owned as at December 31, 2006 is approximately $79.4 million based on current rents and 4% vacancy. Killam, like 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 revenue by $0.8 million.



Average Vacancy – Available Units

2006	Q1	Q2	Q3	Q4	Avg.
Apartments					
Nova Scotia (NS)	**2.9%**	**3.5%**	**2.8%**	**3.6%**	**3.2%**
New Brunswick (NB)	**5.9%**	**4.9%**	**2.9%**	**4.4%**	**4.5%**
Newfoundland (NL)	**3.9%**	**6.5%**	**1.0%**	**1.0%**	**3.1%**
Prince Edward Island (PEI)	**5.2%**	**7.5%**	**5.8%**	**9.9%**	**7.1%**
Apartment Average	**4.1%**	**4.6%**	**2.9%**	**4.1%**	**3.9%**
MHCs	**1.0%**	**0.8%**	**0.9%**	**1.1%**	**0.9%**

2005	Q1	Q2	Q3	Q4	Avg.
Apartments					
Nova Scotia	3.1%	3.5%	3.9%	2.6%	3.3%
New Brunswick	6.3%	6.6%	5.8%	5.3%	6.0%
Newfoundland	3.1%	4.6%	4.6%	4.2%	4.1%
Prince Edward Island	3.9%	5.5%	8.6%	3.9%	5.5%
Apartment Average	4.3%	4.7%	4.7%	3.6%	4.3%
MHCs	1.3%	0.7%	0.8%	1.1%	1.0%

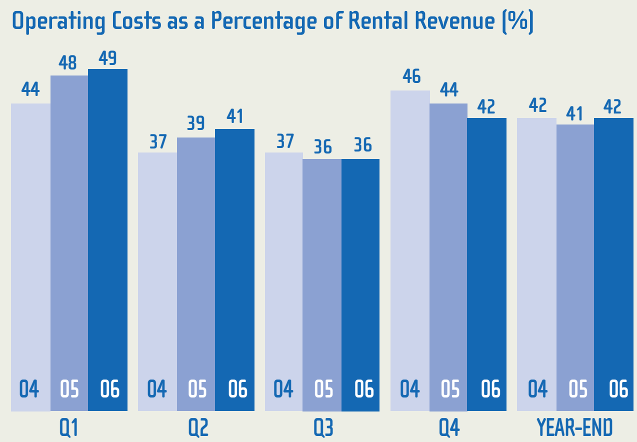
Vacancy rates displayed above represent all units available for rent at the end of the relevant quarter. Units undergoing renovation are not included in the vacancy statistics. At December 31, 2006 there were 139 units undergoing renovation and not included in the vacancy statistics, compared to 274 units at December 31, 2005.

Saint John, NB and St. John's, NL showed the strongest improvement during 2006. Occupancy in Saint John increased to 97.7% on available units, up from 92.7% at December 31, 2005. This compares favourably with Canada Mortgage and Housing Corporation's 2006 Rental Market Report which showed an occupancy rate in Saint John of 93.2%. Killam's success in this market is attributable to capital improvements to its buildings and its focus on professional management. The Newfoundland market also showed improvement during the year. After a spike in vacancy in the second quarter to 6.5%, occupancy levels improved to 99.0% on available units at year-end.

PEI was the Company's softest market during 2006. Killam acquired 502 units in PEI during 2005 and 67 in 2006, many of which were not considered stabilized at year-end.

Killam's largest market, Halifax, NS, which represents 46% of the apartment portfolio, remained relatively stable during 2006 with an average occupancy rate of approximately 96.7%. Moncton, NB and Fredericton, NB also remained stable.

Operating Expenses



Total property operating expenses increased 47.5% to $28.9 million during 2006, due primarily to the continued growth of the Company. As a percentage of total operating revenue for the year ended December 31, 2006 total property operating expenses increased slightly to 41.7% versus 41.2% in the prior year.

> **Operating expenses**, including salaries, repairs and maintenance, property specific administration and insurance represented 18.4% of total operating revenue, up from 17.9% during 2005. The increase relates to cost increases over a broad range of expense categories.
>
> **Utility costs** decreased to 14.3% of rental income during 2006, compared to 14.7% during 2005, in a year when both electricity costs and water rates increased. The decrease relates primarily to the timing of acquisitions in 2005 and a large number of acquisitions during 2006 with electric heat, paid for directly by the tenant. Killam is committed to improving efficiencies in its utility costs, which has driven the conversion of twelve properties, representing approximately 2,200 units, to natural gas from oil.
>
> **Property taxes** represented 8.9% of total operating revenue in 2006, compared to 8.5% during 2005. Property taxes as a percentage of revenue increased largely as a result of increased assessments at a number of properties, reflecting market valuations. Management believes that the largest increases have been absorbed in 2006 for properties acquired prior to 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. Property operating expense includes all properties, including unstabilized properties. Management also focuses on same store results, which compares results from properties owned since January 1, 2005 on a year-over-year basis.

Same Store Results

The following table sets out the results of operations for 57 stabilized properties that Killam has owned for equivalent periods in 2006 and 2005. Excluded from the above analysis is the Company's Kent Street property which underwent major renovations during the winter and spring of 2006.

For the years ended December 31,	**2006**	2005	% change
Revenues [(1)]	**$34,062,766**	$32,968,987	3.3%
Property operating expenses	**14,906,422**	14,294,671	4.3%
Net operating income	**$19,156,344**	$18,674,316	2.6%
Operating expense percentage	**43.8%**	43.4%	

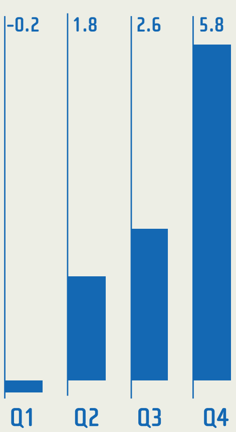
(1) 2006 revenue excludes gains on land sales of $1.1 million

Same store stabilized properties include 5,803 units, or 41% of Killam's portfolio.

On an annual basis, same store properties experienced net operating income ("NOI") improvements of 2.6%. Revenues increased 3.3% due to higher rents, which increased 2.2% year-over-year, and improved occupancy. Partially offsetting improved revenues was a 4.3% increase in property operating expenses due to higher property tax assessments, professional fees to appeal assessments, water costs, and repair and maintenance costs.

The Company improved NOI results throughout each quarter of 2006. The strongest quarter-over-quarter improvement was realized in the fourth quarter where revenues increased 3.2%, due primarily to increased rents and improved occupancy. Operating expenses were relatively consistent when compared to the fourth quarter of 2005. Increases in property taxes and utilities were offset by decreased salaries and repairs and maintenance costs. These decreases reflect fewer repair and maintenance requirements in the properties that the Company has owned for a longer period.

Same Store NOI Improvement 2006 vs. 2005 (%)



Apartments

For the years ended December 31,	**2006**	2005	% change
Revenues	**$29,703,295**	$28,711,338	3.5%
Net operating income	**$16,413,561**	$15,854,459	3.5%
Operating expense percentage	**44.7%**	44.8%	

MHCs

For the years ended December 31,	**2006**	2005	% change
Revenues	**$4,359,471**	$4,257,648	2.4%
Net operating income	**2,742,783**	2,819,854	(2.7)%
Operating expense percentage	**37.1%**	33.8%	

Killam's same store apartment portfolio experienced an improved margin during the year and NOI growth of 3.5%. This increase was partially offset by decreased NOI in the MHC portfolio of 2.7% due to increased repair and maintenance costs and expenses associated with MHCs; a number of these were one-time in nature, including repairs to a water main break during the fourth quarter, resulting in costs of approximately $45,000.

Gain on Sales of Land

During 2006, Killam completed two land sales resulting in a total gain of $1.1 million. The transactions included the sale of 1.8 acres of surplus land associated with the Company's Lakefront Apartments in Halifax for proceeds of $0.9 million and the sale of a 50% interest in 2.38 acres at the Kelly & Alton property in Halifax for proceeds of $0.5 million.

These sales 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 other land that could be developed or sold following appropriate municipal approvals, and evaluates opportunities on a continual basis.

Segment Review

Apartments

For the years ended December 31,	**2006**	2005	% change
Rental revenue	**$55,687,218**	$39,010,393	43%
Other operating revenue *(1)*	**236,825**	256,944	(8)%
Total operating revenue	**55,924,043**	39,267,337	42%
Property operating expenses			
Operating expenses	**10,149,862**	7,125,086	42%
Utilities	**8,674,528**	6,219,072	39%
Property taxes	**5,506,169**	3,657,151	51%
Total property operating exp.	**24,330,559**	17,001,309	43%
Net operating income	**$31,593,484**	$22,266,028	42%
Operating expense percentage	**43.5%**	43.3%	
Weighted average rent per unit	**$685**	$673	

(1) 2006 revenue excludes gains on land sales of $1.1 million.

Killam's apartment business accounted for 78.2% of NOI (excluding land sale gains) in 2006, compared to 79.8% in 2005. During the year Killam increased its apartment unit count by 1,299, or 20%, with the largest increase in units in Fredericton (448 units), Moncton (290 units), St. John's (279 units) and Halifax (215 units).

The apartment portfolio occupancy at the end of December, 2006 was 95.9% for stable units, down slightly from 96.3% in December 2005. The weighted average rent per apartment unit increased by 1.8% to $685 from $673. The higher average rent is attributable to a 2.5% increase for properties owned as at December 31, 2005, partially offset by an average rent of $659 on the new units acquired during 2006.

Operating expenses as a percentage of revenues increased by 20 basis points to 43.5% from 43.3%. This increase was primarily attributable to property taxes, which represent 9.9% of rental revenue in 2006 compared to 9.4% in 2005. The majority of the increase is a result of significantly higher tax assessments for two of the Company's Nova Scotia properties along with smaller increases to a number of other properties. These higher tax costs were partially offset by lower utility and operating costs as a percentage of revenue.

MHCs

For the years ended December 31,	**2006**	2005	% change
Rental revenue	**$13,122,755**	$8,130,623	61%
Other operating revenue	**232,610**	67,736	243%
Total operating revenue	**13,355,365**	8,198,359	63%
Property operating expenses			
Operating expenses	**2,619,623**	1,388,238	89%
Utilities	**1,251,551**	778,366	61%
Property taxes	**656,587**	399,478	64%
Total property operating exp.	**4,527,761**	2,566,082	76%
Net operating income	**$8,827,604**	$5,632,277	57%
Operating expense percentage	**33.9%**	31.3%	
Weighted average rent per unit	**$203**	$196	

Killam's MHC business accounted for 21.8% of total operating income during 2006, compared to 20.2% in 2005. During the year Killam increased its MHC unit count by 1,365 units, or 27%. The most significant purchases were a 419 unit community near Fredericton, NB and a 110 unit community in Alberta.

Rental revenue from Killam's MHCs has increased by $5.0 million, or 61%, from 2005 due primarily to property acquisitions. MHC occupancy rates at December 31, 2006 were consistent with December 31, 2005 at 99.0%.

Operating costs increased to 20% of rental revenue, compared to 17% during 2005. The increased costs are primarily attributable to water and sewer related costs, including water main breaks, as well as repairs and maintenance and general administrative costs associated with compliance with the Ontario Ministry of Environment legislation. A portion of these costs are not recurring as they were associated with bringing newly acquired properties up to standard.

Other operating costs, including utilities and property taxes were consistent as a percentage of rental revenue, with increases in dollar amounts attributable to growth in units.

MHC Expansion

In addition to growth through acquisition, Killam is also focused on growing the MHC portfolio through the expansion of existing communities. Expansion work in 2006 included 88 new sites developed in Killam's Cowan Place, in New Glasgow, NS, and Greenhill Estates, in Antigonish, NS. Management expects to expand the MHC portfolio by an additional 125 sites per year for the next two years. Expansion costs vary by community depending on infrastructure requirements to support new sites. Where Killam is able to sell a new home on an expanded site, the net revenue earned on the sale has the potential to offset a significant portion of the expansion cost.

MHC home sales are included in other operating revenue. 2006 was the first year Killam was involved in home sales, completing 10 sales at an average profit of $13,000 per home during the second half of the year. Killam expects to complete 50 - 75 home sales during 2007.

Other Expenses

Financing Costs

For the year ended December 31, 2006	**Amount**	**% of Rental Revenue**
Mortgage and loan interest	**$18,626,199**	**27.1%**
Debenture interest	**3,807,338**	**5.5%**
Credit facility interest	**2,096,480**	**3.0%**
	$24,530,017	**35.6%**

For the year ended December 31, 2005	Amount	% of Rental Revenue
Mortgage and loan interest	$12,781,155	27.1%
Debenture interest	1,912,038	4.1%
Credit facility interest	208,773	0.4%
	$14,901,966	31.6%

Financing expenses were higher during 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 revenue, mortgage interest expense remained consistent at 27.1%. At December 31, 2006 the weighted average interest rate on mortgage debt was 5.5%, down slightly from 5.6% at December 31, 2005. The average term to maturity was 5.4 years, compared to 5.5 years at December 31, 2005.

Killam is sensitive to interest rate changes. The Company manages this risk by entering into fixed rate mortgages and staggering the maturity dates of its mortgages. An annualized 1% change in the interest rate on Killam's mortgage and vendor debt at December 31, 2006 would affect financing costs by approximately $3.9 million per year. However, only $48.8 million of Killam's mortgage and vendor debt is due by the end of 2008 and a 1% interest rate change would impact Killam by only $0.5 million per annum.

Interest costs associated with its outstanding debentures increased by $1.9 million, or 99%, during 2006 due to the new subordinated debenture offerings during 2006 and the $42.2 million of convertible debentures issued in April 2005. Killam closed three subordinated debenture offerings during 2006, including $10 million at 6.33%, $5 million at 6.06% and $5 million at 5.92%. All three tranches of debentures, arranged at different times throughout the year, expire in January of 2013. These debenture financings were arranged to take advantage of attractive interest rates.

Credit facility interest expense of $2.1 million relates to borrowing on Killam's acquisition bridge facility. The Company used this facility during the year as a short-term financing arrangement to complete a number of acquisitions. The balance outstanding on the facility at year-end was $19.3 million of the $40 million available under the facility. Subsequent to year-end, management has repaid the balance outstanding and arranged for a new facility at more favourable rates. On a go-forward basis, management continues to value the flexibility provided by an acquisition credit facility and plans to use it as a short-term financing alternative.

Loss and Gain on Debt Settlements

During the fourth quarter of 2006, the Company expensed a non-recurring interest penalty of $562,000 to refinance Quinpool Towers, a 233 unit apartment in Halifax, NS. The interest penalty was incurred to discharge security under an $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, interest savings of approximately $180,000 per year will be realized based on the lower interest rate now in place on the original $8.4 million mortgage balance and the Company was able to access $8.6 million of additional equity from the building.

In addition the Company paid out a vendor mortgage early at a reduction from the principal amount and recorded a gain on settlement of $125,000.

Depreciation Expense

Depreciation expense increased $6.8 million or 68.6% compared to 2005. As a percentage of rental revenue depreciation expense was 24.2% in 2006, compared to 20.9% in 2005. The increase in depreciation is a result of the portfolio growth as well as Killam's capital improvements, which are depreciated at a higher rate.

Amortization Deferred Financing Costs

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 fees, 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.

General and Administrative Expenses

For the years ended December 31,	**2006**	2005	% change
Total	**$4,505,733**	$2,270,760	98%
As a percentage of rental revenue	**6.5%**	4.8%	

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.

General and administrative expenses increased in 2006 versus 2005 due to an increased unit base and increased compensation, legal and consulting costs, some of which are one-time charges. Expenses in 2006 include $235,000 of professional fees related to the Company's potential real estate investment trust (REIT) conversion analysis.

Management targets normalized general and administrative costs to be between 4.5 - 5.0% of rental revenue.

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 shareholders' equity, debentures, credit facility 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

For the years ended December 31,	**2006**	2005	% change
Current expense	**$ –**	$59,028	N/A
Future expense (recovery)	**(2,200,000)**	212,855	N/A
	$(2,200,000)	$271,883	N/A

Current income tax expense represents federal large corporation tax in 2005. In addition, the Company has booked a future income tax recovery for 2006 representing the future tax benefit of the loss.

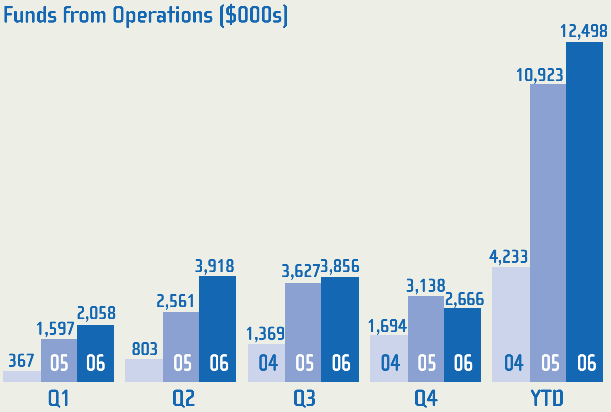
Funds from Operations (FFO)

Management considers Funds from Operations (FFO) a key measurement of operating performance. FFO does not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures presented by other public companies. Killam calculates FFO as follows:

For the years ended December 31,	**2006**	2005	% change
Net (loss) income	**$(3,757,110)**	$4,847	N/A
Depreciation and amortization	**17,913,121**	10,412,556	72%
Non cash debenture interest	**257,754**	119,804	115%
Non cash share compensation	**284,135**	172,669	65%
Future income tax (recovery) expense	**(2,200,000)**	212,855	N/A%
Funds from operations	**12,497,900**	10,922,731	14%
FFO/share	**$0.15**	$0.14	7%

The Company's FFO continued to grow on a total dollar and per share basis during 2006 compared to 2005 largely as a result of the expanded portfolio during late 2005 and 2006 acquisitions, and the successful sale of excess land. These positive contributions to FFO were partially offset by a number of non-recurring items including a $562,000 interest penalty associated with the refinancing of Quinpool Towers and REIT conversion costs of $235,000. Interest costs associated with the Company's credit facility also decreased FFO in 2006.

Funds from Operations ($000s)



Consolidated Balance Sheet

Real Estate Assets

	2006	2005	% change
Net book value	**$567,098,601**	$452,076,153	25%

Capital assets increased to $567.1 million from $452.1 million, as a result of the acquisition of 31 properties totaling 2,654 units during 2006. Many of the 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.

Killam experienced cap rate compression in its core markets during 2006 and expects the compression to continue during 2007.

The following table is a summary of the Company's acquisitions for the years ended December 31, 2006 and 2005. The acquisition value set out below excludes third party costs such as legal, environmental and other costs paid as part of the acquisition process.

For the years ended	**2006**	2005	Total Portfolio
Apartment Acquisitions			
Value of acquisitions	**$76,212,000**	$145,353,000	$420,030,000
Units acquired	**1,299**	2,406	7,767
Average price per unit	**$58,625**	$60,413	$54,072
MHC Acquisitions			
Value of acquisitions	**$26,950,000**	$54,757,000	$107,482,000
Units acquired	**1,354**	2,890	6,326
Average price per unit	**$19,904**	$18,947	$16,991

Capital Improvements and Development Projects

In addition to property acquisitions, the Company has invested $24.9 million in property improvements 2006 (2005 - $20.3) as set out below:

For the years ended	**2006**	2005
Development projects	**$2,040,500**	$ –
Major repositioning projects	**3,653,500**	4,062,000
Project improvements	**7,474,900**	8,084,400
Suite improvements	**8,781,500**	5,111,000
Equipment	**1,649,900**	1,947,700
Appliances	**915,100**	530,800
Furniture & Fixtures	**360,700**	269,900
Parking lots	**277,800**	299,700
Total	**$25,153,900**	$20,305,300

The development projects totaling $2.0 million relate primarily to the expansion of the Company's Greenhill and Cowan MHCs where Killam is developing 95 new sites, 72 of which were completed at December 31, 2006 at an average price of approximately $17,000 per site, with 23 of the new sites leased. Management expects the remaining new sites to be fully leased during 2007.

Killam invested $3.6 million on four major repositioning projects during 2006, including Veronica and Kent Street in Halifax and Cedar Glen and Parkwood in Saint John. Parkwood and Veronica were both neglected assets with high vacancy and poor reputations. Through extensive renovations and upgrades these properties have been turned around. Vacancy at Parkwood, a 205 unit asset, has decreased to two units at December 31, 2006 from 51 units at the start of the year. Renovations to Veronica are expected to be completed during the first quarter of 2007. Kent Street, traditionally a student building, was repositioned to mitigate against rising vacancies related to a recent increase in student housing in the Halifax market. This property now caters to a more professional market, similar to Killam's adjacent Tobin Street property. The repositioning of Cedar Glen was in response to a contract awarded to Killam by the Atlantic Health Sciences Corporation to supply 36 apartment units to medical students under a forty month term which began in November 2006.

Killam has invested $1.6 million and $1.9 million on equipment in 2006 and 2005 respectively. The majority relates to converting to natural gas from oil. These investments are expected to be recovered through lower heating costs realized through efficiencies.

Project and suite improvements totaled $16.3 million in 2006 compared to $13.2 million in 2005. As at December 31, 2006 Killam has upgraded 70% of its apartment units and addressed a significant portion of deferred maintenance projects at both its apartment and MHC properties.

Other Assets

As at December 31,	**2006**	2005	% change
Prepaid property taxes	**$ 635,741**	$ 514,368	24%
Prepaid insurance	**307,428**	282,353	9%
Other prepaid	**322,290**	406,814	(21)%
Notes receivable	**1,026,850**	–	– %
Other assets	**425,406**	223,654	90%
Deferred charges	**191,674**	130,831	47%
Goodwill	**4,500,000**	4,500,000	– %
	$7,409,389	$6,058,020	22%

The increase in prepaid property taxes and insurance is due to the increased size of the portfolio. The notes receivable relate to the land sales during 2006. The notes are secured through charges on the land sold to the third parties. The increase in other assets relates primarily to $298,000 of manufactured homes for sale at the Company's Greenhill Estates property. The remaining amount in deferred charges relates to costs associated with the Company's expansion on certain vacant lands.

Liquidity and Capital Resources

Mortgages and Loans Payable

As at December 31,	**2006**	2005	% change
Mortgages	**$381,738,008**	$291,760,750	31%
Vendor financing	**7,540,074**	11,060,355	(32)%
Convertible debentures	**40,910,212**	40,765,287	- %
Subordinated debentures	**19,165,653**	–	- %
Credit facility	**19,278,000**	16,943,000	14%
	$468,631,947	$360,529,392	30%

Weighted average years to maturity of mortgage and vendor debt	**5.4**	5.5
Mortgage and vendor debt as a percentage of GBV	**62.9%**	62.6%
Total debt as a percentage of GBV	**75.7%**	74.6%
Interest coverage ratio	**1.49**	1.72
Weighted average interest rate of mortgage and vendor debt	**5.5%**	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 fell slightly to 5.5% from 5.6% in the previous year. The Company's weighted average years to maturity fell slightly to 5.4 years from 5.5 years at December 31, 2005.

Debt as a percentage of gross book value (GBV) increased to 75.6% at year-end, from 74.6% at December 31, 2005. The increase relates to the subordinated debentures issued during the year and the use of the acquisition line. Subsequent to year-end, the company repaid the acquisition line with funds from the $40.4 million equity raise, resulting in an improvement to debt as a percentage of GBV to 72.6%. Management plans to maintain a ratio of debt to GBV of between 70% and 75% during 2007.

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 December 31, 2006 ($000's)	Average Int. Rate %
2007	15,646	6.16
2008	33,149	5.94
2009	65,634	5.35
2010	49,114	5.25
2011	51,035	5.59
2012	7,493	5.73
2013	10,576	6.17
2014	36,712	5.83
2015	54,688	5.45
2016	61,593	5.58
Thereafter	3,692	6.94

Debentures

In April 2005, Killam completed the issuance of $42.2 million of convertible, unsecured debentures. The convertible debentures have a term of seven years, bear interest at 6.5% and are convertible at the holders' option to common shares at a price of $3.10, any time after May 2007. The debentures are redeemable by the Company in the period of June 30, 2008 to June 30, 2010, provided that the current market value of the Company's shares are at the notice date is not less than 120% of the conversion price. After June 30, 2010 the debentures may be redeemable at face value.

During 2006, the Company completed the issuance of $20.0 million of unsecured subordinated debentures and warrants. The financings, including $5.0 million in January, $5.0 million in March and $10.0 million in April, bear interest at 5.92%, 6.06% and 6.33%, respectively, and expire in 2013. The associated warrants are exercisable at $3.60, $3.80 and $3.06 per share, respectively.

Credit Facility

During 2006, Killam used its acquisition bridge facility to fund a number of acquisitions. The average interest rate at December 31, 2006 was 480 basis points above the Company's average mortgage rate. Use of this facility in 2006 has resulted in increased interest expense.

Subsequent to December 31, 2006, the Company issued 17.4 million common shares for gross proceeds of $40.4 million. Proceeds from the offering were used to repay the Company's existing credit facilities.

The Company has arranged a new secured revolving credit facility with the Royal Bank of Canada to replace the current credit facility. The $40 million facility, comprised of two tranches, will be used to finance the Company's ongoing acquisition program. The first tranche of $30 million is an interim facility at rates that average prime plus 200 basis points on prime rate advances, or 300 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. The second tranche increases the line to $40 million at improved rates of prime plus 75 basis points on prime rate advances, or 175 basis points over BAs.

Shareholders' Equity

In August 2006, Killam completed a 6.56 million share private placement equity issue at $2.30 per share for gross proceeds of $15.0 million. An additional $0.8 million of capital stock was issued on property acquisitions. As at December 31, 2006 Killam had 88.3 million shares outstanding.

In January 2007, Killam announced that the Company will begin paying an annual dividend of $0.14 per share, payable monthly. The first payment will be made on April 16, 2007 to shareholders of record on March 30, 2007.

Liquidity

The Company intends to meet its short-term liquidity requirements (defined as monthly mortgage payments of principal and interest, dividends and ongoing operating costs) through net cash flow provided by operating activities.

Killam's growth plan requires an ample supply of capital resources. Capital resources are defined as mortgage debt, vendor mortgages and share capital equity. As at December 31, 2006, the Company had $3.0 million of cash available. In addition, the Company has credit facilities totaling $40 million of which the Company had drawn $19.3 million as at December 31, 2006.

Subsequent to year-end, the Company completed a private placement of 17.4 million common shares for gross proceeds of $40.4 million. Proceeds from the offering were used to pay out the Company's existing credit facilities.

The cash on hand and the new credit facility provide the Company with sufficient capital to continue its acquisitions in the short-term. Generally, Killam will continue to finance new properties to a maximum of 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.

Quarterly Results & Discussion of Q4 Operations

Killam has increased quarterly revenue over the last two years with continued growth through property acquisitions. The seasonality of Killam's business is highlighted with operating costs as a percentage of revenue highest in the first and fourth quarters when heating costs are highest. Killam's third quarter is its most profitable due primarily to lower utility costs.

During the second and third quarters of 2006, Killam recorded gains on land sales of $0.4 million and $0.7 million, respectively. These sales are reflected in the increased spread between rental revenue and total revenue as well in FFO and FFO per share.

(In $000's except per share amounts)

	2006				2005			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Rental revenue	**$18,563**	**$18,026**	**$16,463**	**$15,758**	$14,263	$13,488	$10,581	$8,809
Total revenue	**18,824**	**18,697**	**17,333**	**15,922**	14,584	13,555	10,746	8,848
Operating expenses	**7,925**	**6,587**	**6,704**	**7,642**	6,296	4,908	4,156	4,207
Operating expense %	**42.7%**	**36.5%**	**40.7%**	**48.5%**	44.1%	36.4%	39.3%	47.8%
Net income (loss)	**(1,717)**	**(684)**	**(151)**	**(1,205)**	(293)	252	108	(62)
Per share basic	**(0.0195)**	**(0.0081)**	**(0.0019)**	**(0.0148)**	(0.0036)	0.0031	0.0014	(0.0008)
Funds from operations	**2,666**	**3,856**	**3,918**	**2,058**	3,138	3,627	2,561	1,597
Per share basic	**0.0302**	**0.0457**	**0.0482**	**0.0253**	0.0387	0.0448	0.0326	0.0213
Total assets	**588,372**	**572,558**	**537,745**	**513,193**	469,516	412,742	398,575	283,751
Shareholders' equity	**107,653**	**108,405**	**93,591**	**93,683**	94,844	95,002	94,473	77,914

Fourth Quarter Discussion

Rental revenue increased 30% or $4.3 million over the fourth quarter of 2005 and 3% over the third quarter of 2006. The increase was generally due to the continued growth in units. Operating expenses as a percentage of rental revenue was 42.7%, a 140 basis point reduction compared to the fourth quarter of 2005.

Funds from operations were $0.5 million lower than the same quarter of 2005. A number of non-recurring items in the fourth quarter of 2006 reduced FFO, including a $0.6 million charge on debt settlement recorded on the refinancing of Killam's Quinpool Towers property as well as $0.2 million of professional fees associated with initial REIT conversion analysis.

Risk Management

Killam, like most real estate companies, is exposed to a variety of risks. These are classified between general and specific risk areas. General risks are associated with general economic conditions in the real estate sector. Specific risks focus more on credit risk, market risk, interest risk and utility and property tax risk. The following will address each of these risks in more detail.

General Risks

Real Estate Industry Risk: Real estate investments are generally subject to varying degrees of risk, depending on the nature of the property. These risks include (i) changes in general economic conditions, (ii) changes in local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), (iii) changes to government regulations (such as new or revised residential tenant legislations), (iv) competition from others with available space, and (v) the ability of the landlord or owner to provide adequate maintenance economically.

Real estate is relatively illiquid. Such illiquidity will tend to limit Killam's ability to rebalance its portfolio promptly in response to changing economic or investment conditions. In addition, financial difficulties of other property owners, resulting in distress sales, may depress real estate values in the markets in which the Company operates.

Environmental Risk: Killam is not aware of any material non-compliance with environmental laws at any of its properties. The Corporation has made, and will continue to make, the necessary capital expenditures to comply with environmental laws and regulations. Environmental laws and regulations can change rapidly, and the Corporation may become subject to more stringent environmental laws and regulations in the future.

Competition Risk: Each segment of the real estate business is competitive. Numerous other residential developers and apartment owners compete for potential tenants. Although it is Killam's strategy to own multi-family residential properties in premier locations in each market in which it operates, some of the apartments or MHCs of Killam's competitors may be newer, better located or better capitalized. The existence of alternative housing could have a material adverse effect on Killam's ability to lease space in its properties and in the rents charged and could adversely affect Killam's revenues and ability to meet its obligations.

General Uninsured Losses: Killam carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar companies. There are, however, certain types of risks (generally of a catastrophic nature) that are either uninsurable or not economically insurable.

Specific Risks

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. Thorough credit assessments are conducted with respect to all new leasing and the Company also obtains a security deposit to assist in potential recovery requirements.

Supply Risk is the risk that the Corporation would be negatively affected by the new supply of, and demand for, multi-family residential units in its major market areas. Key drivers of demand include employment levels, population growth, demographic trends and consumer confidence. Any significant amount of new construction will typically result in an imbalance in supply and cause downward price pressure on rents. No signs of significant new rental construction are currently evident in any of Killam's existing markets.

Interest Risk is the combined risk that the Company would experience a loss as the result of its exposure to a higher interest rate environment (Interest Rate Risk) and the possibility that at the term of maturity of a mortgage the Company would be unable to renew the maturing debt either with the existing lender or with a new lender (Renewal Risk). The Company manages this risk through a periodic review of its mortgage portfolio. The Company will renegotiate existing debt to take advantage of lower interest rates and structures its debt so as to stagger the maturity dates.

Rent Control Risk is the risk of the implementation or amendment of new or existing legislative rent controls in the markets in which Killam operates, which may have an adverse impact on the Company's operations. Currently PEI and Ontario are the only provinces in which the Company operates that have rent controls. The Company believes that rent controls are not an increasing trend in its markets.

Utility and Property Tax Risk relates to the potential loss the Company may experience as a result of higher resource prices, as well as its exposure to significant increases in property taxes. Over the past few years, property taxes have increased as a result of an increase in reassessments and/or tax rates. To address this risk, Killam, along with the assistance of outside authorities, constantly reviews property tax assessments and, where warranted, appeals them.

Utility expenses, mainly consisting of oil, water and electricity charges have been subject to considerable price fluctuations over the past several years. Killam's tenant leases are typically one year; therefore, Killam has the ability to raise rents, subject to the overall rental market conditions, to offset rising energy and utility costs. In addition the Company locks in rates for a portion of its oil consumption to reduce the fluctuations in price.

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.

Impairment of Long-lived Assets

Under Canadian GAAP, Killam is required to write down to fair value any capital assets that are determined to be permanently impaired. Impairment is calculated as the net undiscounted cash-flows from the property over the anticipated holding period. This calculation requires subjective assumptions on general economic conditions, occupancies, rental rates and residual value. In the event these assumptions result in the sum of the undiscounted cash flows exceeding the assets carrying value, an impairment loss would be recognized. To calculate this impairment loss would then require management to determine an appropriate discount rate, which is subjective. There were no impairment losses recorded for the years ended December 31, 2006 or 2005.

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 capital improvements. 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 and other in-place leases.

Stock-based Compensation

CICA Handbook section 3870, Stock Based Compensation and Other Stock Based Payments requires the expensing of 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. This option pricing model requires the Company to make assumptions about the risk-free interest rate, expected term, expected volatility and dividend yield of Killam's common shares.

Future Accounting Policy Changes

The CICA has issued standards 1530 Comprehensive Income, 3855 Financial Instruments – Recognition and Measurement, and 3865 Hedges, which are applicable to interim and annual financial statements beginning on or after October 31, 2006. The Company is presently finalizing the effect of the new standards. The following provides more information on each standard.

Comprehensive Income: As a result of the issued standard, a new item, accumulated other comprehensive income ("AOCI") will be recognized in the shareholders' equity section of the consolidated balance sheets beginning in 2007. AOCI will include the effective portion of changes in fair value of derivatives meeting the requirements for cash flow hedges and any unrealized gains and losses if financial assets classified as available-for-sale.

Financial Instruments – Recognition and Measurement: As a result of the new standard, financial assets must be classified as loans and receivable, held-for-trading, available-for-sale, or held-to-maturity. Financial liabilities must be classified as either held-for –trading, or other than held-for-trading. Loans and receivables, held-to-maturity financial assets, and other that held-for-trading financial liabilities are recognized at amortized cost. Held-for-trading financial assets and liabilities will be recognized at fair value with any change in fair value recognized in net income. Available-for-sale financial assets will be recognized at fair value with any changes in fair value recognized in other comprehensive income. There are provisions to recognize certain available-for-sale financial assets at cost.

Hedges: The new standard outlines the criteria for applying hedge accounting to cash flow hedges and fair value hedges. Cash flow hedges are recognized on the balance sheet at fair value with the effective portion of the hedging relationship recognized in other comprehensive income. Any ineffective portion of the cash flow hedge must be recognized in net earnings. Amounts recognized in AOCI are reclassified to net income in the same periods in which the hedged item is recognized in net earnings. Fair value hedges and the related hedged items are recognized on the balance sheet at fair value with any changes in fair value recognized to net income. To the extent the fair value hedge is effective; the changes in fair value of the hedge and the hedged item will offset each other.

Disclosure Controls and Procedures and Internal Controls

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Corporation's Disclosure Controls and Procedures and Internal Controls will prevent or detect all error and all fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute, assurance that all control issues and instances of fraud or error, if any, within the Corporation have been detected.

Disclosure Controls and Procedures

As of December 31, 2006 the Company's management evaluated the effectiveness of the operation of its disclosure controls and procedures ("Disclosure Controls"), as defined under rules adopted by the Canadian Securities Administrators. This evaluation was performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer.

Disclosure Controls and Procedures are designed to ensure that information required to be disclosed in documents filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the Corporation's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation of Disclosure Controls, the Chief Executive Officer and the Chief Financial Officer have concluded that, subject to the inherent limitations noted above, the Company's Disclosure Controls are effective in ensuring that material information relating to the Company and its consolidated subsidiaries is made known to the Company's management on a timely basis by others within those entities, and is included as appropriate in this MD&A.

Internal Controls over Financial Reporting

Internal controls over financial reporting (ICFR) are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP. Management's documentation and assessment of the effectiveness of the Company's ICFR is underway as of the date of this MD&A with the focus on processes and controls in areas identified as being "key risks".

Management has identified certain areas where it can enhance process controls and intends to incorporate such enhancements into the ICFR over the next twelve months. The Company employs entity level controls to compensate for any deficiencies that may exist.

As of the date of this MD&A, the certifying officers have designed such ICFR, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The certifying officers have evaluated whether there were any changes to the Company's ICFR during the year-ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

Subsequent Events

$40.4 million Equity Issue

On February 16, 2007 Killam issued 17.4 million common shares for gross proceeds of $40.4 million. Proceeds from the offering were used to pay out the Company's existing credit facilities. In addition the Company has arranged a new secured revolving credit facility with the Royal Bank of Canada to replace its current credit facility. The $40 million facility, comprised of two tranches, will be used to finance the Company's ongoing acquisition program. The first tranche of $30 million is an interim facility at rates that average prime plus 200 basis points on prime rate advances, or 300 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. The second tranche increases the line to $40 million at improved rates of prime plus 75 basis points on prime rate advances, or 175 basis points over BAs.

Dividend Announcement

In January 2007 Killam announced that the Company will begin paying an annual dividend of $0.14 per share, payable monthly. The first payment will be made on April 16, 2007 to shareholders of record on March 30, 2007.

Future Objectives

Potential REIT Conversion

Management and the board of directors of Killam, with the advice of their financial and legal advisors, continue to evaluate the potential conversion from a corporation to a REIT. Largely as a result of pending legislative developments, this evaluation is not yet complete. A firm timeline has not been provided by the federal government with respect to the implementation of final legislation related to the proposed taxation of certain trusts and the related exemption for REITs. Killam will provide further updates to shareholders as the process evolves.

2007 Goals and Objectives

Killam's goals and objectives for 2007 include:

- Continued growth, with $100 million to $125 million of acquisitions
- Maintain debt levels of between 70% - 75% of GBV
- Increase rents with average rent increases of 3%
- Grow NOI for same store properties by 5%
- Expand home sale business with 50 - 75 home sales

Management's Report

To the Shareholders of Killam Properties Inc.

The accompanying financial statements and all information in the Annual Report are the responsibility of management. The financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the financial statements.

Management maintains systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records properly maintained to provide reliable information for the preparation of financial statements. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board carries out this responsibility principally through the Audit Committee.

The Audit Committee is appointed by the Board and consists of three independent directors. The committee meets periodically with management and the external auditors to satisfy itself that it has properly discharged its responsibilities, and to review financial statements. The external auditors have full and free access to the Audit Committee at any time. The committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to shareholders.

Philip Fraser
President & CEO
March 7, 2007

Robert Richardson, FCA
Executive VP & CFO

Auditors' Report

To the Shareholders of Killam Properties Inc.

We have audited the consolidated balance sheets of Killam Properties Inc. as at December 31, 2006 and 2005 and the consolidated statements of income and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants
Halifax, Canada, March 7, 2007

Consolidated Balance Sheets

As at December 31,

	2006	2005
Assets		
Capital assets *(note 4)*	**$567,098,601**	$452,076,153
Cash and cash equivalents *(note 3)*	**3,029,276**	1,211,738
Restricted cash *(note 3)*	**3,181,703**	3,673,388
Accounts receivable	**979,014**	544,683
Other assets *(note 5)*	**7,409,389**	6,058,020
Deferred financing costs (net)	**5,680,417**	4,767,996
Future income taxes *(note 12)*	**993,404**	1,184,547
	$588,371,804	$469,516,525
Liabilities		
Mortgages and loans payable *(note 6)*	**$389,278,082**	$302,821,105
Convertible debentures *(note 7)*	**40,910,212**	40,718,111
Subordinated debentures *(note 8)*	**19,165,653**	-
Credit facility *(note 9)*	**19,278,000**	16,943,000
Accounts payable and accrued liabilities	**7,447,518**	7,057,797
Income tax payable	**236,123**	173,139
Security deposits	**1,520,075**	1,349,199
Future income taxes *(note 12)*	**2,882,849**	5,610,506
	480,718,512	374,672,857
Shareholders' Equity		
Capital stock *(note 10)*	**108,318,171**	92,900,223
Contributed surplus *(note 10)*	**688,021**	405,420
Other paid-in capital *(notes 7 and 8)*	**2,467,878**	1,601,693
Deficit	**(3,820,778)**	(63,668)
	107,653,292	94,843,668
	$588,371,804	$469,516,525

See accompanying notes

On behalf of the board:

G. W. Watson

G. Wayne Watson
Director

Philip Fraser

Philip Fraser
Director

Consolidated Statements of Income and Deficit

For the year ended December 31,

	2006	2005
Revenue		
Rental income	**$68,809,973**	$47,141,016
Other operating income	**1,527,318**	324,680
Corporate income	**508,559**	266,923
	70,845,850	47,732,619
Property expenses		
Property operating expenses	**28,858,320**	19,567,391
	41,987,530	28,165,228
Mortgage and loan interest	**18,626,199**	12,781,155
Convertible debenture interest	**2,935,101**	1,912,038
Subordinated debenture interest	**872,237**	-
Credit facility interest	**2,096,480**	208,773
Loss on debt settlements	**437,107**	-
Depreciation	**16,635,373**	9,864,194
Amortization of deferred financing	**1,277,748**	548,362
General and administrative	**4,505,733**	2,270,760
Provincial capital taxes	**332,407**	209,250
Interest and bank charges	**226,255**	93,966
	47,944,640	27,888,498
(Loss) income before income taxes	**(5,957,110)**	276,730
Recovery of (provision for) income taxes		
- current	-	(59,028)
- future (note 12)	**2,200,000**	(212,855)
Net (loss) income	**(3,757,110)**	4,847
Deficit, beginning of year	**(63,668)**	(68,515)
Deficit, end of year	**$(3,820,778)**	$ (63,668)
Net (loss) income per share		
- basic	**$(0.0448)**	$0.0001
- diluted	**$(0.0448)**	$0.0001

See accompanying notes

Consolidated Statements of Cash Flows

For the year ended December 31,

	2006	2005
Operating Activities		
Net (loss) income	**$(3,757,110)**	$ 4,847
Add items not affecting cash		
Depreciation and amortization	**17,913,121**	10,412,556
Non-cash debenture interest	**257,754**	119,804
Non-cash compensation expense	**284,135**	172,669
Future income taxes	**(2,200,000)**	212,855
Gain on land sales	**(1,057,883)**	-
Net change in non-cash working capital items related to operations	**(1,162,119)**	3,992,949
Cash provided by operating activities	**10,277,898**	14,915,680
Financing Activities		
Increase in deferred financing	**(2,190,169)**	(4,293,429)
Issuance of common shares for cash (net of issue costs)	**14,243,265**	14,549,924
Issuance of subordinated debentures and warrants (net)	**19,966,185**	-
Issuance of convertible debentures	**-**	42,200,000
Increase in credit facility	**2,335,000**	16,943,000
Repayment of long-term debt	**(17,610,033)**	(8,386,193)
Issuance of long-term debt	**91,535,448**	108,927,109
Cash provided by financing activities	**108,279,696**	169,940,411
Investing Activities		
Decrease (increase) in restricted cash	**491,685**	(1,512,251)
Proceeds on sale of assets	**1,425,000**	-
Purchase of capital assets	**(118,656,741)**	(184,139,036)
Cash used in investing activities	**(116,740,056)**	(185,651,287)
Net increase (decrease) in cash and cash equivalents	**1,817,538**	(795,196)
Cash and cash equivalents, beginning of year	**1,211,738**	2,006,934
Cash and cash equivalents, end of year	**$3,029,276**	$ 1,211,738

See accompanying notes

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). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries.

Use of accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates include but are not limited to the following;

(i) Economic useful life of buildings for purposes of calculating depreciation.

(ii) Forecast of economic indicators in order to measure fair values of buildings for purposes of determining net recoverable amounts under GAAP.

(iii) Amount of capitalized wages which relates to suite renovations and project improvements.

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.

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.

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.

Revenue producing properties are reviewed periodically for impairment. An impairment loss will be recognized in the period when the carrying amount of the property exceeds the net recoverable amount represented by the undiscounted estimated future cash flows expected to be received from the ongoing use of the property plus its residual value. If it is determined that impairment exists, the carrying value of the property will be reduced to its estimated fair value.

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 and driveways	4%	declining balance
Water and 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.

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.

3. Cash and Restricted Cash

	2006	2005
Real estate deposits and property tax reserves	**$2,366,574**	$3,133,799
Tenant security deposits	**815,129**	539,589
Restricted cash	**3,181,703**	3,673,388
Cash	**3,029,276**	1,211,738
Total cash and cash equivalents	**$6,210,979**	$4,885,126

4. Capital Assets

	2006		2005	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 55,956,584**	**$ –**	$ 45,525,506	$ –
Buildings	**394,353,361**	**17,017,749**	319,637,430	8,499,728
Roads and driveways	**49,585,397**	**2,946,684**	36,924,444	1,303,561
Water and sewer	**49,610,109**	**4,375,278**	36,950,269	1,947,734
Equipment	**4,688,694**	**415,465**	2,512,022	81,215
Suite renovations	**16,825,684**	**2,977,718**	6,819,881	1,003,152
Project improvements	**22,345,537**	**2,045,296**	14,690,865	714,438
Other assets	**4,313,749**	**802,324**	2,961,133	395,569
	$597,679,115	**$30,580,514**	$466,021,550	$13,945,397
Less: accumulated amortization	**(30,580,514)**		(13,945,397)	
	$567,098,601		$452,076,153	

During the year ended December 31, 2006 the Company capitalized indirect costs of $1.7 million (2005- $1.3 million) as part of its project improvement and suite renovation program. In addition, during the year ended December 31, 2006, $0.6 million of interest expense was capitalized as part of the Company's repositioning projects related to properties which were off-line (2005 - $76,000).

5. Other Assets

	2006	2005
Prepaids	**$1,265,459**	$1,203,535
Notes receivable	**1,026,850**	–
Other assets	**425,406**	223,654
Deferred charges	**191,674**	130,831
Goodwill	**4,500,000**	4,500,000
	$7,409,389	$6,058,020

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

6. Mortgages and Loans Payable

Mortgages payable bear interest at rates from 3.62% to 8.47% with maturity dates ranging from February 2007 to July 2019. Vendor mortgages and loans payable bear interest at fixed rates from 3.38% to 9.20% with maturity dates ranging from February 2007 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 December 31, 2006 was 5.5% (2005 – 5.6%).

Principal repayments of mortgages and loans are due as follows:

Year	
2007	$ 22,389,128
2008	41,005,344
2009	67,621,248
2010	50,328,750
2011	51,614,800
Thereafter	156,318,812
	$389,278,082

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 unsecured subordinated debentures mature January 2013 and consist of the following;

Face 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

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

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 rate plus 1%. As at December 31, 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.

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 December 31, 2006 the Company had a $19,278,000 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 December 31, 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 for cash (i)	**6,560,000**	**14,236,165**	6,000,000	14,476,668
Issued on property acquisitions (ii)	**347,108**	**836,635**	84,906	223,931
Stock options exercised (iii)	**12,000**	**8,634**	392,000	73,256
Tax benefit of issuance costs	**–**	**336,514**	–	317,293
Balance, end of year	**88,252,645**	**$108,318,171**	81,333,537	$92,900,223

(i) Net of issuance costs of $851,835 (2005 - $823,332)
(ii) Net of issuance costs of $3,367 (2005 - $1,070)
(iii) Net of issuance costs of $Nil (2005 - $10,577)

Contributed Surplus

	2006	2005
Balance, beginning of year	**$405,420**	$233,984
Stock options expensed	**294,261**	172,669
Stock options exercised	**(1,534)**	(1,233)
Stock options forfeited	**(10,126)**	–
Balance, end of year	**$688,021**	$405,420

11. Stock Options and Warrants

Under the terms of the stock option plan:

(i) from time to time the Company designates eligible participants to whom options will be granted, and the number of shares to be optioned to each;

(ii) eligible participants are persons who are employees, officers, directors and consultants of the Company;

(iii) shares to be optioned shall not exceed 5,500,000 (December 31, 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 years ended December 31 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
Granted	**784,500**	**2.37**	1,779,500	2.05
Exercised	**(12,000)**	**0.60**	(392,000)	0.21
Forfeited	**(13,000)**	**2.05**	(11,000)	1.92
Outstanding, end of year	**3,868,000**	**$1.60**	3,108,500	$1.40

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants:

	2006	2005
Expected volatility	**41.9%**	29.1%
Risk-free interest rate	**4.3%**	2.5%
Expected lives	**5 Years**	5 Years
Expected dividend yield	**Nil**	Nil

The following table summarizes the stock options outstanding at December 31:

	2006		2005	
Exercise price	**Number of Options Outstanding**	**Remaining Contractual Life**	Number of Options Outstanding	Remaining Contractual Life
$0.30	**461,000**	**0.40 years**	471,000	1.40 years
$0.30	**10,000**	**0.44 years**	10,000	1.44 years
$0.56	**200,000**	**1.44 years**	200,000	2.44 years
$0.65	**608,500**	**1.44 years**	608,500	2.44 years
$1.30	**10,000**	**1.92 years**	10,000	2.92 years
$1.69	**29,500**	**1.96 years**	29,500	2.96 years
$2.00	**10,000**	**2.92 years**	10,000	3.92 years
$2.05	**1,754,500**	**3.42 years**	1,769,500	4.42 years
$2.48	**10,000**	**4.50 years**	–	–
$2.40	**224,500**	**4.55 years**	–	–
$2.35	**550,000**	**4.61 years**	–	–
	3,868,000		3,108,500	

Included in the above figures are 1,879,754 options at an average exercise price of $2.17, that were not exercisable at December 31, 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:

	2006		2005	
Exercise price	**Number of Warrants Outstanding**	**Remaining Contractual Life**	Number of Warrants Outstanding	Remaining Contractual Life
$0.95	**500,000**	**1.66 years**	500,000	2.66 years
$3.60	**1,388,889**	**6.01 years**	**–**	**–**
$3.80	**1,315,789**	**6.01 years**	**–**	**–**
$3.06	**3,267,974**	**6.01 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).

12. Income Taxes

The income tax provisions differ from that computed using the statutory rates for the following reasons:

	2006		2005	
Net (loss) income before income taxes	**$(5,957,110)**		$276,730	
Income tax (recovery) expense at statutory rates	**(2,216,045)**	**(37.2)%**	$102,943	37.2%
Non-deductible share compensation	**109,350**	**1.84%**	64,233	23.2%
Non-deductible debenture interest	**92,170**	**1.25%**	44,567	16.1%
Non-taxable portion of land sales	**(197,111)**	**(3.33)%**	–	–
Other differences	**11,636**	**0.20%**	1,112	0.4%
Future tax (recovery) expense	**(2,200,000)**	**36.9%**	212,855	76.9%
Federal large corporation tax	**–**		59,028	
	$(2,200,000)		$271,883	

Future income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future income tax assets and liabilities are as follows:

	2006	2005
Share issue costs	**$ 993,404**	$ 1,184,547
Deferred financing	**(123,529)**	(189,663)
Capital assets	**(2,759,320)**	(5,420,843)
Net future income tax liability	**$(1,889,445)**	$(4,425,959)

13. Per Share Information

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

	2006	2005
Basic	**83,809,780**	78,862,486
Fully diluted	**85,697,460**	81,064,082

The diluted share amounts presented above exclude the convertible debentures as the effect would have been anti-dilutive.

14. 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 years ended December 31, 2006 and 2005 are set out as follows:

As at and for the year ended December 31, 2006

	Apartments	**Manufactured Home Communities**	**Corporate**	**Total**
Rental revenue	**$55,687,218**	**$ 13,122,755**	**$ –**	**$68,809,973**
Other income	**236,825**	**232,610**	**508,559**	**977,994**
Gain on land sales	**1,057,883**	**–**	**–**	**1,057,883**
	56,981,926	**13,355,365**	**508,559**	**70,845,850**
Property operating expenses	**24,330,559**	**4,527,761**	**–**	**28,858,320**
Earnings from properties	**$32,651,367**	**$ 8,827,604**	**$508,559**	**$41,987,530**
Capital assets (net)	**$456,854,464**	**$109,177,801**	**$1,065,796**	**$567,098,601**

As at and for the year ended December 31, 2005

	Apartments	Manufactured Home Communities	Corporate	Total
Rental revenue	$39,010,393	$8,130,623	$ –	$47,141,016
Other income	256,944	67,736	266,923	591,603
	39,267,337	8,198,359	266,923	47,732,619
Property operating expenses	17,001,309	2,566,082	–	19,567,391
Earnings from properties	$22,266,028	$5,632,277	$266,923	$28,165,228
Capital assets (net)	$369,791,124	$81,562,201	$722,828	$452,076,153

15. 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 December 31, 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 and loans payable has been determined by discounting the cash flows using current market rates of similar instruments. These estimates are subjective in nature and therefore cannot be determined with precision. The fair value of mortgage and loan debt is approximately $396.6 million (2005 - $314.0 million) compared to its book value of $383.7 million (2005 - $302.8 million).

As at December 31, 2006, the Company had natural gas futures contracts outstanding for 73,700 Gigajoules with a fair value of $30,000. In addition the Company had SWAP contracts for 750,000 litres of heating oil outstanding at December 31, 2006. The fair value of the SWAP contracts was $(19,000). For accounting purposes, all settlements are recorded as fuel expense in the period settlement occurs.

16. Related Party Transactions

During 2006 the Company paid real estate commissions of $46,765 to a Company controlled by a Director (2005 – real estate commissions of $103,750 and construction management fees of $47,995). The commissions and management fees were based on market rates and there is no continuing contractual obligation to use the service of the related party.

17. Subsequent Events

Subsequent to year-end, the Company completed a private placement of 17.4 million common shares for gross proceeds of $40.4 million. The Company's outstanding balance as at February 16, 2007 of approximately $21 million on its current acquisition facility was repaid in full with funds received from the equity offering.

During the period of January 1 to March 7, 2007 the Company completed five property acquisitions representing 688 units. The total purchase price of the acquisitions was $28.5 million which was satisfied through mortgages totaling $19.8 million and $8.7 million from the Company's cash and acquisition facilities.

Subsequent to year-end, the Company arranged a new secured revolving credit facility with the Royal Bank of Canada to replace its current credit facility. The $40 million facility, comprised of two tranches, will be used to finance the Company's ongoing acquisition program. The first tranche of $30 million is an interim facility at rates that average prime plus 200 basis points on prime rate advances, or 300 basis points over Banker's Acceptances (BAs). Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. The second tranche increases the line to $40 million at improved rates of prime plus 75 basis points on prime rate advances, or 175 basis points over BAs.

In January 2007 Killam announced that the Company will begin paying an annual dividend of $0.14 per share, payable monthly. The first payment will be made on April 16, 2007 to shareholders of record on March 30, 2007.

18. Comparative Figures

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

Five Year Summary

(in 000's, except per share data)

Statement of Earnings Information	2006	2005	2004	2003	2002
Revenue	**$70,846**	$47,733	$19,023	$5,175	$1,460
Net Operating Income (NOI)	**$41,987**	$28,165	$11,035	$3,072	$885
NOI Margin (%)	**59.3%**	58.2%	58.0%	59.4%	60.6%
Interest Costs	**$24,756**	$14,996	$5,242	$1,657	$447
General and Administrative	**$4,506**	$2,271	$1,460	$727	$232
Loss on Debt Settlement	**$437**	$ -	$ -	$ -	$ -
Amortization	**$17,913**	$10,412	$3,854	$655	$72
Provincial Capital Tax	**$332**	$209	$100	$71	$47
(Provision for) recovery of income taxes	**$2,200**	($272)	($144)	($58)	($4)
Net income (loss)	**($3,757)**	$5	$235	($96)	$83

Balance Sheet Information					
Capital Assets	**$567,099**	$452,076	$235,199	$61,691	$15,836
Other Assets	**$21,273**	$17,440	$7,647	$14,499	$4,300
Total Assets	**$588,372**	$469,516	$242,846	$76,190	$20,136
Mortgage Debt	**$389,278**	$302,821	$159,901	$36,691	$11,058
Other Liabilities	**$91,441**	$71,851	$4,970	$8,879	$549
Shareholders' Equity	**$107,653**	$94,844	$77,975	$30,620	$8,529
Total Liabilities and Shareholders' Equity	**$588,372**	$469,516	$242,846	$76,190	$20,136

Statement of Cash Flow Information					
Cash Provided by Operating Activities	**$10,278**	$14,916	$5,932	$1,206	$407
Cash Provided by Financing Activities	**$108,280**	$169,940	$117,061	$53,094	$17,305
Cash Used in Investing Activities	**($116,740)**	($185,651)	($132,008)	($45,218)	($13,849)
Funds From Operations	**$12,498**	$10,923	$4,232	$576	$138

Share Information					
Weighted Average Number of Shares - Basic	**83,810**	78,862	60,681	29,226	13,397
Weighted Average Number of Shares - Fully Diluted	**85,697**	81,064	63,968	31,161	14,999
Shares Outstanding at December 31	**88,253**	81,333	74,857	48,039	26,211

Per Share Information					
FFO per Share - Basic	$**0.15**	$0.14	$0.07	$0.02	$0.01
FFO per Share - Fully Diluted	$**0.15**	$0.13	$0.07	$0.02	$0.01
Net Earnings - Basic	$**(0.04)**	$0.00	$0.00	$0.00	$0.01
Share Price at December 31	$**2.53**	$2.88	$2.05	$1.75	$0.70

Corporate Information

Board of Directors

Timothy R. Banks
President, APM Group of Companies
Charlottetown, Prince Edward Island

Philip D. Fraser
President & CEO, Killam Properties Inc.
Halifax, Nova Scotia

Robert G. Kay
Chairman, Springwall Group International and Springwall Sleep Products Inc.
Moncton, New Brunswick

James C. Lawley
General Manager, Scotia Fuels Ltd.
Halifax, Nova Scotia

Arthur G. Lloyd
Corporate Director
Calgary, Alberta

Barry Reichmann
President, Reichmann International Development Corporation
Toronto, Ontario

George J. Reti
Corporate Director
Calgary, Alberta

Robert G. Richardson, FCA
Executive Vice President & Chief Financial Officer, Killam Properties Inc.
Halifax, Nova Scotia

G. Wayne Watson, CA
Corporate Director
Halifax, Nova Scotia

Executive Team

Philip Fraser
President & Chief Executive Officer

Robert Richardson, FCA
Executive Vice President & Chief Financial Officer

Ed Beazley
Vice President, Acquisitions

Ruth Buckle-McIntosh
Vice President, Property Management

Pamela Crowell
Vice President, Property Management (MHCs)

Keith Foster,CA
Vice President, Finance

Jeremy Jackson
Vice President, Marketing

Ronald Barron
Corporate Secretary

Investor Inquiries

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Director, Investor & External Relations
902.442.0388

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Halifax, NS

Solicitors

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Calgary, AB

Stewart McKelvey Sterling Scales
Halifax, NS

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Annual and Special Meeting

The Annual and Special Meeting of Shareholders will be held on Thursday, May 10, 2007 at 11:00 am Atlantic Time at the Four Points Sheraton, 1496 Hollis Street, Halifax, Nova Scotia

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