KILLAM PROPERTIES INC
ANNUAL REPORT | 2007

ABOUT KILLAM PROPERTIES INC

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Killam Properties Inc. is one of Canada's largest residential landlords, owning and operating 115 apartment properties and 52 manufactured home communities (MHCs).

Since its first real estate acquisition in 2002, Killam has grown by consolidating Atlantic Canada's urban apartment market and the Canadian MHC market. Consolidation continued in 2007 with $125M in acquisitions, increasing capital assets by 24%. Killam is focused on maximizing organic growth by increasing net operating income, adding new MHC homes to existing communities, and selling surplus land.

Over the last six years Killam has built an established portfolio of properties and a strong operating platform. Management is committed to building on this foundation; maximizing the return on Killam's assets, and continuing to grow geographically with accretive acquisitions in Canada.

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2007 HIGHLIGHTS

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Increased normalized year-over-year funds from operations (FFO) by $6.8 million, a 10.5% growth in normalized FFO per share

Increased same store net operating income (NOI) by 5.1%

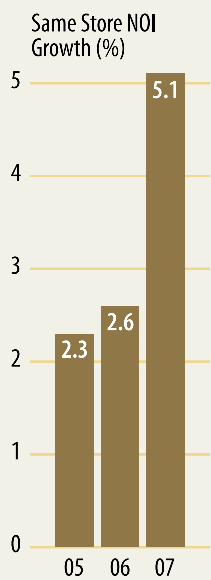
Reduced total debt to gross book value of assets to 66.7% from 75.8%

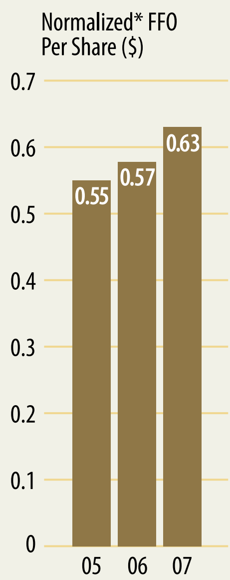
Initiated annualized dividend of $0.56 per share

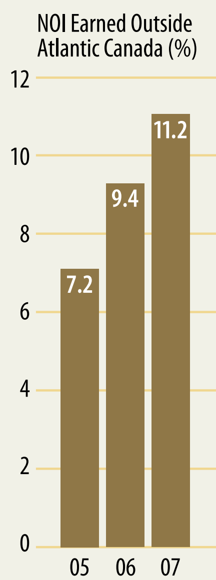
Completed $125 million in acquisitions, increasing total unit count by 23.6%

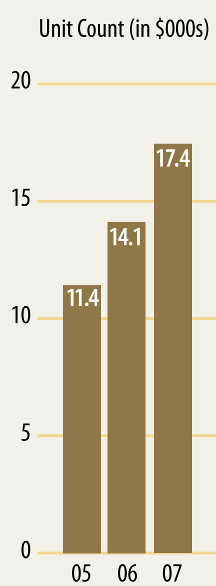
Continued to add geographic diversification to the portfolio with $32 million in acquisitions outside of Atlantic Canada, including the Company's first property in British Columbia and continued growth in Alberta and Ontario; 11.2% of 2007 NOI was generated outside of Atlantic Canada

Expanded the manufactured home sales segment with the completion of 45 new home sales, contributing to FFO per share growth









** 2006 FFO per share normalized to exclude gain on land sale and loss on debt settlement*

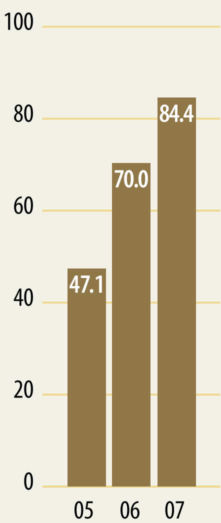
2007 FINANCIAL HIGHLIGHTS

2007 FINANCIAL HIGHLIGHTS

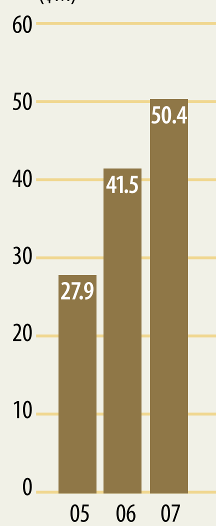
(In thousands, except per share amounts)

As at and for the year ended,	**2007**	2006	2005
Total Revenue	**$89,020**	$71,440	$47,734
Income from Property Operations	**$49,967**	$41,348	$27,898
Income from Home Sales	**$488**	$131	$-
Corporate Revenue	**$1,156**	$509	$267
Interest Expense	**$27,596**	$24,756	$14,996
General & Administration Expenses	**$5,548**	$4,506	$2,271
Funds From Operations (FFO)	**$18,696**	$12,498	$10,923
FFO Per Share - basic	**$0.63**	$0.60	$0.55
Normalized FFO	**$18,696**	$11,877	$10,923
Normalized FFO Per Share - basic	**$0.63**	$0.57	$0.55
Total Assets	**$723,680**	$587,379	$469,516
Total Liabilities	**$529,796**	$479,726	$374,672
Shareholders' Equity	**$193,884**	$107,653	$94,844
Shares Outstanding	**33,393**	22,063	20,333
Number of Apartment and MHC Units	**17,422**	14,093	11,429

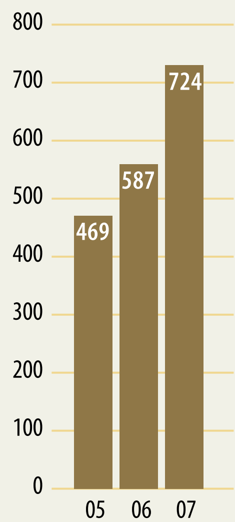
Operating Revenue ($M)



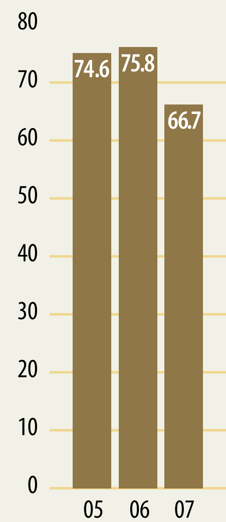
Net Operating Income ($M)



Total Assets ($M)



Total Gross Debt as % of Gross Book Value of Assets



PRESIDENT'S LETTER

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Dear Shareholders,

I am pleased to share with you the highlights of 2007, which was another outstanding year for Killam. We finished 2007 with a conservative balance sheet, cash on hand, a reputation as a quality landlord and a well maintained portfolio of assets. We know our properties and our markets well, giving us confidence in our ability to improve profitability going forward. We expect that our portfolio of properties will deliver a very durable and consistent return, even in the current economic environment.

I am pleased with our decision to own and operate both apartments and MHCs. The MHCs, which now generate 24% of Killam's net operating income (NOI), have provided diversification and stability to our apartment portfolio, and have provided us with a strong internal growth generator as we develop excess land into new home lots and profit from the sale of new manufactured homes. Our diversified portfolio, along with an established operating platform, allowed Killam to experience many successes in 2007, most notably, increasing our normalized funds from operations (FFO) per share by 11%, to the highest level in our history.

Despite our many achievements, Killam's stock price did not increase, similar to many real estate companies and REITs, as the Canadian REIT Index ended the year down for the first time since 1998. Although the decline in value was sector-wide, Killam's annualized total loss was only 4.4%, versus the REIT total return index loss of 5.6%.

In spite of the pressures in the capital markets, we remain focused on our strategy of growing our portfolio, our cash flow and the underlying value of our assets. We are working to improve our key measures of success, including FFO per share, the dividend payout ratio and NOI generated by our properties. We have proven our ability to grow these numbers in 2007 by delivering on the goals and objectives outlined in last year's annual report. These goals included: 1) continued growth, with $100 million to $125 million of acquisitions, 2) maintain debt levels of between 70% and 75% of gross book value, 3) increase rents with an average rental increase of 3%, 4) grow NOI for same store properties by 5% and, 5) expand our home sale business with 50 – 75 home sales. Please refer to page 24 in the MD&A section for specific details on our achievements against these goals.

"…we remain focused on our strategy of growing our portfolio, our cash flow and the underlying value of our assets."

$125 Million in Acquisitions Assisted Growth in 2007

We continued to act on accretive consolidation opportunities during 2007 with the purchase of 12 apartment properties and 14 MHCs, for a total investment of $125 million.

The apartment purchases, totaling $77 million, were primarily focused in Halifax and Fredericton and included a mix of new construction, established top quality high rises and more traditional garden style walk-ups. The weighted average cap rate on these acquisitions was approximately 7.25%, 75 basis points lower than the average cap rate of the apartments purchased during 2006. (The cap rate represents the expected yield on a property, prior to financing considerations. It is calculated by dividing the forecasted NOI on a property by its purchase price. A market of increasing property values generally reflects decreasing cap rates.) The decrease in cap rates related to the acquisition of newer product in 2007, an increased investment in Halifax, where cap rates have traditionally been lower than other markets in Atlantic Canada, and the general increased value of real estate. As with the rest of the country, Atlantic Canada's cap rate compression experienced during the first half of

2007 was followed by a stabilization in cap rates during the second half of the year.

During the year we invested $48 million in the acquisition of 14 MHCs across the country, a 77% increase in investment in MHCs from 2006. Geographically, our largest investment was in Ontario, which accounted for 42% of our MHC acquisitions, followed by Nova Scotia and Alberta. In addition, Killam purchased its first MHC in British Columbia in July, and we now own communities in seven provinces. Acquisitions during 2007 included three seasonal communities, a subset of the MHC asset class that we have identified as having opportunity for consolidation on a long-term basis.

"…same store NOI growth of 5.1%. This was the highest NOI growth we have achieved in our history…"

The average cap rate on our MHC acquisitions was approximately 7.5%, compared to 8.5% in 2006. This cap rate compression is the result of a higher percentage of purchases in Ontario and the West, where MHC cap rates are traditionally lower, and an increased interest in the asset class from both public and private investment.

Achieving Internal Growth

During 2007 we demonstrated our ability to improve the performance of our assets with same store NOI growth of 5.1%. This was the highest NOI growth we have achieved in our history and was almost double the NOI growth in 2006 of 2.6% (2.3% in 2005). This was an impressive return, but unfortunately we don't expect to make 5% NOI growth on an annual basis. Although there may be opportunities for more aggressive growth at times, and in specific markets, we expect that annual same store NOI growth of 2% to 4% is a more attainable annual increase for our current portfolio.

Home Sales: Developing a New Segment for Growth

Killam's involvement in new home sales in our expanded MHCs also contributed to internal growth during the year. We increased the contribution from this business by 270% in 2007 with the sale of 45 homes, compared to 11 homes in 2006. Although the NOI for MHC home sales is relatively modest compared to Killam's total rental income at this time, we are very bullish on the vertical integration of this division and its ability to generate strong earnings while organically growing our manufactured home portfolio going forward. We will continue to expand our MHC home sales program in 2008.

Operating With More Conservative Debt Levels

During 2005 and 2006 we managed the business with relatively high debt compared to our publicly-traded peers, ending 2006 with total gross debt equal to 75.8% of the gross book value of our assets. We decreased our debt to more conservative levels with two equity raises in 2007. We accessed available capital in the markets to raise enough cash to fund our growth for 2007, and to decrease our debt levels to 66.7%. We are pleased with this decision and expect to maintain debt levels in the 65% to 70% range in 2008.

Established apartment owners, such as Killam, are not facing the debt liquidity challenges others in the market face. In fact, we have been able to secure mortgage debt, on both new acquisitions and on mortgage renewals, at very attractive rates as we benefit from decreased bond rates and access to CMHC insured financing on our apartment buildings. At year-end 2007, 25% of our mortgages were CMHC insured, and on a go forward basis, we expect to refinance the apartment mortgages with CMHC insured debt. The benefit of having access to CMHC debt,

including tighter spreads and guaranteed refinancing, is highlighted in the current lending environment.

Expecting a Stable Operating Environment in 2008

During the next year we expect demand and occupancy levels for our properties to remain consistent with 2007 levels. Killam should benefit from its geographic diversity as an increase in new multi-residential construction in Halifax and Moncton is expected to be offset by increased demand in Saint John and St. John's, where vacancy rates are improving following large investments in energy related projects.

Looking Forward: More Room for Growth

We plan to continue growing our apartment and MHC portfolios through accretive acquisitions. We have developed a strong operating platform which can support a larger and more geographically diverse portfolio. We have benefited by growing our MHC portfolio across the country and are moving to do the same with the apartment side of our business.

We continue to see opportunities to acquire more apartments in Atlantic Canada, but also recognize the opportunity to acquire buildings in other markets in Canada. We are specifically interested in the Ontario market, where cap rates are similar to Halifax.

Killam has generally built its portfolio acquiring one asset at a time. We realize that there may be opportunities to grow at a faster pace through the acquisition of a sizable portfolio. We are open to both avenues for growth and will act on the most advantageous opportunities.

I believe that 2008 may prove to be a year of transition for the Canadian real estate market, which may result in some changes to real estate values. We are prepared to be patient with our acquisition strategy and are confident in our long-term ability to continue executing on our external growth plans.

Dividend Payments Started in 2007

We initiated Killam's first dividend in March of 2007. The decision to start paying a dividend was based on having developed an established portfolio that could consistently fund the cash commitment and recognizing the importance of paying a yield to our shareholders. We are confident in our ability to fund the dividend going forward with cash generated from operations and refinancing of existing mortgages as they mature, net of maintenance capital requirements for our existing portfolio.

We Have Proven an Ability to Grow Outside Consolidation

During 2007 we demonstrated our ability to generate internal growth. Producing same store NOI growth of 5.1% proves that we are not only about consolidation, but are also a solid operator with the ability to increase the value of our properties.

Looking forward, we expect to continue to improve our performance by increasing the amount of cash generated by our assets, developing our MHC expansions and home sales and, as we've done successfully over the last six years, completing accretive acquisition opportunities.

I would like to thank Killam's board of directors, management and employees for an exceptional year; our success is attributable to a dedicated and talented team.

Philip Fraser

Philip Fraser
President & CEO

Q & A WITH PHILIP FRASER

Q Killam's share price has ultimately remained flat for the last three years, despite significant asset growth. What do you feel has contributed to the lack of sustainable increase to your stock price?

In my opinion, the two most significant factors that have influenced our share price are general market conditions and the market's growth expectations for Killam.

The real estate sector started to come under pressure during the second half of 2007 based on general expectations of decreasing values for real estate. This has impacted Killam, and the majority of other real estate companies and trusts.

A change in expectation of future growth potential has impacted our price. Our share price at the end of 2004 indicated the market's expectation for significant growth for Killam, with our shares trading at 29 times our FFO for that year. At the end of 2007 our shares traded at a multiple of half of that, at 14 times actual 2007 FFO, which is more in line with our peers.

Despite what is happening in the capital markets, we remain focused on operations and growth. We believe that as we continue to perform well, demonstrating our ability to grow both internally and externally, our stock price will ultimately track with our performance. Our objective is to continue to deliver consistent earnings growth, which we believe will result in the value of Killam growing over time.

Q You appear optimistic about Killam's long-term opportunity for growth. How do you plan to fund future growth?

The majority of our long-term growth will be funded through mortgage debt and the issuance of additional equity. In the short-term, we have cash on hand and access to an acquisitions line, which could allow us to fund growth of approximately $100 million.

Recently, the market has not been supportive of funding future growth for real estate operations; share and unit values are down considerably and new equity issues have not been well received. An extended period with these market conditions will result in management looking for other opportunities to fund growth, such as through partnerships with third parties.

Q Which of your current markets are you most optimistic about going forward?

Saint John, New Brunswick and St. John's, Newfoundland are two markets in Atlantic Canada that are experiencing considerable growth with energy players investing in important projects in both communities. We are starting to see positive evidence of this growth in both these cities with decreased vacancy rates for apartments and we expect to benefit from the momentum felt in these cities for a number of years. We are also confident in the Halifax market; although not directly associated in the most significant energy projects, as the largest centre in Atlantic Canada, it is benefiting from growth in the region.

What markets are you most concerned about?

Historically a very strong market, Fredericton has been our toughest market over the past year, and I expect will continue to be a challenge during the first part of 2008. It is the only one of our apartment markets that experienced increased vacancy in 2007, as measured by CMHC. We are responding to the softness in the market by investing capital as required to modernize some of our most recently purchased units, developing our new operations team in Fredericton and implementing an aggressive student marketing campaign. We feel that Fredericton will strengthen in the medium-term. As the capital of New Brunswick, we expect it to benefit from the growing economy of the province.

You have capitalized $30 million in property and suite improvements over the last two years. What is driving this capital spending and how much do you expect to invest on an annual basis to maintain your current portfolio?

We are investing to secure the long-term performance of our assets. We believe that well maintained buildings and modernized units will lead to strong occupancy and the opportunity to increase earnings over time.

Many of the units that we have purchased over the last six years had not been renovated for many years. We have been renovating units as they become available and have been investing in upgrades to the exterior and common areas of our apartment properties and in the water and sewer systems in some of our MHCs, improving efficiencies and the appeal of the portfolio. We are benefiting from our investment with strong occupancy, increasing NOI and having earned a reputation as a quality landlord.

We expect to spend approximately $7.5 million annually in capital for our current portfolio, based on an annual average of $700 per apartment unit and $150 per MHC site. This includes maintenance and/or upgrades to units, common areas and building systems. Generally, these costs contribute to Killam's ability to raise rents.

How much internal growth is reasonable to expect from Killam's current portfolio?

Annual same store NOI growth of 2% to 4% is a sustainable annual increase for our current portfolio, although there may be opportunities for more aggressive growth at times, and in specific markets. Increasing new home sales is another internal growth opportunity, which may contribute another 1% to 2% of NOI growth as we expand this business over the next few years.

APARTMENTS: *Providing Homes to Over 15,000 Atlantic Canadians*

Over 15,000 tenants call a Killam apartment home. With over 8,700 apartment units, Killam is Atlantic Canada's largest landlord. Killam is securing its long-term success by providing tenants with safe and well maintained properties in centrally located neighbourhoods.

	Number of Properties	Rental Suites	% of Apartment Portfolio	% of Market Share
Halifax, NS	43	3,932	46%	10%
Moncton, NB	21	1,088	12%	11%
Saint John, NB	11	1,062	12%	12%
Fredericton, NB	13	983	11%	14%
Charlottetown, PEI	12	638	7%	17%
St. John's, NL	8	584	7%	15%
Other	7	448	5%	3%
Total	**115**	**8,735**	**100%**	**10%**

Market Share
Killam's apartment portfolio is well diversified across Atlantic Canada. The Company's market share is approximately 12% in its core cities.

Investing in Properties
The Company takes pride in having well maintained properties. Management's approach is to invest in its buildings, resulting in higher occupancy, increased rents and an improved long-term return on investment.

Killam has invested approximately $50M in its apartment properties over the last five years following the acquisition of $495M in apartment properties; including $25M in suite renovations, $9M in major repositions and $16M in building improvements. The benefit of this capital investment is being realized with same store earnings growth and the Company having earned a reputation as a quality landlord.

Capital costs for Killam's apartment properties are highest in the first one to three years of ownership as necessary work is completed to bring the assets to Killam's standard. After these initial investments, experience shows that the capital costs per suite decrease considerably.

Maintaining Stable Occupancy Rates with a Quality Tenant Base
Killam has enjoyed stable occupancy rates of between 97% and 95% in its apartment portfolio over the last three years, while improving the tenant base. Management believes that long-term success will come from renting to clients with a strong credit rating and a history of being responsible tenants.

Brand Development
The strength of Killam's brand and reputation as a quality landlord is essential in attracting new tenants. A brand awareness program has been developed with marketing campaigns and standard signage for all apartment properties. Investment in promoting the Company is working as Killam is becoming recognized as a quality landlord for apartment rentals in Atlantic Canada.

MHCs: *Facilitating Affordable Home Ownership Across Canada*

With 52 communities, stretching from Newfoundland to British Columbia, Killam provides a diverse group of Canadians the opportunity for affordable home ownership in a community environment.

	Number of Communities	Number of Sites	% of MHC Portfolio	Estimated Future Expansion Sites
Ontario	20	2,958	34%	520
Nova Scotia	15	2.476	29%	240
New Brunswick	10	2,388	27%	120
Alberta	3	318	4%	–
Saskatchewan	1	247	3%	120
Newfoundland	2	170	2%	–
British Columbia	1	130	1%	–
Total	**52**	**8,687**	**100%**	**1,000**

A Strong Complement to our Apartment Business

MHCs offer increased stability and predictability to Killam's apartment portfolio. The average occupancy is 99%, compared to 95% to 97% for apartments, and the turnover is 1%, compared to approximately 35% for our apartment portfolio.

The MHC tenants own their own home and lease the land on which their home is located. Killam is not exposed to the individual homes' maintenance and operating costs, resulting in lower operating and capital costs compared to the apartment portfolio.

Extensive Consolidation Opportunities

Management estimates that there are approximately 1,000 MHCs in Canada with a total rental universe of between 165,000 and 220,000 sites, giving Killam an estimated market share of between 4% and 5% across Canada, and between 10% and 20% in Atlantic Canada and Ontario, where 90% of the Company's MHCs are located. The majority of Canadian MHCs are owned by individual operators, allowing for extensive consolidation opportunities in the future.

New Home Sales

During the last two years Killam has started to participate in new home sales in some of its communities by acting as a retailer for local home manufacturers, supplying homes to the Company's expanded MHC sites. Improved infrastructure and new homes improve the curb appeal of expanded communities and increase the revenue base and the return on investment. We expect to grow the home sale business over time as we continue to expand our MHC portfolio in the 16 communities where expansion opportunities exist.

Seasonal Communities – An Affordable Vacation Alternative

Seasonal MHCs are an attractive subset of the MHC asset class. Seasonal communities offer residents an affordable cottage alternative and visitors an attractive vacation choice. These communities can include year-round residents, seasonal residents, cottage rentals, RV hook-ups and camping sites, and offer a variety of amenities such as water frontage, swimming pools and playgrounds. We now own five seasonal MHCs and are interested in expanding our ownership in this profitable and fragmented business. We are working to increase the recognition of Killam Resort Communities as a trusted name in summer community living.

Paradise Valley — Seasonal Resort Community — Killam Leisure Living
Cedardale — Seasonal Resort Community — Killam Leisure Living
Family Paradise — Seasonal Resort Community — Killam Leisure Living
Holiday Harbour — Seasonal Resort Community — Killam Leisure Living
Camper's City — Seasonal Resort Community — Killam Leisure Living

APARTMENTS

PROPERTY PORTFOLIO: Apartments

NOVA SCOTIA	Units	Year Built	Average Rent Dec-07	Average Rent Dec-06
Halifax				
1 Oak Street	146	1969	$738	$ –
10-214 Harlington Crescent	60	1978	696	672
159 Radcliffe Drive	25	1995	848	827
175 - 211 Harlington Crescent	60	1978	695	671
21 Parkland Drive	98	2002	942	–
26 Alton Drive & 36 Kelly Street	80	1969	602	579
294 - 300 Main Street	58	1969	659	617
3 Veronica Drive	70	1983	759	748
31 Carrington Place	38	1998	1,055	–
3565 Connaught Avenue	19	1958	704	681
50 Barkton Lane	63	1991	718	705
5206 Tobin Street	47	1993	904	871
57 Westgrove Place	41	1969	682	659
59 Glenforest/21 Plateau	153	1978	653	645
6 Jamieson Street	24	1965	632	630
6087 South Street	9	1999	1,275	–
6101 South Street	30	2002	1,346	–
67-141 Harlington Crescent	60	1978	692	659
75 Knightsridge Drive	41	1986	780	765
85-127 Harlington Crescent	60	1978	696	673
9 Bruce Street	60	1974	508	506
9 Sybyl Court	22	1975	637	613
95 Knightsridge Drive	46	1984	841	820
Bedford Apartments	53	1987	664	594
Dillman Place	60	1970s	623	593
Garden Park Apartments	42	1980	806	772
Glenforest Apartments	80	1969	803	795
Glenmoir Terrace	28	1972	618	596
Hillcrest Apartments	50	1980	704	671
Kent Street Properties	139	1950s	771	763
Lakefront Apartments	396	1954	649	627
Linden Lea & Pleasant Street	28	1950s	619	600
Maplehurst Apartments	268	1965	690	683
Maplehurst Houses	15	1965	716	702
Parker Street Apartments	239	1960-75	655	641
Parkridge Place	76	2002	863	862
Quinpool Court	198	1978	928	906
Quinpool Towers	233	1978	938	896
Shaunslieve Apartments	154	1978	741	712
Sheradon Place	82	1979	760	758
Spring Garden Terrace	201	1964	982	928
Victoria Gardens	198	1954	656	633
Waterview Place	82	1971	681	650
Halifax Total	**3,932**			
Sydney				
552 Kings Road	17	1974	$564	$553
Cabot House	88	1974	757	751
Moxham Court	51	1998	829	828
Sydney Total	**156**			
Nova Scotia Total	**4,088**			

NEW BRUNSWICK	Units	Year Built	Average Rent Dec-07	Average Rent Dec-06
Fredericton				
116 & 126 Wilsey Road	48	1975	$656	$621
127 & 157 Biggs Street	46	1985/92	718	703
260 Wetmore Road	38	1978	649	651
50,60 Greenfield & 190 Parkside	72	1977/86	629	619
75 Greensfield Drive	44	1980	571	556
969 Regent Street	62	1997/01	795	765
Carrington House	41	2002	853	–
Elroy Apartments	194	1973	741	740
Forest Hill Towers	151	1968-1979	777	–
Princess Place	141	1968-1979	693	–
Southgate Apartments	47	2003	874	854
Venus Apartments	54	1965	800	764
Westwood Apartment	45	1975	614	582
Fredericton Total	**983**			
Moncton				
100 Archibald	60	2003	$716	$727
101 Archibald	60	1993	682	667
108-118 Archibald	2	n/a	638	638
1111 Main Street	16	1957	1,429	1,429
276-350 Gauvin Road	84	1991-96	627	619
303 Normandie Street	70	1994	731	717
316 Acadie Avenue	48	1996	647	638
360 Acadie Avenue	60	1998	644	632
364-368 Gauvin Road	80	1995	662	–
Buckingham Place	55	1998	719	–
Cambridge Court	45	1994	780	768
Cambridge Place	63	1995	942	963
Cameron Street	81	1966/1967	581	570
Gordon/Bonaccord Street	41	1984/pre 1950	611	586
Lakeview Estates	48	1980/81	593	582
Lorentz Apartments	101	1969	666	646
Lutz & Kendra Street	40	1950/75	639	618
Pine Glen Apartments	54	1974	645	619
Suffolk Street	80	2000	643	642
Moncton Total	**1,088**			
Saint John				
115 Woodhaven Drive	24	1977	$526	$495
53 Somerset Place	16	1973	599	583
Carleton Towers	60	1968	610	586
Cedar Glen Apartments	204	1977	604	543
Ellerdale Apartments	154	1975	575	562
Fort Howe Apartments	153	1970	703	680
Parkwood Apartments	205	1947	573	556
Rocky Hill Apartments	42	2004	826	810
Sydney Arms	54	1961	646	626
The Anchorage	51	2003	844	832
Woodward Gardens	99	1962	707	681
Saint John Total	**1,062**			
Miramichi				
Edward Court	96	1993	$587	$ –
New Brunswick Total	**3,229**			

NEWFOUNDLAND	Units	Year Built	Average Rent Dec-07	Average Rent Dec-06
St. John's				
Blackshire Court	69	1981	$673	$651
Cornwall Manor	31	1976	528	523
Forest Manor	65	1978	568	549
Freshwater Road Apartments	159	1972	538	502
Mount Pleasant Manor	100	1976	562	553
Pleasantview Manor	36	1979	517	492
Torbay Road Apartments	84	1972	534	507
Village Manor	40	1978	569	559
St. John's Total	**584**			
Grand Falls				
Ridgeview Terrace	59	1975	$488	$496
Terrace Apartments	89	1970/90	686	676
Grand Falls Total	**148**			
Newfoundland Total	**732**			

PRINCE EDWARD ISLAND	Units	Year Built	Average Rent Dec-07	Average Rent Dec-06
Charlottetown				
198 Spring Park Road	32	2006	$1,031	$1,032
27 Longworth Avenue	24	1983	594	578
505-525 University Ave	35	2003	965	1050
Bridlewood Apartments	66	1999	773	–
Browns Court	52	1997	832	941
Burns/University	95	2003	846	891
Country Place	39	1998-02	774	757
DesBarres House	51	1978	533	517
Horton Park	69	1987	690	659
Kensington Court	105	1990	674	654
Queen Street	48	1978	566	545
Shakespeare	22	2004	761	741
Charlottetown Total	**638**			
Summerside				
Nevada Court	48	1995	$665	$662
Prince Edward Island Total	**686**			
Total Portfolio	**8,735**		**$710**	**$685**

PROPERTY PORTFOLIO: Manufacturered Home Communities

ONTARIO	Sites	Acres	Average Rent Dec-07	Average Rent Dec-06
Bayview Estates	146	60	$219	$207
Cedardale (1)	204	25	150	150
Family Paradise (1)	214	50	121	–
Fegushill Estates	152	49	303	295
Golden Horsehoe	241	33	295	283
Green Haven Estates	231	45	288	–
Holiday Harbour (1)	143	15	143	143
Lakewood Estates	60	13	243	232
Lynnwood Gardens	64	54	264	235
Millcreek	72	35	323	–
Paradise Valley (1)	392	109	134	–
Parkside Estates	144	80	284	276
Pine Tree Village	70	38	328	318
Pinehurst Estates	82	16	205	196
Rockdale Ridge	69	96	226	217
Silver Creek Estates	234	80	286	273
Stanley Park	108	76	260	–
Sunny Creek Estates	160	53	173	166
The Village at Listowel	77	53	255	247
Westhill Estates	95	8	256	247
Ontario Total	**2,958**			

NOVA SCOTIA	Sites	Acres	Average Rent Dec-07	Average Rent Dec-06
Amherst	307	67	$143	$135
Birch Hill	217	73	193	167
Birchlee	176	42	201	–
Cairdeil Estates	159	37	150	150
Cowan Place	38	50	148	140
Enfield Estates	56	10	190	–
Fairview Estates	131	131	278	269
Glen Aire Estates	266	130	176	168
Greenhill Estates	107	30	191	189
Heather Estates	217	72	170	161
Kent Drive	50	10	128	–
Maple Ridge Estates	160	160	209	204
Mountainview Estates	353	168	190	–
Silver Birch Estates	44	16	170	–
Valley View Hills	195	50	161	149
Nova Scotia Total	**2,476**			

NEW BRUNSWICK	Sites	Acres	Average Rent Dec-07	Average Rent Dec-06
Burton	91	32	$201	$200
Camper's City (1)	224	61	144	–
Crown & Currie Estates	176	140	212	194
Kent & Bayview	148	123	140	120
Park P'Tiso	86	18	152	135
Pine Tree	824	260	220	220
Parkside	100	15	185	185
Riverview	109	72	200	200
Tamarack	419	75	212	212
White Frost Estates	211	51	193	183
New Brunswick Total	**2,388**			

ALBERTA	Sites	Acres	Average Rent Dec-07	Average Rent Dec-06
Lynwood Estates	110	18	$320	$294
Evergreen Village	72	11	313	–
Hillpark	136	18	300	–
Alberta Total	**318**			

SASKATCHEWAN	Sites	Acres	Average Rent Dec-07	Average Rent Dec-06
Sunset Estates	247	77	$290	$268
Saskatchewan Total	**247**			

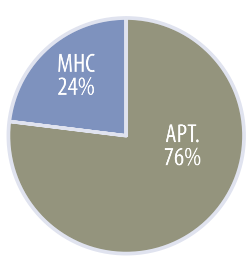
NEWFOUNDLAND	Sites	Acres	Average Rent Dec-07	Average Rent Dec-06
Lakeview Court	86	13	$142	$142
Sunset Parkway	84	43	130	130
Newfoundland Total	**170**			

BRITISH COLUMBIA	Sites	Acres	Average Rent Dec-07	Average Rent Dec-06
The Poplars	130	36	$336	$n/a
British Columbia Total	**130**			

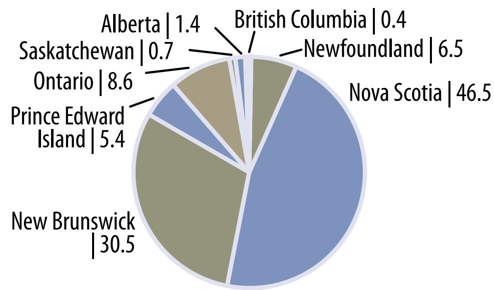
	Sites	Acres	Average Rent Dec-07	Average Rent Dec-06
Total Portfolio	**8,687**	**3,097**	**$209**	**$203**

(1) Properties are seasonal. Average monthly rent shown equal to annual rent divided by 12.

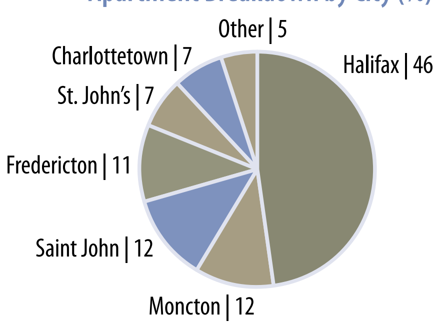
NOI by Asset Class



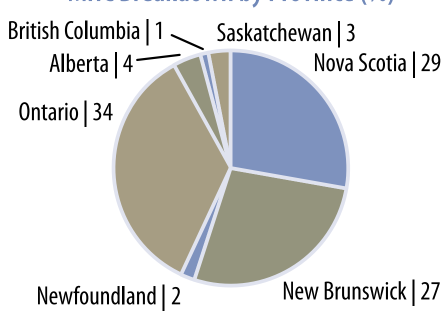
NOI by Province (%)



Apartment Breakdown by City (%)



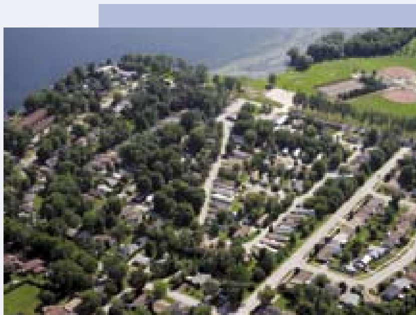
MHC Breakdown by Province (%)



BUSINESS SEGMENTS AND GEOGRAPHY

BUSINESS SEGMENTS AND GEOGRAPHY

Apartment Portfolio | $ millions	**2007**	2006	2005
Operating Revenue	**$66.4**	$55.9	$39.3
NOI	**$38.0**	$31.6	$22.3
% of NOI	**75.4%**	78.2%	79.8%
Gross Capital Assets	**$572.9**	$478.7	$379.7
Number of Properties	**115**	101	82
Number of Units	**8,735**	7,767	6,468
Average Age of Properties	**26**	26	27
Average Vacancy Rate	**4.6%**	3.9%	4.3%



MHC Portfolio | $ millions	**2007**	2006	2005
Operating Revenue	**$18.2**	$13.4	$8.2
NOI	**$11.9**	$8.7	$5.6
% of NOI	**23.6%**	21.5%	20.2%
Gross Capital Assets	**$174.7**	$117.0	$85.0
Number of Properties	**52**	38	28
Number of Units	**8,687**	6,326	4,961
Average Vacancy Rate	**1.1%**	0.9%	1.0%

Home Sales	**2007**	2006	2005
Home Sale Revenue ($ millions)	**$3.3**	$0.7	-
NOI from Home Sales ($ millions)	**$0.5**	$0.1	-
% of NOI	**1.0%**	0.3%	
Number of Direct Home Sales	**37**	10	-
Average Gross Margin Per Sale	**$17,000**	$13,000	-
Number of Third Party Sales	**8**	1	-
Number of Sites Developed	**42**	72	-

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, 2007 and 2006. These documents, along with the Company's 2007 Annual Information Form are available on SEDAR at www.sedar.com. The discussions in this MD&A are based on information available as at March 3, 2008.

Forward-looking Statements

Certain statements in this annual report 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", "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, national and regional economic conditions and the availability of capital to fund further investments in Killam's business. Further information regarding these risks, uncertainties and other factors may be found under the heading "Risk Management" in this MD&A and in the Company's most recent Annual Information Form. Given these uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements contained, or incorporated by reference, in this annual report.

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 may 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. The forward-looking statements in this document are provided for the limited purpose of enabling current and potential investors to evaluate an investment in the Company. Readers are cautioned that such statements may not be appropriate, and should not be used, for any other purpose.

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 income from property operations plus income from home sales. The use of NOI when referring to a particular segment is calculated as revenue less costs for that segment.
- Funds from operations (FFO) are calculated by the Company as net loss plus depreciation and amortization, stock compensation, non-cash debenture interest and future income taxes.
- Same store results in relation to the Company are revenues and property operating expenses for stabilized properties the Company has owned for equivalent periods in 2007 and 2006.
- Capitalization Rate (Cap Rate) is the rate calculated by dividing the forecasted net operating income from a property by the purchase price.

Share Consolidation

At the Annual and Special meeting of shareholders held May 10, 2007, the shareholders approved a one for four share consolidation. Accordingly, all share and per share amounts, as well as stock option and warrant information, presented in this MD&A have been adjusted for this change which was effective May 24, 2007.

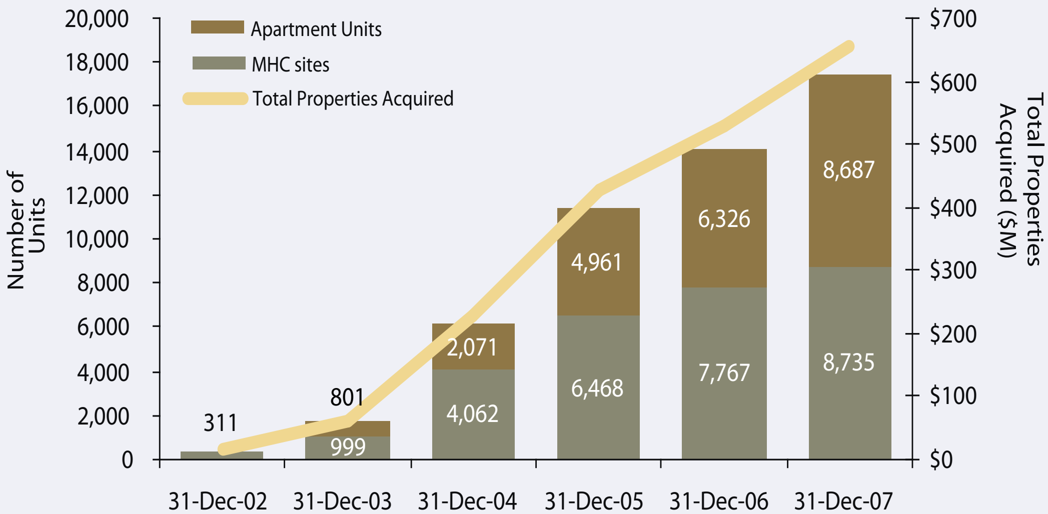
Overview of Killam Properties

Killam Properties Inc, based in Halifax, Nova Scotia, is one of Canada's largest publicly traded residential landlords, owning and operating properties across the country. Killam was started in 2000 based on the recognition of an opportunity to create value through the consolidation of apartments in Atlantic Canada and manufactured home communities (MHCs) across Canada. From the first property acquisition in 2002, management has grown the Company by investing $750 million in the Canadian rental market. As at the end of 2007, Killam owned and operated 167 properties having a combined total of 17,422 units.

Killam operates in two distinct rental segments, the first being the ownership and management of multi-residential apartment buildings, representing approximately 75% of NOI from rental operations. The second segment is the ownership, management and expansion of MHCs, also referred to as land lease communities, or trailer parks. In conjunction with the MHC segment, in 2006 Killam began acting as a retailer in selling new manufactured homes into its communities.

The graph below highlights Killam's growth by unit count and investment over the last six years.

Historic Growth in Units and Investment



Atlantic Canada's Dominant Apartment Landlord

Over the last six years Killam has succeeded in consolidating a significant apartment portfolio in Canada and has achieved a 12% market share of the apartment units in Atlantic Canada's six largest cities.

The following table summarizes Killam's apartment investment by market:

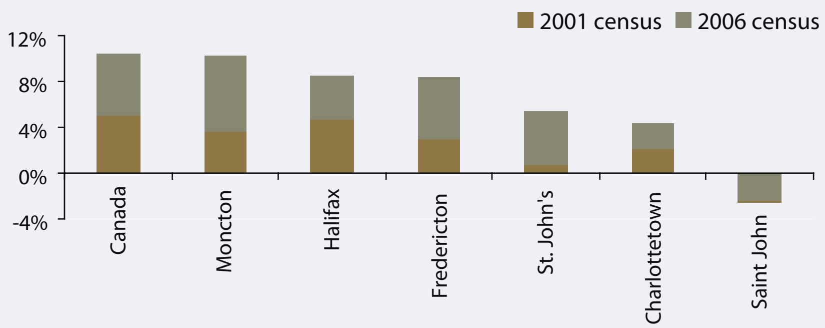
	Units	Number of Properties	Market Share %	% of Apartment NOI
Halifax, NS	3,932	43	10.3%	50.7%
Moncton, NB	1,088	21	11.3%	12.7%
Saint John, NB	1,062	11	11.9%	10.2%
Fredericton, NB	983	13	14.0%	8.5%
Charlottetown, PEI	638	12	16.8%	7.1%
St. John's, NL	584	8	15.3%	8.2%
Other	448	7	N/A	2.6%
Total	8,735	115		

In the past, Killam has focused on purchasing apartments in urban Atlantic Canada given management's extensive experience in and knowledge of these markets, the attractive yields available, and the opportunity for accretive consolidation.

Atlantic Canada is home to 2.3 million people, approximately 40% of whom live in the six largest cities, and over the last five years the population in these urban centres has grown by approximately 4% (per Statistics Canada).

The urbanization trend is strong across Atlantic Canada. The change in population in Killam's core markets over the last two census periods is shown in the following graph. The graph shows that the population growth is an accelerating trend when the 2006 census is compared to the 2001 census. This increase in urbanization is a positive trend for apartments.

Population Growth Rates in Urban Atlantic Canada



Over the next five years, Killam expects to see the highest percentage population growth in Saint John and St. John's, as both cities are attracting significant investment in ongoing and proposed energy projects and management anticipates their growth rates may surpass the national average.

Consolidation of Apartments in Atlantic Canada

Prior to Killam's consolidation of apartments in Atlantic Canada, the largest apartment owner had approximately 1,200 units, or less than 2% of the market. This diversified ownership in Atlantic Canada's major centres enabled Killam to purchase apartment buildings at attractive yields relative to other areas of the country. For example, apartment buildings in urban Atlantic Canada could be purchased at yields 100 to 150 basis points higher than comparable assets in Canada's major cities.

Killam has been experiencing capitalization rate compression in its core markets, a trend experienced throughout Canada. As a result, the regional discrepancy in capitalization rates for quality assets is nominal today and assets in Halifax trade at yields comparable to most other major Canadian cities. Management expects to see this trend continue as real estate investors increasingly recognize the stability and attractiveness of Atlantic Canada's rental market.

Capitalization rates in Atlantic Canada have stabilized given the decreased purchase activity due to increasingly volatile capital markets and the sub-prime mortgage fall-out. The market is in a transition phase as buyers and sellers wait to determine the long-term impact on market values.

We Have Built a Solid Infrastructure

Over the last six years Killam has developed an infrastructure to support its apartment operations. In addition to a head office in Halifax, Killam has regional offices in Saint John, Fredericton, Moncton and Charlottetown. Property management is handled internally for all apartment locations, with the exception of Newfoundland, where properties are managed by an arm's length third-party management firm.

Killam's operational platform can support a larger and more geographically diverse portfolio. Management continues to see opportunities to acquire properties in Atlantic Canada and is exploring apartment acquisitions in Canada's larger markets. Presently, 11% of Killam's consolidated NOI from rental operations is generated outside Atlantic Canada, management plans to increase this percentage by acquiring apartments in the rest of Canada, especially in Ontario. Further comments on plans to increase investment outside Atlantic Canada are provided in the Strategy section.

Increasing the Value of the Apartment Portfolio through NOI Growth

Management is focused on improving the performance of the current portfolio through annual increases in rents, maintaining high occupancy levels, and controlling expenses. Improving the profitability of the portfolio will generate higher FFO per share plus support a higher net asset valuation for the portfolio, given a stable cap rate environment.

A key measure of Killam's success is the ability to realize improved profitability from same store NOI growth. The same store NOI growth for apartments over the last three years, along with management's expectation for 2008, is shown below. These improvements relate to a combination of increased revenue and managed costs.

Apartment Same Store NOI Growth

Rent Increases Driven by the Market Rather Than Regulation

Killam is generally able to move rents to market on an annual basis. PEI is the only province in Atlantic Canada with rent control, and this represents only 7.8% of Killam's apartments units. The Company analyzes each property on a regular basis, considering its general market environment and the vacancy, to evaluate the ability to increase rents for both existing tenants and on turnover. The ability to increase revenue is important in generating NOI growth. Over the last two years, rents in Atlantic Canada have generally increased between 2% and 3%. Management expects to increase same store apartment revenue an average of 3.4% in 2008.

As noted, occupancy plays a key roll in determining Killam's ability to raise rents and has generally seen occupancy rates improve in its core markets over the last two years, increasing management's confidence in its ability to raise rents for the foreseeable future. Saint John and St. John's show the most opportunity for rental increases, driven by increased energy related investment in the regions. Historically a very strong market, Fredericton was Killam's most challenging market in 2007, with vacancy rates increasing for the market as a whole, as measured by CMHC. Management expects increased occupancy in this market in 2008.

Managing Costs

Managing costs is another key component in generating NOI growth. Energy costs represented approximately 35% of Killam's apartment operating costs in 2007. Killam's apartments are heated with a combination of oil (45%), natural gas (21%) and electricity (34%). Heating costs for electrically heated units are generally paid by the tenant directly. Changes to oil and natural gas prices will have an impact on Killam's ability to manage costs. With recent price appreciation in oil, Killam may face challenges in maintaining heating expenses year-over-year. Killam has hedged a portion of its exposure to oil and natural gas for the winter of 2008 (37% of oil and 30% of natural gas estimated consumptions), however increases in heating costs may negatively impact Killam's NOI growth targets for 2008.

Surplus Land

Management has identified approximately 28 acres of development land associated with Killam's current portfolio. The land includes 24 acres in Halifax and 3 acres in Saint John. Killam has the opportunity to realize value associated with this surplus land through sales to third parties or through development, and evaluates opportunities on a continuous basis. 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 net proceeds of $0.7 million and the sale of a 50% interest in 2.38 acres at the Kelly & Alton property in Halifax for net proceeds of $0.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS Dollar amounts in thousands (except as noted)

Manufactured Home Communities Offer Diversification and Stability

In addition to acquiring apartments, Killam has also focused on building a portfolio of MHCs across Canada and is the second largest owner of MHCs in Canada. Killam acquired its first community five years ago, in 2003, and as at December 31, 2007 owned 52 communities across seven provinces, with a total of 8,687 rentable sites.

The following table summarizes Killam's MHC investment by market:

	Sites	Number of Communities	% of MHC NOI
Ontario	2,958	20	35.4%
Nova Scotia	2,476	15	26.0%
New Brunswick	2,388	10	26.9%
Alberta	318	3	5.7%
Saskatchewan	247	1	3.0%
Newfoundland	170	2	1.5%
British Columbia	130	1	1.5%
Total	8,687	52	

How the MHC Business Works

With MHCs, Killam owns the land and infrastructure supporting each community and leases the lots to the tenants, who own their own home and pay Killam a monthly rent. In addition to lot rent the tenant may have a mortgage payment to a financial institution for their home. The average rent in Killam's MHC portfolio is $209/month, which offers great value and affordability to the tenant. The average cost per home varies across the country, but generally range from $90,000 to $160,000 for a new home and $30,000 to $90,000 on resale. The home owner is responsible for property taxes based on the assessed value of their home and Killam is responsible for the property tax on the land.

MHCs require less recurring capital investment and deliver a more predictable and stable cash flow compared to apartments. MHC homeowners are responsible for repairs, maintenance and operating costs for their homes, which removes significant variable costs that are typically borne by Killam for apartments. The operating profit margin in Killam's MHC business averaged 65.7% over the last two years, compared to 56.9% for apartments.

MHCs enjoy a stable tenant base, with consistently strong occupancy of approximately 99%. Should a tenant choose to leave a community they sell their home, with the home typically remaining on the site and rent collection continuing uninterrupted with the new homeowner.

Consolidation of MHCs

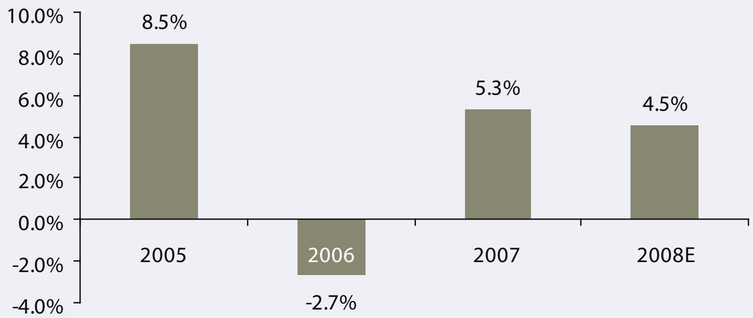
Management identified an opportunity to consolidate the MHC market at the time that Killam was founded, recognizing that it was an asset class that had been overlooked in Canada. Traditionally these assets have been held by individuals with very little consolidation activity in the market, resulting in higher cap rates and the ability to generate attractive returns. More recently, following an increase in interest and activity in this asset class from both private and public investment, Killam has seen cap rate compression in the MHC sector.

Increasing the Value of the MHC Portfolio Through NOI Growth

As with apartments, management is focused on improving the performance of the current MHC portfolio through annual rental increases, expansion opportunities, and managing expenses. Improving the profitability of the portfolio should lead to higher valuations for the assets in a stable cap rate environment.

Management measures success in improving profitability through same store NOI growth. Same store NOI growth for MHCs over the last three years, along with the expectation for 2008, is shown below:

MHC Same Store NOI Growth



MHCs fall under the same provincial regulations as apartments. The only two provinces where Killam owns MHCs which have rent control are Ontario and British Columbia. The allowable rent increase for MHCs in Ontario and British Columbia are the same as for apartments in 2008, at 1.4% and 3.7%, respectively. In all other provinces management can increase rents to market.

The most significant costs to operate MHCs are water costs, land property tax, and general repairs and maintenance to the water and sewer infrastructure. Killam's experience with MHCs has shown that the largest variable expenses are costs related to the water and sewer infrastructure. The majority of other costs have little variability. Killam experienced high water and sewer costs in 2006 due primarily to water main breaks and costs related to compliance with the Ontario Ministry of Environment legislation, resulting in a reduction in 2006 same store NOI.

Expansion Opportunities for MHCs

Killam's MHC portfolio includes a total of 280 acres of land available for future expansion, or potential sub-division and sale to third parties.

	Estimated Future Expansion Sites	Acres Identified for Expansion Sites
Ontario	520	127
Nova Scotia	240	110
Saskatchewan	120	20
New Brunswick	120	23
Alberta	-	-
Newfoundland	-	-
British Columbia	-	-
Total	1,000	280

Where excess land, demand and zoning allows, management expects to expand the number of rentable sites. Management has identified 16 of its 52 communities where expansion is expected, totaling 1,000 sites. Over the last two years Killam has added 114 sites with expansions in three communities in Nova Scotia.

The average per-site cost to expand varies based on the existing infrastructure in a specific community. The expansion costs to date have averaged approximately $29,000 per site. Killam expects higher costs to expand in Ontario and in the West based on higher labour costs. The income generated from a new home sale offsets a portion of the expansion cost, allowing expansion sites to be added at a net cost much less than Killam's typical acquisition costs.

Home Sales

During 2007 Killam completed 45 home sales and home sale placements at six of its communities. Killam is a retailer for home manufacturers to supply homes to its sites. The houses are built in a manufacturing facility and delivered by road to the sites. Homes are available in many sizes and layouts and typically sell for between $90,000 and $160,000, with the higher costs typical in Ontario and Western Canada. Management expects to net $12,000 to $20,000 per home sale, which, as noted earlier, offsets a portion of the capital investment to expand the new sites. Killam expects to grow the home sale business over time as it expands the MHC portfolio and purchases new communities with expansion potential.

Strategy and Objectives for Growth

Killam's business objectives are to:

- **Acquire a portfolio of multi-family residential real estate properties and manufactured home communities.**
- **Generate a positive cash flow.**
- **increase the underlying net asset value of its properties.**

The vision and objectives for Killam's two rental segments are highlighted below.

Apartment Strategy and Objectives

- **The long-term vision is to own and operate a diverse portfolio of apartments across Canada.**
- **The strategy is to continue to grow the value and size of the apartment portfolio.**

To meet the strategy and vision management will focus on the following:

Consolidation in the Canadian Apartment Market

Management plans to continue to grow the apartment portfolio through accretive acquisitions, with an increased focus in central, and potentially, Western Canada. Killam has invested $76.2 million and $77.1 million in apartment acquisitions during 2006 and 2007, respectively. Management expects to continue to invest in apartment acquisitions in 2008, but will be flexible in reaction to market conditions.

The portfolio has been built through the accumulation of many small acquisitions. Management recognizes many benefits in growing this way, including the ability to know specifically what it's buying, and the limited impact any one purchase may have. At the same time, management realizes that there may be opportunities to grow at a faster pace through the acquisition of a sizable portfolio.

Geographic Diversification

Geographic diversification in the apartment segment is a priority for Killam. Today 100% of Killam's apartment NOI is generated in Atlantic Canada. Within the next five years management would like other regions to grow to represent approximately 50% of the apartment NOI.

Killam expects to continue buying in Atlantic Canada, but on a selective basis. The current market share in Atlantic Canada is approximately 12%. The maximum market share management foresees Killam reaching is 15% for this region.

Growth in Same Store NOI

Killam is focused on improving the performance of its current portfolio through annual increases to rents, stability of occupancy and through managing expenses. Improving the profitability of the portfolio is expected to lead to higher valuations for the assets in a stable cap rate environment.

MHC Strategy and Objectives

- **The long-term vision is to be the largest owner and operator of MHCs in Canada.**
- **The MHC strategy is to continue to grow the value and size of the MHC portfolio.**

To meet our strategy and vision management will focus on the following:

Consolidation

Management continues to believe that consolidation opportunities exist for MHCs due to the fragmented ownership of the estimated 1,000 communities in Canada (per Canadian Manufactured Housing Institute and Clayton Research study). Management plans to continue to grow the portfolio through acquisitions, with a primary focus in Ontario and western Canada. With growing populations and the need for affordable housing alternatives, Killam sees long-term benefits by focusing in these areas.

Expand Killam's Current Portfolio

Management has identified the potential for an additional 1,000 sites in the current portfolio and plans to expand by approximately 150-200 sites per year. Management will continue to look for acquisitions with expansion opportunity. Home sale earnings will partially offset the cost of expansion and drive earnings growth.

Maximize Earnings and Cash Flow Potential on Current Portfolio

Management is focused on increasing the value of Killam's current portfolio. This will be achieved through same store NOI growth, MHC expansions and new home sales.

Setting and Meeting Targets

Key Performance Drivers

Key Objectives	Key Performance Drivers	Key Performance Indicators
Consolidation	**Canadian Real Estate Market** - *Killam's ability to purchase accretive acquisitions will depend on the ability to source properties at accretive prices.* **Access to Capital Markets** - *Although Killam has cash on hand and access to debt through an acquisition line, significant growth through acquisition may be dependent on the ability to raise equity in the capital markets.* **Access to Debt Markets** - *Killam typically finances 70% to 75% of each acquisition with mortgage debt. The ability to access debt at attractive rates impacts on Killam's ability to complete accretive acquisitions.*	Portfolio Growth Asset Growth Debt to Gross Book Value Average Cost of Debt
Geographic Diversification	**Ability to Source Product** - *Killam will generally rely on independent brokers to source apartments outside Atlantic Canada. Our ability to enter the Ontario and Western apartment market will depend on relationships with brokers and sellers, and the ability to acquire at accretive prices.*	NOI by Region
Grow Same Store NOI (Apartments)	**Supply and Demand Balance** - *A change in balance between supply and demand in our markets may have an impact on vacancy levels.* **Economic Environment** - *A stronger economy will increase investment and wages, allowing for more opportunity to implement rental increases.* **Energy Costs** - *Energy costs represent 35% of apartment costs. Significant changes in energy prices will impact operating costs and NOI.*	Occupancy - apartments Same Store NOI - apartments NOI Margins - apartments Rental Increases FFO Growth
Growth in Same Store NOI (MHCs)	**Changes in Housing Prices** - *Significant changes to residential real estate prices could impact the demand for homes in MHCs. The affordability of manufactured homes is one of the primary demand drivers.* **Provincial Legislation** - *Rental increases in some provinces are regulated provincially, dictating the extent to which rents can be raised.*	Same Store NOI - MHC NOI Margins – MHC Rental Increases FFO Growth
Maximize Value of Excess Land	**Changes in Housing Prices** - *Significant changes to residential real estate prices could impact the demand for homes in MHCs. The affordability of manufactured homes is another primary demand driver.* **Municipal Approvals** – *Killam's expansions are dependant on receiving appropriate municipal zoning and other approvals.*	Home sales Land sales FFO Growth

MANAGEMENT'S DISCUSSION AND ANALYSIS Dollar amounts in thousands (except as noted)

Performance Compared to 2007 Goals and Objectives

In Killam's 2006 Annual Report management stated its 2007 goals and objectives and a review of Killam's performance in meeting these goals and objectives is included below.

2007 Goals and Objectives	Performance to December 31, 2007	Comments
Continued growth with $100 million to $125 million of acquisitions.	Killam completed $125 million in acquisitions.	Goal achieved.
Maintain debt levels of between 70% and 75% of gross book value (GBV).	As at December 31, 2007, Killam's debt to GBV ratio was 66.7%, an appreciable decrease from a 75.8% debt to GBV ratio as at December 31, 2006.	Goal achieved. Debt was reduced below target levels based on a combination of improved earnings from operations and an infusion of $105 million of new equity in the first half of 2007.
Increase rents by an average of 3%.	The average increase in rents for same store properties is 3.1%.	Goal achieved.
Grow NOI for same store properties by 5%.	Killam has achieved same store NOI growth of 5.1%.	Goal achieved.
Expand home sale business with 50 to 75 home sales.	Killam completed 45 home sales and home sale placements.	Achieved 90% of objective for new home sales in 2007 and an additional commitment for 22 new homes purchases for 2008 shows strong support for Killam's home sales program.

Goals and Objectives for 2008

- Complete $75M to $100M of accretive acquisitions.
- Invest in apartments outside of Atlantic Canada.
- Grow same store NOI by 3% to 4%.
- Complete 75 to 100 home sales.
- Maintain debt levels between 65% to 70% of gross book value.

Ability to Deliver Results

Financial Resources to Fund Growth

Cash flow from operating activities is expected to meet Killam's ongoing operating requirements. However, Killam's growth plans require a supply of new capital resources. Capital resources are defined as mortgage debt, vendor mortgages and share capital equity. As at December 31, 2007, Killam had $14.6 million in cash available. The Company's cash balances at December 31, 2007 were held in bank accounts, which Killam has full access to, and does not include any instruments related to asset-backed securities or commercial paper programs. In addition, the Company has negotiated credit facilities totaling $40 million.

The cash on hand and conservative use of the credit facility provide Killam with sufficient capital to continue its acquisitions in the short-term and provide Killam with approximately $100 million in acquisition capacity assuming new properties are financed in part with conventional mortgages (75% loan-to-value). Although Killam has access to the credit facility it plans to use this facility only as required as a short-term solution to fund growth.

Based on this, Killam may be required to go to market to fund acquisitions beyond the projected $60 million that cash on hand will fund, based on 75% leverage. Access to mortgage debt is essential in financing future acquisitions, and in refinancing maturing debt. Management has intentionally diversified Killam's mortgages to avoid dependence on any one lending institution. This has proven beneficial as the Company has been able to refinance maturing mortgages that were previously with conduit lenders with mortgages from banks, avoiding liquidity pressures felt by some in the current environment. Management also mitigates the risk associated with refinancing by securing many apartment mortgages with Canada Mortgage & Housing Corp. (CMHC), allowing for more attractive spreads on bond yields and guaranteeing the ability to refinance on maturity.

Acquisition Opportunities

Killam has been successful acquiring apartments and MHCs on an accretive basis in Canada each year since 2002. Killam's approach has been to target specific markets and developed relationships with property owners over time, thereby facilitating the acquisition of quality properties in each of its markets on a private basis. Killam has purchased very few properties that were fully brokered in its six year history.

Killam's ability to meet its external growth targets will depend on its continued ability to find attractive properties; to develop relationships with property owners, and to maintain its relationship with the lending community. As Killam enters new apartment markets outside of Atlantic Canada, management plans on working more extensively with independent brokers to help source properties.

Ability to Provide Well Maintained Apartments and MHCs

Killam's ability to provide its tenants with well maintained and safe apartments and MHCs is key to its continued success. Keeping occupancy levels high is essential for stable and growing cash flow. Killam has invested $30 million in its buildings over the last two years, ensuring the units, common areas and exteriors are in very good repair. This investment has resulted in high occupancy levels, the ability to increase rents, and has earned Killam a reputation as a quality landlord. The Company will continue to invest capital in its properties as required. Cash for capital investment is expected to be generated through operating activities and through the refinancing of mortgage debt as it matures.

Dedicated and Professional Staff

The ability to attract and maintain quality employees is critical to Killam meeting both its short-term and long-term performance goals. Killam knows the resident and property mangers are the front line in the business, interacting daily with tenants and prospective tenants, and maintaining the properties. Experience has shown that the best managers have the highest occupancy, the lowest turnover, and the most profitable buildings. Killam has developed staff training to help managers maximize their performance and incentive programs to reward employees for meeting specific targets.

MANAGEMENT'S DISCUSSION AND ANALYSIS Dollar amounts in thousands (except as noted)

Review of Consolidated Operations

For the years ended December 31,	**2007**	2006	% change
Total operating revenue [(1)]	**$84,532**	$69,148	22.2%
Property operating expenses	**34,565**	28,858	19.8%
Income from property operations	**$49,967**	$40,290	24.0%
Operating expense percentage	**40.9%**	41.7%	(1.9)%
Income from home sales	**$488**	$131	272.5%
Net operating income	**$50,455**	$40,421	24.8%
FFO	**$18,696**	$12,498	49.6%
FFO per share	**$0.63**	$0.60	5.0%
FFO per share (excluding land sales and loss on debt settlements)	**$0.63**	$0.57	10.5%

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

The following discussion relates to the consolidated operating results. Further detail on operating and same store results for Killam's apartment and MHC businesses is provided in the segment and same store review on page 29.

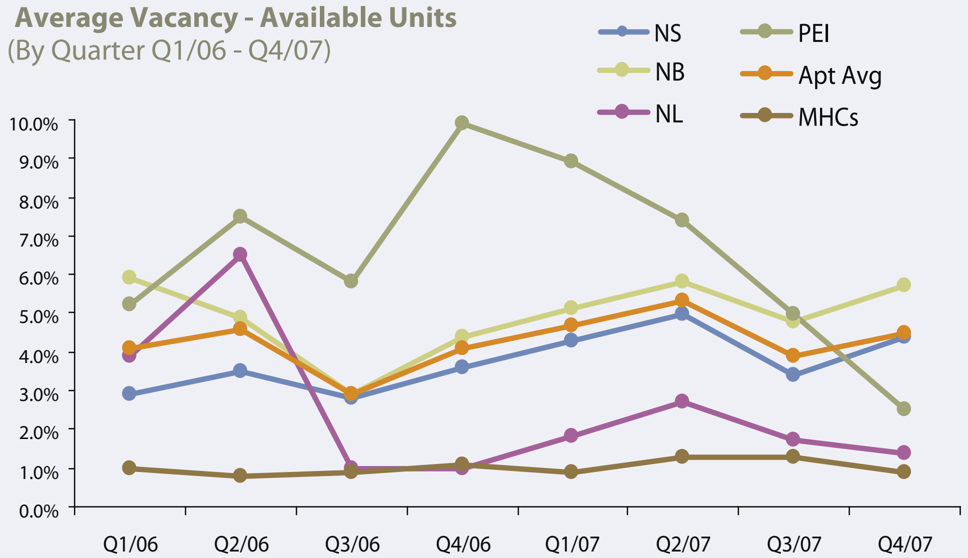
Total Operating Revenue and Portfolio Occupancy

Total operating revenue increased 22.2% for the year ended December 31, 2007 compared to 2006 due primarily to the completion of acquisitions during 2007 and 2006.

The annualized operating revenue, including laundry and parking revenue, of the properties the Company owned as at December 31, 2007, is approximately $95.0 million based on current rents less a 4% vacancy allowance. 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 current rents, a 1% change in vacancy rates would impact the annualized rental revenue by $0.9 million.

Atlantic Canada has historically experienced relatively stable multi-residential occupancy rates. Over the last year, Killam's weighted average vacancy rates for apartments have been in the 3% to 5% range. MHC occupancy remains high at approximately 99%.

Although annualized vacancy rates as at December 31, 2007, are slightly higher than at December 31, 2006, we are pleased that the significant gains in occupancy rates realized in the third quarter of 2007 were generally maintained in the fourth quarter. Vacancy rates displayed below represent all units available for rent at the end of the relevant quarter. Units undergoing renovation are excluded. At December 31, 2007, there were 86 units (representing 1.0% of the Company's apartment portfolio) undergoing renovation and excluded from vacancy statistics, compared to 139 units at December 31, 2006. Approximately 124 MHC sites that have not been previously rented, including expansion sites at Birchill and Greenhill are excluded from the vacancy analysis as well.



	2007					2006				
	Q1	**Q2**	**Q3**	**Q4**	**Avg.**	Q1	Q2	Q3	Q4	Avg.
Apartments										
Nova Scotia (NS)	**4.3%**	**5.0%**	**3.4%**	**4.4%**	**4.3%**	2.9%	3.5%	2.8%	3.6%	3.2%
New Brunswick (NB)	**5.1%**	**5.8%**	**4.8%**	**5.7%**	**5.3%**	5.9%	4.9%	2.9%	4.4%	4.5%
Newfoundland (NL)	**1.8%**	**2.7%**	**1.7%**	**1.4%**	**1.9%**	3.9%	6.5%	1.0%	1.0%	3.1%
Prince Edward Island (PEI)	**8.9%**	**7.4%**	**5.0%**	**2.5%**	**6.0%**	5.2%	7.5%	5.8%	9.9%	7.1%
Apartment average	**4.7%**	**5.3%**	**3.9%**	**4.5%**	**4.6%**	4.1%	4.6%	2.9%	4.1%	3.9%
MHCs	**0.9%**	**1.3%**	**1.3%**	**0.9%**	**1.1%**	1.0%	0.8%	0.9%	1.1%	0.9%
Portfolio Average	**3.0%**	**3.4%**	**2.6%**	**2.7%**	**2.9%**	2.8%	2.9%	2.0%	2.8%	2.6%

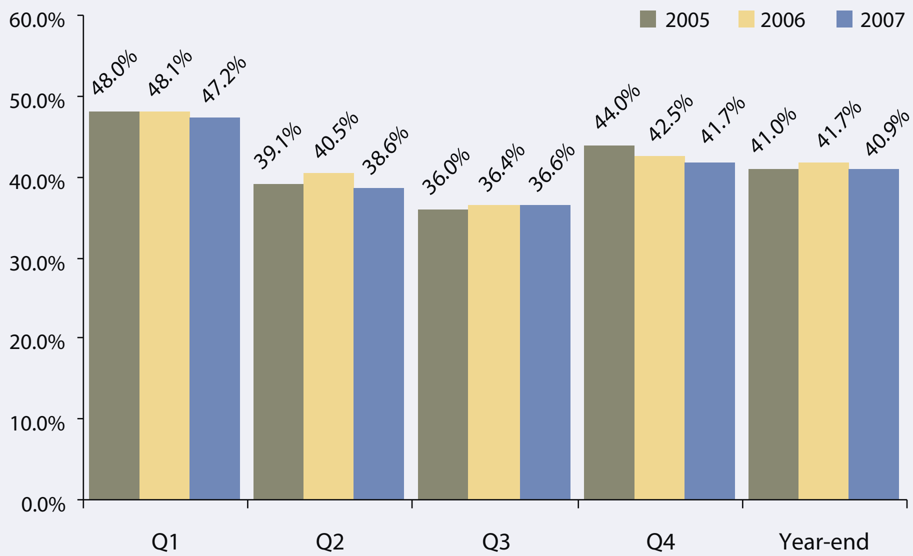
Killam's vacancy rates in Nova Scotia, which represents 47% of the Company's apartment portfolio at the end of 2007, increased to 4.4% at year-end and the average for the year ended December 31, 2007 increased 110 basis points from the previous year. The increased vacancy is primarily attributable to leasing at seven buildings centered in the Dartmouth area of Halifax and is a result of a combination of factors. Management has taken measures to rectify the vacancy issues in these properties.

New Brunswick's vacancy level increased to 5.7% at year-end and 5.3% overall for the year, an 80 basis points increase from the 2006 average. The vacancy rate has increased due primarily to two properties in Fredericton acquired in July 2007. Management considers these properties not stabilized and expects vacancy levels to improve going forward.

The Newfoundland market remains strong with less than 2% vacancy on an annual annualized basis.

Killam continues to improve occupancy levels in its PEI properties with a reduction of 740 basis points versus December 31, 2006. In reaction to the high vacancy at two properties, the Company decreased the average rents by approximately 8%, resulting in improved occupancy levels. NOI has improved 24% for these two properties in 2007 and management will now increase rents on the strength of the improved occupancy.

Total Operating Expense Percentage



Total property operating expenses increased 19.8% to $34.6 million during 2007 compared to 2006 due primarily to the growth of the Company.

Killam's property operating expenses as a percentage of operating revenue improved to 40.9% in 2007 from 41.7% in 2006. This improvement is primarily due to operating efficiencies relating to building management and repairs and maintenance.

Consolidated Same Store Results[1]

Same store properties experienced NOI improvement of 5.1% in 2007 as revenues increased year-to-date and expenses were controlled. Rental revenues increased 3.1% year-over-year due primarily to increased rents. Property taxes were up 5.5% and utilities increased only 0.9% from the prior year which was largely offset by a 3.1% reduction in salary and property general and administrative costs.

The significant NOI improvement being earned by Killam's same store portfolio is evidence that given 12 to 24 months, Killam can successfully integrate new acquisitions and realize positive income gains.

1. Same store results reflect the operations for 102 stabilized properties that Killam has owned for equivalent periods in 2007 and 2006. The same store analysis includes 11,027 units, or 63% of Killam's portfolio. Excluded from the analysis are 412 units that the Company owned at December 31, 2005 which do not meet the criteria to be included in same store figures due to renovations in 2006. Home sales are also excluded from the analysis.

Segment & Same Store Review

Apartments

For the years ended December 31,		**2007**		2006	% change
Rental revenue		**$66,065**		$55,687	18.6%
Other operating revenue [(1)]		**286**		237	20.7%
Total operating revenue		**66,351**		55,924	18.6%
Property operating expenses					
Operating expenses	***16.9%***	**11,212**	*18.2%*	10,150	10.5%
Utilities	***14.9%***	**9,868**	*15.5%*	8,674	13.8%
Property taxes	***10.9%***	**7,222**	*9.8%*	5,506	31.2%
Total property operating expenses	***42.7%***	**28,302**	*43.5%*	24,330	16.3%
Net operating income		**$38,049**		$31,594	20.4%
Weighted average rent per unit		**$710**		$685	

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

Killam's apartment business accounted for 76.1% of earnings from property operations for the year ended December 31, 2007, compared to 78.4% in 2006 (excluding land sale gains).

The apartment portfolio generated revenue growth of 18.6% in 2007, compared to 2006. The increase was primarily attributable to the increased portfolio and the increase in the weighted average rent per apartment unit, which increased by 3.6% to $710 from $685 at December 31, 2006. The higher average rent is largely attributable to a 2.8% increase in average rents for same store properties.

The decrease in operating expenses as a percentage of revenues is primarily attributable to reduced salary and repairs and maintenance costs, as a percentage of revenue, as relative staffing levels have decreased with the stabilization of a large portion of the portfolio. Overall property taxes represent 10.9% of revenue in 2007 compared to 9.8% in 2006. 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.

Same Store Results - Apartments

For the years ended December 31,		**2007**		2006	% change
Rental revenue		**$49,816**		$48,461	2.8%
Other operating revenue		**201**		211	(4.7)%
Total operating revenue		**50,017**		48,672	2.8%
Property operating expenses					
Operating expenses	***16.7%***	**8,364**	*18.0%*	8,762	(4.5)%
Utilities	***15.9%***	**7,940**	*16.2%*	7,889	0.6%
Property taxes	***9.9%***	**4,943**	*9.5%*	4,644	6.4%
Total operating expenses	**42.5%**	**21,247**	*43.7%*	21,295	(0.2)%
Net operating income		**$28,770**		$27,377	5.1%
Weighted average rent per unit		**$707**		$688	2.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS Dollar amounts in thousands (except as noted)

Killam's same store apartment portfolio experienced a 5.1% NOI growth as expenses fell to 42.5% from 43.7% of operating revenues. In addition, revenues were up 2.8% overall in 2007 as a result of rental increases of 2.8% offset slightly by increased promotional items.

During 2007 utilities were up 0.6% as both electricity costs and water rates increased compared to 2006 and property taxes increased 6.4%, offsetting these increased were reductions in salaries and benefits (5.6%), repairs and maintenance (5.7%), and property general and administrative expenses (22.6%).

MHCs

For the years ended December 31,		**2007**		2006	% Change
Rental revenue		**$18,026**		$13,123	37.4%
Other operating revenue		**155**		101	53.5%
Total operating revenue		**18,181**		13,224	37.5%
Property operating expenses					
Operating expenses	***19.2%***	**3,499**	*19.8%*	2,620	33.5%
Utilities	***10.4%***	**1,892**	*9.4%*	1,251	51.2%
Property taxes	***4.8%***	**872**	*5.0%*	657	32.7%
Total property operating expenses	***34.4%***	**6,263**	*34.2%*	4,528	38.3%
Net operating income		**$11,918**		$8,696	37.1%
Weighted average rent per unit		**$209**		$203	

Killam's MHC business accounted for 23.9% of earning from property operations during 2007 (21.6% in 2006 excluding land sale gains). The MHC unit count increased by 2,361 in 2007, a 37% increase in portfolio size. Rental revenue from the MHCs increased by $4.9 million, or 37.4%, from 2006 due primarily to property acquisitions.

Operating costs increased slightly to 34.4% of MHC revenue in 2007, compared to 34.2% during 2006. Utility costs as a percentage of MHC revenue increased to 10.4% in 2007 from 9.4% in 2006 as a result of water main breaks, as well as repairs and maintenance and general administrative costs associated with compliance with the Ontario Ministry of Environment legislation in 2007. A portion of these costs are not recurring as they were associated with bringing newly acquired properties up to Killam standards. Other operating costs and property taxes were generally consistent as a percentage of rental revenue, with increases in dollar amounts attributable to growth in units.

Same Store Results – MHC

For the years ended December 31,		**2007**		2006	% Change
Rental revenue		**$12,217**		$11,730	4.2%
Other operating revenue		**85**		92	(7.6)%
Total operating revenue		**12,302**		11,822	4.1%
Property operating expenses					
Operating expenses	***18.9%***	**2,326**	*19.2%*	2,273	2.3%
Utilities	***10.5%***	**1,297**	*10.7%*	1,264	2.6%
Property taxes	***4.6%***	**565**	*4.9%*	576	(1.9)%
Total operating expenses	***34.0%***	**4,188**	*34.8%*	4,113	1.8%
Net operating income		**$8,114**		$7,709	5.3%
Weighted average rent per unit		**$213**		$205	3.9%

Killam's same store MHC portfolio experienced NOI growth of 5.3% in 2007 compared to 2006. Total operating revenues were up 4.1% largely as a result of rental increases.

Overall, same store property operating expenses increased 1.8% in 2007 due largely to water main breaks in the first half of the year. Management has initiated weekly monitoring programs at a number of properties to isolate usage issues and allow repairs to be made on a timely basis. Capital programs were also implemented at a number of communities to reduce costs on a go-forward basis.

Home Sales

For the years ended December 31,	**2007**	2006
Home sale revenues	**$ 3,282**	$ 720
Cost of home sales	**(2,654)**	(590)
New home placement fees	**50**	5
Operating expenses	**(190)**	(4)
Income from home sales	**$ 488**	$ 131

Killam completed a total of 45 home sales and home sale placements during 2007 compared to 11 home sales and home sale placements in 2006. The Company's 42 pad expansion at Birch Hill Estates was substantially completed during the third quarter of 2007, allowing for the start of home sales in the community: 16 of the sales in 2007 related to Birch Hill. Homes sales were also made at Greenhill, Lynwood, Cowan, Birchlee and Pinetree communities. Subsequent to year end, Killam has closed 6 sales and has commitments for the sale of an additional 16 homes that are expected to close in the first half of 2008.

Home sale revenue in 2007 includes 37 home sales with average revenue and cost of homes sold of $88,700 and $71,700 respectively, resulting in an average gross margin of $17,000 per home. In addition, Killam received new home placement fees and commissions on eight other homes for an average of $6,250 per home.

Home sale operating expenses include all costs associated with marketing homes, including open houses, advertising costs, etc.

Other Expenses

Financing Costs

For the years ended December 31,	**2007**	2006	% Change
Mortgage and loan interest	**$22,828**	$18,626	22.6%
Convertible debenture interest	**2,949**	2,935	0.5%
Subordinated debenture interest	**1,348**	872	54.6%
Credit facility interest	**252**	2,097	(88.0)%
	$27,377	$24,530	11.6%

Financing expenses were higher during 2007, 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 operating revenue, mortgage and loan interest expense remained consistent at 27.0%.

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, 2007 would affect financing costs by approximately $4.6 million per year. However, only $40.8 million of Killam's mortgage and vendor debt is due by the end of 2008 and that same interest rate change would impact Killam by $0.4 million per annum.

Interest costs associated with Killam's outstanding subordinated debentures increased in 2007 compared 2006 as the debentures were issued throughout 2006.

Credit facility interest expense relates to borrowing on Killam's previous acquisition bridge facility. The Company used this facility during 2006 and the first quarter of 2007 as a short-term financing arrangement to complete a number of acquisitions. During the first quarter of 2007 Killam repaid the balance outstanding on the facility with the proceeds of the Company's February 2007 private placement of common shares and arranged for a new facility at more favourable rates.

Depreciation Expense

As a percentage of operating revenue, depreciation expense was 28.5% and 24.1% for the years ended December 31, 2007 and 2006, respectively. The increase in the total dollar amount is a result of the portfolio growth. The percentage increase is due to the amortization of intangibles as well as Killam's capital improvements, which are depreciated at a higher rate.

MANAGEMENT'S DISCUSSION AND ANALYSIS Dollar amounts in thousands (except as noted)

Amortization of Deferred Financing Costs

Deferred financing amortization increased $0.3 million in 2007 compared to 2006 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. Upon the adoption of CICA Handbook Section 3855, transaction costs are now deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability. As a result, unamortized deferred financing fees relating to mortgages and loans payable and debentures, of $5.7 million as at January 1, 2007, have been reclassified from deferred financing to the related debt amount on the balance sheet.

General and Administrative Expenses

For the years ended December 31,	**2007**	2006	% Change
Total	**$5,548**	$4,506	23.1%
As a percentage of total revenues	**6.2%**	6.3%	

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 and regional office expenses.

General and administrative expenses fell as a percentage of total revenue in 2007 versus 2006 due to an increased unit base.

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. The large increase in the expense is related to the issuance of common stock by the Company in 2007.

Income Tax

The Company has booked a future income tax recovery for 2007 and 2006 representing the future tax benefit of the accounting loss. Killam is not currently cash taxable and does not expect to pay cash taxes in the near future. The Company has not claimed the maximum CCA allowed over the past number of years and has the ability to reduce taxable income through increasing these claims. Based on the assumption that the Company does not add to its asset base, management estimates it would take approximately five years to fully utilize these deductions and begin paying cash taxes.

Funds from Operations (FFO)

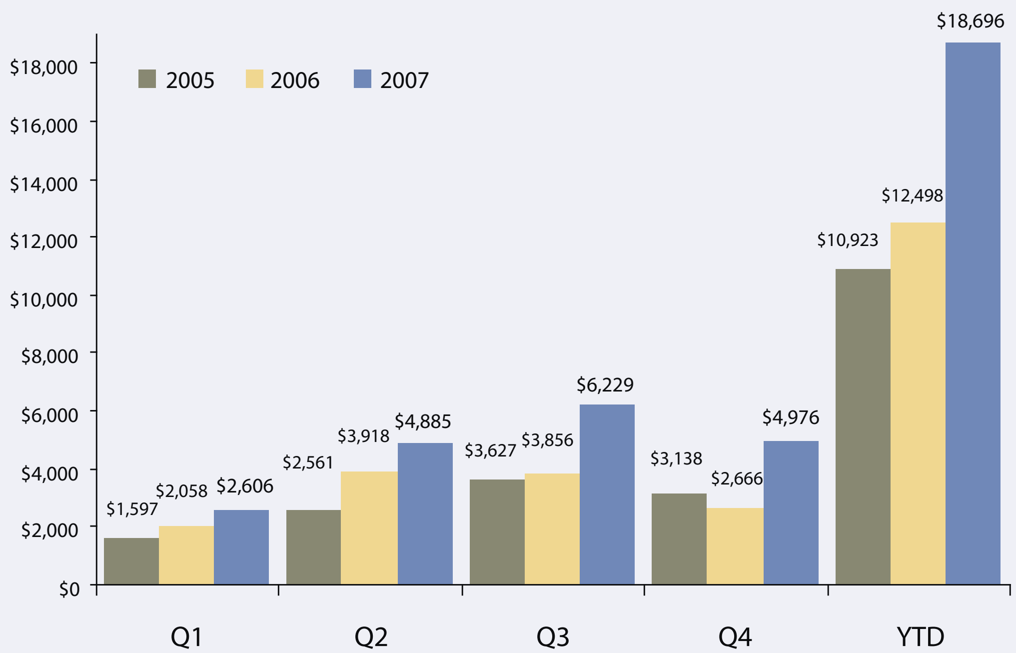
Management considers Funds from Operations (FFO) a key measurement of operating performance. FFO does not have a standardized meaning under GAAP and therefore may not be comparable to similarly titled measures presented by other public companies. Killam calculates FFO as follows:

For the years ended December 31,	**2007**	2006	% Change
Net loss	**$ (5,405)**	$ (3,757)	43.9%
Depreciation and amortization	**25,664**	17,913	43.3%
Non-cash debenture interest	**322**	258	24.8%
Non-cash share compensation	**385**	284	35.5%
Future income tax recovery	**(2,270)**	(2,200)	3.2%
Funds from operations	**$18,696**	$12,498	49.6%
FFO/share	**$0.63**	$0.60	5.0%
FFO/share - excluding 2006 land sales and loss on debt settlements	**$0.63**	$0.57	10.5%

The Company's FFO continued to grow on a total dollar basis increasing $6.2 million or 49.6% during 2007 due to a combination of increasing portfolio size and improved NOI performance. In addition, as at December 31, 2007, the Company had $14.6 million of cash available from the proceeds of its equity offering yet to deploy on an accretive basis.

FFO per share was $0.63, compared to $0.60 in 2006 however; FFO in 2006 included $1.1 million or $0.05 per share relating to the sale of surplus land and a loss on debt settlement of $0.4 million or $0.02 per share. Killam's FFO per share in 2007 improved 10.5% over 2006 after excluding these items.

Funds from Operations (in $000s)



MANAGEMENT'S DISCUSSION AND ANALYSIS Dollar amounts in thousands (except as noted)

Sources and Uses of Cash

Killam's cash flow from operations, financing and investing activities are summarized below:

For the years ended December 31,	**2007**	2006	% Change
Cash provided by operating activities	**$ 18,412**	$ 10,278	79.1%
Cash provided by financing activities	**116,358**	108,279	7.5%
Cash used in investing activities	**(123,164)**	(116,740)	(5.5)%
Increase in cash	**$ 11,606**	$ 1,817	539%

Cash from operating activities increased by $8.1 million, due primarily to the increased number of properties Killam owned in 2006 versus 2007.

Cash provided by financing activities increased by $8.1 million during 2007 compared to 2006, largely due to the cash raised through the issuance of common shares during 2007, partially offset by dividend payments. Killam completed two equity raises during 2007, for total net proceeds of $100.8 million. This compares to a total of $34.2 million of capital raised in 2006, including $14.2 million of equity and $20.0 million of subordinated debentures. The increased equity raised during 2007 was used to fund acquisitions and to pay down the acquisition credit facility, allowing Killam to reduce its total debt to gross book value to 66.7% compared to 75.8% at year-end 2006. In addition, $13.0 million of cash was used to fund Killam's dividend payments during 2007, representing 10 months of dividend payments, commencing March 2007.

Cash used in investing activities increased by $6.4 million during 2007, due primarily to a $21.6 million increase in acquisition activity, partially offset by a $6.8 million decrease in capital expenditures during the year. Cash used for investing activities is net of mortgages assumed and shares issued during acquisitions. A reconciliation of cash used in investing activities is shown below;

For the years ended December 31,	**2007**	2006	% Change
Acquisitions *(including 3rd party costs)*	**$ (128,617)**	$ (106,670)	20.6%
Capital improvements and development	**(18,538)**	(25,359)	(26.9)%
Shares issued on acquisitions	**1,687**	840	100.8%
Mortgages assumed on acquisitions	**23,548**	12,532	87.9%
Net cash used for capital assets	**$ (121,920)**	$ (118,657)	2.7%
(Increase) decrease in restricted cash	**(1,244)**	492	
Proceeds on sale of assets	—	1,425	
Cash used in investing activities	**$ (123,164)**	$ (116,740)	

Killam believes that cash generated by operations and refinancing of existing mortgages maturing in 2008 will be sufficient to meet its anticipated cash requirements for 2008 operations, including dividend payments and maintenance capital requirements for the existing portfolio. Net cash flow is not anticipated to significantly fund the acquisition program and MHC expansion projects during the year. Cash on hand, debt, and potentially new equity will be used to fund external growth opportunities.

Consolidated Balance Sheet

Real Estate Assets

As at December 31,	**2007**	2006	% change
Net book value	**$694,652**	$567,099	22.5%

Capital assets increased to $694.7 million from $567.1 million, as a result of the acquisition of 27 properties totaling 3,226 units during 2007.

The following table is a summary of the Company's acquisitions for the years ended December 31, 2007 and 2006. The acquisition value set out below excludes third party costs such as legal, environmental and other costs paid as part of the acquisition process.

For the years ended December 31,	**2007**	2006	Total Acquisitions
Apartment Acquisitions			
Value of acquisitions	**$77,125**	$76,212	$497,160
Units acquired	**968**	1,299	8,735
Average price per unit	**$79,675**	$58,629	$56,915
MHC Acquisitions			
Value of acquisitions	**$47,635**	$26,950	$155,117
Sites acquired	**2,258**	1,354	8,584
Average price per site	**$21,096**	$19,904	$18,070

The average price per apartment unit during the year ended December 31, 2007 is higher than Killam's historic purchase price per unit as certain properties acquired in 2007 were relatively newer than those in the portfolio. These newer assets require minimal capital and repair expenditures and demand higher rents. The average price per MHC site increased during 2007 with 8 of the 14 acquisitions in 2007 located in Ontario and the West.

Capital Improvements and Developments

In addition to property acquisitions, the Company has invested $18.5 million in development projects and property improvements during 2007 compared to $25.2 million in 2006 (a 26.3% decrease).

	2007	2006
Development projects	**$ 2,123**	$ 2,041
Major positioning projects	**777**	3,654
Natural gas conversions	**796**	695
	$ 3,696	$ 6,390
Project improvements	**$ 6,917**	$ 7,475
Sute improvements	**6,460**	8,781
Equipment	**392**	954
Appliances	**689**	915
Furniture & fixtures	**112**	361
Parking lots	**272**	278
	$14,842	$18,764
Total	**$18,538**	$25,154

The development costs totaling $2.1 million in 2007 relate to the expansion of five MHCs. Killam's Birch Hill property accounts for approximately $1.5 million of these capital expenditures including the 42 site expansion costs of $1.2 million ($29,000 per site). Costs were also incurred in 2007 to complete the Cowan and Greenhill expansions and to start the 39 site expansion at Pine Tree in Moncton and the 51 site expansion at Birchlee in Halifax.

MANAGEMENT'S DISCUSSION AND ANALYSIS Dollar amounts in thousands (except as noted)

Killam remains focused on growing the MHC portfolio through the expansion of existing communities, in addition to growth through acquisition. Management expects to expand the MHC portfolio by an additional 150-200 sites per year. 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.

Killam has invested $0.8 million on a major repositioning project at its Hillcrest property in Halifax during 2007. Hillcrest, like Parkwood and Veronica that were repositioned in 2006, was neglected by its former owner and suffered with high vacancy and a poor reputation.

Projects and suite improvements totaled $13.4 million in 2007 compared to $16.3 million in 2006, an 17.7% decrease. The majority of these capital costs include expenses to bring properties purchased in the last three years up to Killam's standard. These costs include such expenses as window, siding and roof replacements, elevator upgrades, sewer upgrades and extensive exterior work at one property. Capital costs for Killam's apartment properties are highest in the first one to three years of ownership as necessary work is completed. After this initial investment, portfolio experience shows that the capital cost per suite decreases considerably. Killam expects to spend an annual average of $700 per apartment unit and $150 per MHC site for properties that it has owned for over three years. These costs will be influenced by tenant turnover, market conditions, and individual property requirements, causing an annual variability in capital requirements.

Other Assets

As at December 31,	**2007**	2006	% change
Prepaid property taxes	**$ 768**	$ 636	20.7%
Prepaid insurance	**315**	307	2.6%
Other prepaids/assets	**436**	450	(3.1)%
Notes receivable	**375**	1,027	(63.5)%
Inventory	**1,605**	298	438.6%
Deferred charges	**344**	191	80.1%
Goodwill	**4,500**	4,500	—%
	$8,343	$7,409	12.6%

The increase in prepaid property taxes is due to the increased size of the portfolio. The note receivable as at December 31, 2007 relates to a land sale during 2006. The note is secured through a charge on the land sold to the third party. The increase in inventory is a result of the Company's increased home sale activity. Deferred charges relates to costs associated with the Company's expansion on certain vacant lands. Goodwill presented above is the tax effect of the Company's acquisition of a property through a share purchase transaction. The offsetting liability is presented in future income taxes.

Mortgages and Debentures Payable

As at December 31,	**2007**	2006	% change
Mortgages	**$453,007**	$ 381,738	18.7%
Vendor financing	**9,314**	7,540	23.5%
	462,321	389,278	18.8%
Less: deferred financing	**(3,862)**	—	
Total mortgages and vendor financing	**$458,459**	$ 389,278	
Convertible debentures	**$ 41,117**	$ 40,910	0.5%
Less: deferred financing	**(1,315)**	—	
Subordinated debentures	**19,281**	19,166	0.6%
Less: deferred financing	**(688)**	—	
Credit facility	**—**	19,278	
	$ 58,395	$ 79,354	
Total debt	**$516,854**	$468,632	
Weighted average years to maturity of mortgage and vendor debt	**4.7**	5.4	
Gross mortgage and vendor debt as a percentage of GBV	**59.0%**	63.0%	
Total gross debt as a percentage of GBV	**66.7%**	75.8%	
Interest coverage ratio	**1.66**	1.49	
Weighted average interest rate of mortgage and vendor debt	**5.5%**	5.5%	
Weighted average interest rate of total debt	**5.7%**	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. As at December 31, 2007 only 2% of Killam's mortgage and vendor debt have floating interest rates. 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.

As at December 31, 2007, approximately 33% of the Company's apartment mortgages are CMHC insured (25% of all mortgages). The weighted average interest rate on these CMHC insured mortgages was 5.25% as at December 31, 2007.

Killam's December 31, 2007, weighted average interest rate remained steady at 5.5% compared to December 31, 2006. The Company's weighted average years to maturity fell to 4.7 years from 5.4 years at December 31, 2006. The Company's assumed a number of mortgages related to its first quarter 2007 acquisitions that mature over the next two to three years which affected the average term to maturity. Killam refinanced six mortgages that matured during 2007. The weighted average interest rate on the new mortgages was 5.04%, 47 basis points less than the previous interest rate of 5.51%.

Total gross debt as a percentage of gross book value (GBV) decreased to 66.7% at December 31, 2007, from 75.8% at December 31, 2006. GBV is defined as total assets plus accumulated depreciation and deferred financing costs which have been netted against debt. The decrease relates primarily to the repayment of the credit facility in February 2007 with the proceeds from the private equity placement and the proceeds from the Company's prospectus offering in June 2007. During 2008 management expects to maintain the ratio of debt to GBV to between 65% and 70%.

MANAGEMENT'S DISCUSSION AND ANALYSIS Dollar amounts in thousands (except as noted)

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, 2007	Average Int. Rate %
2008	$ 40,811	5.88
2009	68,877	5.31
2010	48,190	5.24
2011	50,314	5.59
2012	57,388	5.45
2013	18,468	5.94
2014	36,072	5.83
2015	55,811	5.45
2016	67,646	5.25
2017	15,244	5.68
Thereafter	3,500	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 $12.40, any time after May 2007. The debentures are redeemable by the Company in the period from December 31, 2008 to December 31, 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 December 31, 2010 the debentures are 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 $14.40, $15.20 and $12.24, respectively.

Credit Facility

The Company's current $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 February 2007, Killam completed a 4.35 million common share private placement at $9.28 per share for gross proceeds of $40.4 million. An additional $0.9 million of capital stock was issued on the exercise of stock options in the first and second quarters of 2007. In June 2007, Killam completed a prospectus offering of 6.38 million common shares at $10.25 per share for gross proceeds of $65.4 million. An additional $1.7 million of common shares were issued in the second quarter as partial payment on property acquisitions. As at December 31, 2007, Killam had 33.4 million shares outstanding.

In January 2007, the Company instituted an annualized dividend of $0.56 per share (post consolidation), payable monthly. The first payment was made on April 16, 2007, to shareholders of record on March 30, 2007. In March 2007, the Company established a Dividend Reinvestment Plan ("DRIP") for common shareholders. The DRIP allows shareholders to elect to have all cash dividends from the Company reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to a five day weighted average closing price of the Company's common shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration. As at December 31, 2007, the Company has issued 166,209 common shares under the DRIP with a value of $1.5 million. As at December 31, 2007 the DRIP participation rate was approximately 14%.

In August 2007, the Company announced that the Toronto Stock Exchange (the "TSX") has accepted Killam's notice of intention to make a normal course issuer bid for its common shares. Under the normal course issuer bid, Killam may acquire up to 3.1 million common shares commencing on August 22, 2007, and ending on August 21, 2008. All purchases of common shares are made through the facilities of the TSX at the market price of the shares at the time of acquisition. Daily repurchases by Killam are limited to 55,607 common shares, other than block purchase exceptions. Any shares acquired are canceled. For the year ended December 31, 2007, 48,000 common shares were purchased and canceled. The shares were purchased at an average price of $8.67 per share. The aggregate cost of the common shares purchased and canceled in the quarter was $0.4 million of which $0.3 million was recorded as a charge against share capital for the average carrying value of the common shares, with the balance of $0.1 million charged against retained earnings.

Quarterly Results and Discussion of Q4 Operations

	2007				2006			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Rental revenue	**$22,730**	**$21,994**	**$20,107**	**$19,260**	$18,561	$18,029	$16,463	$15,757
Total operating revenue	**22,854**	**22,082**	**20,242**	**19,354**	18,627	18,504	17,201	15,874
Operating expenses	**9,540**	**8,071**	**7,814**	**9,140**	7,925	6,587	6,704	7,642
Operating expense %	**41.7%**	**36.6%**	**38.6%**	**47.2%**	42.5%	35.6%	39.0%	48.1%
NOI	**13,513**	**14,342**	**12,436**	**10,164**	10,782	11,970	10,496	8,231
Net loss	**(2,270)**	**(435)**	**(644)**	**(2,056)**	(1,717)	(684)	(151)	(1,205)
Per share basic	**(0.07)**	**(0.01)**	**(0.02)**	**(0.08)**	(0.08)	(0.03)	(0.01)	(0.06)
Funds from operations	**4,976**	**6,229**	**4,885**	**2,606**	2,666	3,856	3,918	2,058
Per share basic	**0.15**	**0.19**	**0.18**	**0.11**	0.12	0.18	0.19	0.10
Total assets	**723,680**	**721,536**	**692,347**	**622,007**	587,379	572,558	537,745	513,193
Shareholders' equity	**193,884**	**200,370**	**204,953**	**144,192**	107,653	108,405	93,591	93,683

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.

Highlights from Q4/07

- Operating revenue increased 22.7% or $4.2 million over the fourth quarter of 2006 and 3.5% over the third quarter of 2007. The increase was generally due to the continued growth in units.
- Operating expenses as a percentage of rental revenue was 41.7%, an 80 basis point reduction compared to the fourth quarter of 2006.
- Achieved 6.1% same store net operating income (NOI) growth.
- Increased funds from operations ("FFO") per share by 7.1% to $0.15 per share from $0.14 per share, when normalized for the loss on debt settlement in the fourth quarter of 2006.
- Completed $19.8 million in acquisitions to finish year with $124.8 million in acquisitions

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 Killam's existing markets that management believes would be detrimental to Killam's leasing programs.

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 time 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. To mitigate against renewal risk, the Company uses CMHC insured mortgages for a number of apartment financings.

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 Prince Edward Island, Ontario, and British Columbia 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 fixes rates through the use of SWAP contracts for a portion of its oil and natural gas 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, 2007 or 2006.

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 has allocated a portion of the purchase price to other in-place leases or tenant relationships as appropriate.

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.

Accounting Policy Changes

Effective January 1, 2007, the Company has adopted CICA Handbook Sections 1530 Comprehensive Income, 3855 Financial Instruments – Recognition and Measurement, and 3865 Hedges. 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") is recognized in the shareholders' equity section of the consolidated balance sheets beginning in 2007. AOCI includes the effective portion of changes in fair value of derivatives meeting the requirements for cash flow hedges and any unrealized gains and losses of financial assets classified as available-for-sale. The Company has recognized in other comprehensive income the fair value of fuel cash flow hedges in place as at December 31, 2007. There are no other transactions which require the recognition of other comprehensive income during the year ended December 31, 2007.

Financial Instruments – Recognition and Measurement: As a result of the new standard, financial assets must be classified as loans and receivables, 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 than 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.

As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents as held-for-trading for accounting purposes, which are measured on the balance sheet at fair value. Accounts receivable are classified as loans and receivables and are recorded at amortized cost. Accounts payable and accrued liabilities, security deposits and long-term debt are also measured at amortized cost and are classified as other financial liabilities.

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

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.

As at December 31, 2007, the Company has entered into various cash flow fuel hedges and has concluded that the hedges are effective.

Future Accounting Policy Changes

The CICA has issued new accounting standards 1535 Capital Disclosures, 3031 Inventories, 3862 Financial Instruments – Disclosure, and 3863 Financial Instruments – Presentation, which are applicable to the Company's 2008 fiscal year. The following provides more information on each new accounting standard.

Capital Disclosures

This new standard requires disclosure of the Company's objectives, policies, and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and, if the Company has not complied, the consequences of such non-compliance. The new accounting standard covers disclosure only and will have no effect on the financial results of the Company.

Inventories

The new standard provides more guidance on the measurement and disclosure requirements for inventories than the previous standard, 3030 Inventories. Specifically, the new standard requires that inventories be measured at the lower of cost and net realizable value, and provides more guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The Company does not anticipate the standard to have an effect on its results.

Financial Instruments – Disclosure, and Financial Instruments - Presentation

These new standards replace accounting standard 3861 Financial Instruments – Disclosure and Presentation. Presentation requirements have not changed. Enhanced disclosure is required to assist users of the financial statements in evaluating the significance of the financial instruments on the Company's financial position and performance, including qualitative and quantitative information about the Company's exposure to risks arising from financial instruments. The new accounting standards cover disclosure only and will have no effect on the financial results of the Company.

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, 2007 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 continues 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, 2007 that have materially affected, or are reasonably likely to materially affect its ICFR. No changes were identified through their evaluation.

Subsequent Events

During the period January 1 to March 3, 2008 the Company has refinanced $2.6 million of maturing debt for net proceeds of $0.9 million. The previous weighted average interest rate was 6.12% and the interest rate on the new debt is 4.53%. In addition the Company placed financing of $1.7 million on an MHC which had previously been purchased debt free.

On January 18, 2008 and February 19, 2008, the Company announced dividends of $0.046668 per share, payable on February 15, 2008 and March 17, 2008 respectively, to shareholders of record on January 31, 2008 and February 29, 2008 respectively.

The Company has purchased 50,900 common shares in the period January 1 to March 3, 2008 under its Normal Course Issuer Bid at an average price per share of $7.99.

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
February 29, 2008

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, 2007 and 2006 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, 2007 and 2006 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
February 29, 2008

CONSOLIDATED BALANCE SHEETS

In thousands

As at December 31,	**2007**	2006
ASSETS		
Real estate properties (note 4)	**$694,652**	$567,099
Cash and cash equivalents (note 3)	**14,635**	3,029
Restricted cash (note 3)	**4,426**	3,182
Accounts receivable	**1,444**	979
Income tax receivable	**88**	-
Other assets (note 5)	**8,343**	7,409
Deferred financing costs (net) (note 2)	**92**	5,681
	$723,680	$587,379
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgages and loans payable (note 6)	**$458,459**	$389,278
Convertible debentures (note 7)	**39,802**	40,910
Subordinated debentures (note 8)	**18,593**	19,166
Credit facility (note 9)	-	19,278
Accounts payable and accrued liabilities	**7,017**	7,448
Dividends payable	**1,566**	-
Income tax payable	-	236
Security deposits	**1,824**	1,520
Future income taxes (note 12)	**2,535**	1,890
	529,796	479,726
Shareholders' Equity		
Capital stock (note 10)	**214,565**	108,318
Contributed surplus (note 10)	**863**	688
Other paid-in capital (notes 7 and 8)	**2,468**	2,468
Accumulated other comprehensive income	**11**	-
Deficit	**(24,023)**	(3,821)
	193,884	107,653
	$723,680	$587,379

See accompanying notes

On behalf of the Board

G. Wayne Watson
Director

Philip D. Fraser
Director

CONSOLIDATED STATEMENTS OF INCOME

In thousands (except per share amounts)

For the year ended December 31,	**2007**	2006
Property Operations		
Rental revenue	**$84,091**	$68,810
Other operating income	**441**	1,396
Property operating expenses	**(34,565)**	(28,858)
Income from property operations	**49,967**	41,348
Home Sale Operations		
Home sale revenues	**3,282**	720
Cost of home sales	**(2,654)**	(590)
New home placement fees	**50**	5
Operating expenses	**(190)**	(4)
Income from home sales	**488**	131
Income before undernoted items	**50,455**	41,479
Corporate revenue	**(1,156)**	(509)
Mortgage and loan interest	**22,828**	18,626
Convertible debenture interest	**2,949**	2,935
Subordinated debenture interest	**1,348**	872
Credit facility interest	**252**	2,097
Loss on debt settlements	**-**	437
Depreciation	**24,059**	16,635
Amortization of deferred financing	**1,605**	1,278
General and administrative	**5,548**	4,506
Provincial capital taxes	**478**	333
Interest and bank charges	**219**	226
	58,130	47,436
Loss before income taxes	**(7,675)**	(5,957)
Recovery of income taxes		
- current	**-**	-
- future (note 12)	**2,270**	2,200
Net loss	**$(5,405)**	$(3,757)
Net loss per share		
- basic	**$(0.18)**	$(0.18)
- diluted	**$(0.18)**	$(0.18)

See accompanying notes

CONSOLIDATED STATEMENTS OF DEFICIT

In thousands

For the year ended December 31,

	2007	2006
Deficit, beginning of year	**$ (3,821)**	$ (64)
Net loss	**(5,405)**	(3,757)
Common shares repurchased and cancelled (note 10)	**(108)**	-
Dividends	**(14,689)**	-
Deficit, end of year	**$(24,023)**	$ (3,821)

CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME

In thousands

For the year ended December 31,

	2007	2006
Net loss	**$(5,405)**	$(3,757)
Settlement of futures contracts	**116**	-
Fair value of fuel hedges	**11**	-
Comprehensive loss	**$(5,278)**	$(3,757)

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME

In thousands

For the year ended December 31,

	2007	2006
Balance, beginning of year	**$ -**	$-
Transition adjustment (note 2)	**(116)**	-
Other comprehensive income	**127**	-
Balance, end of year	**$ 11**	$0

CONSOLIDATED STATEMENTS OF CASH FLOWS

In thousands

For the year ended December 31,	**2007**	2006
OPERATING ACTIVITIES		
Net loss	**$(5,405)**	$(3,757)
Add (deduct) items not affecting cash		
Depreciation and amortization	**25,664**	17,913
Non-cash debenture interest	**322**	258
Non-cash compensation expense	**385**	284
Future income taxes	**(2,270)**	(2,200)
Gain on land sale	**-**	(1,058)
Net change in non-cash working capital items related to operations	**(284)**	(1,162)
Cash provided by operating activities	**18,412**	10,278
FINANCING ACTIVITIES		
Increase in deferred financing	**(1,880)**	(2,190)
Issuance of common shares for cash	**101,415**	14,243
Repurchase of common shares for cash	**(416)**	-
Issuance of convertible subordinated debentures	**-**	19,966
(Repayment of) increase in credit facility	**(19,278)**	2,335
Repayment of long-term debt	**(15,666)**	(17,610)
Issuance of long-term debt	**65,161**	91,535
Cash dividends	**(12,978)**	-
Cash provided by financing activities	**116,358**	108,279
INVESTING ACTIVITIES		
(Increase) decrease in restricted cash	**(1,244)**	492
Proceeds on sale of assets	**-**	1,425
Purchase of capital assets	**(121,920)**	(118,657)
Cash used in investing activities	**(123,164)**	(116,740)
Net increase in cash and cash equivalents	**11,606**	1,817
Cash and cash equivalents, beginning of year	**3,029**	1,212
Cash and cash equivalents, end of year	**$14,635**	$3,029

See accompanying notes

Supplemental disclosure of cash paid		
Interest	**$27,333**	$25,164
Capital taxes	**$500**	$309

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.

Share consolidation

At the Annual and Special meeting of shareholders held May 10, 2007, the shareholders approved a one for four share consolidation. Accordingly, all share and per share amounts, as well as stock option and warrant information presented in these financial statements and notes have been adjusted for this change which was effective May 24, 2007.

Use of accounting estimates

The preparation of financial statements in conformity with GAAP 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 undiscounted cash flows and fair values of buildings for purposes of determining net recoverable amounts under GAAP.
(iii) The allocation of property acquisition purchase prices entails various estimates to determine the fair values of, and allocation of purchase prices to, the tangible and intangible assets and liabilities acquired.
(iv) 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. As at December 31, 2007, the Company's cash balances were held in bank accounts, which the Company's has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs.

Revenue recognition

Revenue from rental properties is recognized when a tenant commences occupancy of a rental unit or site 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. The purchase price of properties acquired is allocated to land, building, infrastructure, equipment and intangibles assets based on the fair values of the respective assets.

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/Water and sewer	4% - 6%	declining balance
Suite renovations	20%	declining balance
Project improvements	10%	declining balance
Other assets	5% - 30%	declining balance
Intangibles	Remaining term of lease	

Deferred financing costs

Financing fees and other costs incurred in connection with debt financing are, effective January 1, 2007, deducted from the cost of the debt and amortized using the effective interest method over the expected life 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.

Inventory

Inventories of manufactured homes are valued at the lower of cost and net realizable value.

Goodwill

Goodwill represents the excess of the purchase price of an acquired business over the net amount of the fair values assigned to its assets and liabilities and is not subject to amortization. The Company evaluates the carrying value of goodwill for potential impairment through an annual review and analysis of fair market value. Goodwill is also evaluated for potential impairment between annual tests if an event or circumstances occur that more likely than not reduces the fair value of a business below its carrying values. Fair market value is determined by use of net present value financial models, which incorporate management's assumptions of future profitability.

New Accounting Policies

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

Section 1530 – Comprehensive Income

This section provides reporting and disclosure requirements for certain gains and losses that otherwise are not immediately recorded in income. It requires an entity to recognize certain unrealized gains and losses in accumulated other comprehensive income, a new component of shareholders' equity and to present a new statement of comprehensive income. The Company has set up an opening transition adjustment in the accumulated other comprehensive income statement for fuel cash flow hedges in place as at January 1, 2007. The Company has recognized in other comprehensive income the fair value of fuel cash flow hedges in place as at December 31, 2007.

Section 3855 – Financial Instruments – Recognition and Measurement

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

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

Section 3861 – Financial Instruments – Disclosure and Presentation

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

(Dollar amounts in thousands, except per share amounts)

2. Summary of Significant Accounting Policies (continued)

Section 3865 – Hedges

Hedge accounting requires that the Company document its risk strategy objectives and the relationships between the hedging instrument and the hedged item. The Company is also required to assess the effectiveness of the hedging relationship throughout its term and that it remains consistent with the Company's risk strategy. As at December 31, 2007, the Company has entered into various fuel cash flow hedges and has concluded that the hedges are effective. The Company recognizes on its balance sheet the fair value of these hedges. The effective portion of the change in the fair value of the hedges is recorded in other comprehensive income and reclassified to fuel expense in the same period the related hedge is realized. Any ineffective portion of the change in fair value of the hedge is recognized in net earnings in the reporting period.

Future Accounting Policy Changes

The CICA has issued new accounting standards 1535 Capital Disclosures, 3031 Inventories, 3862 Financial Instruments – Disclosure, and 3863 Financial Instruments – Presentation, which are applicable to the Company's 2008 fiscal year. The following provides more information on each new accounting standard.

Capital Disclosures

This new standard requires disclosure of the Company's objectives, policies, and processes for managing capital; quantitative data about what the Company regards as capital; whether the Company has complied with any capital requirements; and, if the Company has not complied, the consequences of such non-compliance. The new accounting standard covers disclosure only and will have no effect on the financial results of the Company.

Inventories

The new standard provides more guidance on the measurement and disclosure requirements for inventories than the previous standard, 3030 Inventories. Specifically, the new standard requires that inventories be measured at the lower of cost and net realizable value, and provides more guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The Company does not anticipate the standard to have an effect on its results.

Financial Instruments – Disclosure, and Financial Instruments - Presentation

These new standards replace accounting standard 3861 Financial Instruments – Disclosure and Presentation. Presentation requirements have not changed. Enhanced disclosure is required to assist users of the financial statements in evaluating the significance of the financial instruments on the Company's financial position and performance, including qualitative and quantitative information about the Company's exposure to risks arising from financial instruments. The new accounting standards cover disclosure only and will have no effect on the financial results of the Company.

3. Cash and Restricted Cash

As at December 31,	**2007**	2006
Real estate deposits and property tax reserves	**$ 3,324**	$2,367
Tenant security deposits	**1,102**	815
Restricted cash	**4,426**	3,182
Cash	**14,635**	3,029
Total cash and cash equivalents	**$19,061**	$6,211

4. Real Estate Properties

As at December 31,	**2007**		2006	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 79,733**	**$ —**	$ 55,957	$ —
Buildings	**461,801**	**27,362**	394,353	17,018
Roads and driveways	**68,565**	**5,195**	49,585	2,947
Water and sewer	**69,304**	**7,685**	49,610	4,375
Equipment	**6,248**	**897**	4,689	415
Suite renovations	**23,551**	**6,417**	16,826	2,978
Project improvements	**31,838**	**4,555**	22,345	2,045
Other assets	**5,694**	**1,462**	4,314	802
Intangibles	**2,551**	**1,060**	—	—
	$749,285	**$ 54,633**	$597,679	$ 30,580
Less: accumulated amortization	**(54,633)**		(30,580)	
	$694,652		$567,099	

During the year ended December 31, 2007, the Company capitalized indirect costs of $1.1 million (2006 - $1.7 million) as part of its project improvement and suite renovation program. In addition, during the year ended December 31, 2007, $0.3 million of interest expense was capitalized as part of the Company's repositioning projects related to properties which were off-line and under development (2006 - $0.6 million).

5. Other Assets

As at December 31,	**2007**	2006
Prepaids	**$1,519**	$1,393
Notes receivable	**375**	1,027
Inventory	**1,605**	298
Deferred charges	**344**	191
Goodwill	**4,500**	4,500
	$8,343	$7,409

Goodwill presented above is the tax effect of the Company's acquisition of a property through a share purchase transaction. The offsetting liability is presented in future income taxes. The $0.4 million note receivable at December 31, 2007 bears interest at prime rate plus 1% and is secured through a charge on the land sold to the third party. Inventory relates to manufactured homes for which sales have not closed at year-end, as well as a certain number of stock homes.

(Dollar amounts in thousands, except per share amounts)

6. Mortgages and Loans Payable

As at December 31,	Maturities	Interest Rates	2007	2006
Mortgages	January 2008 – July 2019	3.62% - 8.47%	**$453,007**	$381,738
Vendor Financing	March 2008 – June 2016	0.00% - 9.20%	**9,314**	7,540
Total mortgages and loans			**$462,321**	$389,278
Less: deferred financing charges			**(3,862)**	—
			$458,459	$389,278

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

Principal repayments of mortgages and loans are due as follows:

Year	
2008	$ 51,862
2009	74,707
2010	53,181
2011	54,995
2012	32,694
Thereafter	194,882
	$462,321

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 $12.40 at any time after May 2007. At the time of issuance, the fair value of the Company's obligation to make principal and interest payments was $40.6 million and the fair value of the holders' conversion option was $1.6 million (which is reflected in "Other paid-in capital"). The effective rate of interest on the liability component is calculated at 7.2%. The balance sheet amount at December 31, 2007, is net of $1.3 million of deferred financing charges.

8. Subordinated Debentures

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

Face Amount	Interest Rate %	# of attached warrants	Exercise Price	2007	2006
$ 5,000	5.92%	347,222	$14.40	**$ 4,848**	$ 4,823
5,000	6.06%	328,947	$15.20	**4,842**	4,817
10,000	6.33%	816,993	$12.24	**9,591**	9,526
$20,000				**$19,281**	$19,166
		Less: Deferred financing charges		**(688)**	-
				$18,593	$19,166

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:

An operating facility which consists of a $0.75 million revolving demand facility for general business purposes, bearing interest at the lender's prime rate plus 1%. As at December 31, 2007, the Company had letters of credit totaling $0.4 million outstanding against this facility (December 31, 2006 - $0.4 million). The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

The Company's $40 million secured revolving credit facility with the Royal Bank of Canada is comprised of two tranches, and 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) plus a 0.3% fee on undrawn amounts. Killam has the right to choose between prime rate advances and BAs based on available rates and timing requirements. The second tranche increases the line to $40 million at improved rates of prime plus 75 basis points on prime rate advances, or 175 basis points over BAs. No amounts were outstanding on this facility as at December 31, 2007.

The Company's previous acquisition facility which was replaced in May 2007 consisted of the following;

(a) $20 million 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 $19.3 million balance outstanding related to this facility.

(b) $20 million 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.

10. Capital Stock and Contributed Surplus

Capital Stock

Authorized:
Unlimited number of common shares
Unlimited number of preferred shares, issuable in series

Issued:
The following table summarizes the changes in issued common shares of the Company:

For the year ended December 31,	**2007**		2006	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**22,063,161**	**$108,318**	20,333,384	$ 92,900
Issued for cash (i)	**10,730,000**	**100,762**	1,640,000	14,236
Issued on property acquisitions (ii)	**162,235**	**1,680**	86,777	837
Stock options exercised (iii)	**319,125**	**863**	3,000	9
Dividend reinvestment plan	**166,209**	**1,479**	—	—
Normal course issuer bid	**(48,000)**	**(308)**	—	—
Tax benefit of issuance costs	**—**	**1,771**	—	336
Balance, end of year	**33,392,730**	**$214,565**	22,063,161	$108,318

(i) Net of issuance costs of $5,000 (2006 - $852)
(ii) Net of issuance costs of $7 (2006 - $3)
(iii) Net of issuance costs of $0 (2006 - $Nil)

(Dollar amounts in thousands, except per share amounts)

10. Capital Stock and Contributed Surplus (continued)

Dividend Reinvestment Plan

In March 2007, the Company established a Dividend Reinvestment Plan ("DRIP") for common shareholders. The DRIP allows shareholders to elect to have all cash dividends from the Company reinvested in additional common shares. Shareholders who participate in the DRIP receive an additional dividend of common shares equal to 3% of each cash dividend that was reinvested. The price per share is calculated by reference to a five day weighted average closing price of the Company's common shares on the Toronto Stock Exchange preceding the relevant dividend date, which typically is on or about the 15th day of the month following the dividend declaration.

Normal Course Issuer Bid

In August 2007, the Company announced that the Toronto Stock Exchange (the "TSX") had accepted Killam's notice of intention to make a normal course issuer bid for its common shares. Under the normal course issuer bid, Killam may acquire up to 3,070,438 common shares commencing on August 22, 2007, and ending on August 21, 2008. All purchases of common shares are made through the facilities of the TSX at the market price of the shares at the time of acquisition. Daily repurchases by Killam are limited to 55,607 common shares, other than block purchase exceptions. Any shares acquired are cancelled.

For the year ended December 31, 2007, 48,000 common shares were purchased and cancelled. The shares were purchased at an average price of $8.67 per share. The aggregate cost of the common shares purchased and cancelled in the year was $0.4 million of which $0.3 million was recorded as a charge against share capital for the average carrying value of the common shares, with the balance of $0.1 million charged against retained earnings.

Contributed Surplus

For the year ended December 31,	**2007**	2006
Balance, beginning of year	**$688**	$405
Stock options expensed	**392**	294
Stock options exercised	**(210)**	(1)
Stock options forfeited	**(7)**	(10)
Balance, end of year	**$863**	$688

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 1,375,000 (December 31, 2006 – 1,375,000) 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:

For the year ended December 31,	**2007**		2006	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**967,000**	**$6.40**	777,125	$5.60
Granted	**183,750**	**8.04**	196,125	9.48
Exercised	**(319,125)**	**2.05**	(3,000)	2.40
Forfeited	**(3,125)**	**8.93**	(3,250)	8.20
Outstanding, end of year	**828,500**	**$8.43**	967,000	$6.40

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:

	2007	2006
Expected volatility	**23.8%**	41.9%
Risk-free interest rate	**4.3%**	4.3%
Expected lives	**5 years**	5 years
Expected dividend yield	**7%**	Nil

(Dollar amounts in thousands, except per share amounts)

11. Stock Options and Warrants (continued)

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

	2007			2006		
Exercise Prices	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$1.20	**—**	**—**	**—**	115,250	0.40 years	115,250
$1.20	**—**	**—**	**—**	2,500	0.44 years	2,500
$2.24	**—**	**—**	**—**	50,000	1.44 years	50,000
$2.60	**2,125**	**0.44 years**	**2,125**	152,125	1.44 years	152,125
$5.20	**2,500**	**0.92 years**	**2,068**	2,500	1.92 years	1,568
$6.76	**5,750**	**0.96 years**	**5,270**	7,375	1.96 years	6,397
$7.94	**45,000**	**4.54 years**	**2,625**	—	—	—
$8.00	**2,500**	**1.92 years**	**1,579**	2,500	2.92 years	1,079
$8.06	**137,500**	**4.63 years**	**12,146**	—	—	—
$8.20	**437,625**	**2.42 years**	**235,860**	438,625	3.42 years	149,985
$9.92	**2,500**	**3.50 years**	**752**	2,500	4.50 years	254
$9.60	**54,250**	**3.55 years**	**17,019**	56,125	4.55 years	7,246
$9.40	**137,500**	**3.61 years**	**38,157**	137,500	4.61 years	10,657
$10.04	**1,250**	**4.25 years**	**185**	—	—	—
	828,500		**317,786**	967,000		497,061

The exercisable options had a weighted average exercise price of $8.33 at December 31, 2007 ($4.24 as at December 31, 2006).

Warrants

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

As at December 31,	**2007**		2006	
Exercise price	**Number of Warrants Outstanding**	**Remaining Contractual Life**	Number of Warrants Outstanding	Remaining Contractual Life
$ 3.80	**125,000**	**0.66 years**	125,000	1.66 years
$14.40	**347,222**	**5.01 years**	347,222	6.01 years
$15.20	**328,947**	**5.01 years**	328,947	6.01 years
$12.24	**816,993**	**5.01 years**	816,993	6.01 years
	1,618,162		1,618,162	

The 125,000 warrants at $3.80 were issued upon obtaining a previous credit facility and expire August 27, 2008. The warrants priced at $14.40, $15.20 and $12.24 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:

For the year ended December 31,	**2007**		2006	
Net loss before income taxes	**$(7,675)**		$(5,957)	
Income tax recovery at statutory rates	**$ 2,840**	**37.0%**	$ 2,216	37.2%
Rate change	**(287)**	**(3.7)%**	—	— %
Non-deductible share compensation	**(119)**	**(1.5)%**	(109)	(1.8)%
Non-deductible debenture interest	**(142)**	**(1.9)%**	(92)	(1.5)%
Non-taxable portion of land sales	**—**	**— %**	197	3.3%
Other differences	**(22)**	**(0.2)%**	(12)	(0.2)%
Future tax recovery	**$ 2,270**	**29.6%**	$ 2,200	36.9%

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:

As at December 31,	**2007**	2006
Share issue costs	**$ 1,875**	$ 993
Deferred financing	**(179)**	(123)
Real estate properties	**(4,231)**	(2,759)
Net future income tax liability	**$(2,535)**	$(1,889)

13. Per Share Information

The following are the weighted average number of shares outstanding for the years ended December 31, 2007 and 2006. The fully diluted amounts shown below exclude the convertible debentures as they are considered anti-dilutive as well as stock options and warrants whose exercise price exceeded the average market price for the period.

For the year ended December 31,	**2007**	2006
Basic	**29,652,746**	20,952,445
Fully diluted	**29,904,337**	21,424,365

(Dollar amounts in thousands, except per share amounts)

14. Segmented Information

The Company operates in two rental segments of the multi-family residential industry: 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 income from property operations before interest and amortization. The operating results and capital assets of the segments are set out as follows:

As at and for the year ended December 31, 2007

	Apartments	**Manufactured Home Communities**	**Total**
Rental revenue	**$66,065**	**$18,026**	**$84,091**
Other income	**286**	**155**	**441**
	66,351	**18,181**	**84,532**
Property operating expenses	**28,302**	**6,263**	**34,565**
Income from property operations	**$38,049**	**$11,918**	**$49,967**
Capital assets (net)	**$533,425**	**$160,249**	**$693,674**
Corporate assets (net)			**978**
Total capital assets (net)			**$694,652**

As at and for the year ended December 31, 2006

	Apartments	Manufactured Home Communities	Gain on Land Sales	Total
Rental revenue	$55,687	$13,123	$ —	$68,810
Other income	237	101	1,058	1,396
	55,924	13,224	1,058	70,206
Property operating expenses	24,330	4,528	—	28,858
Income from property operations	$31,594	$ 8,696	$1,058	$41,348
Capital assets (net)	$456,855	$109,178		$566,033
Corporate assets (net)				1,066
Total capital assets (net)				$567,099

15. Financial Risks

The Company is exposed to financial risk that arises from, among other factors, fluctuation in interest rates and the credit quality of its tenants. These risks are managed as follows:

(i) Interest rate risk

Interest rate risk is minimized through management's periodic review of its mortgage portfolio. If market conditions warrant, the Company will attempt to 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, 2007 and December 31, 2006 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 $491.6 million (2006 - $396.6) compared to its gross book value of $462.3 million (2006 - $389.3 million).

As at December 31, 2007, the Company had entered into natural gas and oil SWAP contracts to hedge portions of its fuel requirements for the period January 1, 2008 to March, 31, 2008 as follows;

Item	Quantity Hedged	% of estimated usage hedged	Fair Value
Oil	600,000 litres	39%	$0.04 million
Natural Gas	18,000 Gj	30%	$(0.03) million

For accounting purposes, all settlements are recorded as fuel expense in the period settlement occurs.

16. Related Party Transactions

During the year ended December 31, 2007, the Company paid real estate commissions of $0.2 million to a Company controlled by a Director (2006 – $0.05 million). There is no continuing contractual obligation to use the service of the related party.

During the year ended December 31, 2007, the Company acquired two properties for a total of $7.5 million from two entities which two Directors of Killam had interests in. An independent appraisal was obtained to support the purchase prices and the Board of Directors of the Company approved the purchases.

17. Subsequent Events

During the period January 1 to March 3, 2008 the Company has refinanced $2.6 million of maturing debt for net proceeds of $0.9 million. The previous weighted average interest rate was 6.12% and the interest rate on the new debt is 4.53%. In addition the Company placed financing of $1.7 million on an MHC which had previously been purchased debt free.

On January 18, 2008 and February 19, 2008, the Company announced dividends of $0.046668 per share, payable on February 15, 2008 and March 17, 2008 respectively, to shareholders of record on January 31, 2008 and February 29, 2008 respectively.

The Company has purchased 50,900 common shares in the period January 1 to March 3, 2008 under its Normal Course Issuer Bid at an average price per share of $7.99.

18. Comparative Figures

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

FIVE YEAR SUMMARY

FIVE YEAR SUMMARY

(in thousands, except per share amounts)

Statement of Earnings Information	2007	2006	2005	2004	2003
Income from Property Operations	**$49,967**	$41,348	$27,898	$10,980	$3,050
Income from Home Sales	**$488**	$131	$-	$-	$-
Corporate Revenue	**$1,156**	$509	$267	$55	$22
Interest Costs	**$27,596**	$24,756	$14,996	$5,242	$1,657
General and Administrative	**$5,548**	$4,506	$2,271	$1,460	$727
Loss on Debt Settlement	**$-**	$437	$-	$-	$-
Amortization	**$25,664**	$17,913	$10,412	$3,854	$655
Provincial Capital Tax	**$478**	$333	$209	$100	$71
Recovery of (Provision for) Income Taxes	**$2,270**	$2,200	$(272)	$(144)	$(58)
Net (Loss) Income	**$(5,405)**	$(3,757)	$5	$235	$(96)
Balance Sheet Information					
Capital Assets (net)	**$694,652**	$567,099	$452,076	$235,199	$61,691
Other Assets	**$29,028**	$20,280	$17,440	$7,647	$14,499
Total Assets	**$723,680**	$587,379	$469,516	$242,846	$76,190
Mortgage Debt	**$458,459**	$389,278	$302,821	$159,901	$36,691
Other Liabilities	**$71,337**	$90,448	$71,851	$4,970	$8,879
Shareholders' Equity	**$193,884**	$107,653	$94,844	$77,975	$30,620
Total Liabilities and Shareholders' Equity	**$723,680**	$587,379	$469,516	$242,846	$76,190
Statement of Cash Flow Information					
Cash Provided by Operating Activities	**$18,412**	$10,278	$14,916	$5,932	$1,206
Cash Provided by Financing Activities	**$116,358**	$108,279	$169,940	$117,061	$53,094
Cash Used in Investing Activities	**$(123,164)**	$(116,740)	$(184,139)	$(132,008)	$(45,218)
Funds From Operations	**$18,696**	$12,498	$10,923	$4,232	$576
Share Information					
Weighted Average Number of Shares - Basic	**29,653**	20,952	19,716	15,170	7,307
Weighted Average Number of Shares - Fully Diluted	**29,904**	21,424	20,266	15,992	7,790
Shares Outstanding at December 31	**33,393**	22,063	20,333	18,714	12,010
Per Share Information					
FFO per Share - Basic	**$ 0.63**	$ 0.60	$ 0.55	$ 0.28	$ 0.08
FFO per Share - Fully Diluted	**$ 0.63**	$ 0.58	$ 0.54	$ 0.26	$ 0.07
Net Earnings - Basic	**$ (0.18)**	$ (0.18)	$ 0.00	$ 0.02	$ (0.01)
Share Price at December 31	**$ 9.21**	$ 10.12	$ 11.52	$ 8.20	$ 7.00

CORPORATE INFORMATION

CORPORATE INFORMATION

Board of Directors

Timothy R. Banks (3)
President, APM Group of Companies
Charlottetown, Prince Edward Island

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

Robert G. Kay (1)
Chairman, Springwall Group International and Springwall Sleep Products Inc.
Moncton, New Brunswick

James C. Lawley (1)(2)
General Manager, Scotia Fuels Ltd.
Halifax, Nova Scotia

Arthur G. Lloyd
Corporate Director
Calgary, Alberta

George J. Reti (2)(3)
Corporate Director
Calgary, Alberta

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

Manfred J. Walt, CA (3)
President & CEO, Walt and Co. Inc.
Toronto, Ontario

G. Wayne Watson, CA (1)(2)
Corporate Director
Halifax, Nova Scotia

(1) member of the Audit Committee
(2) member of the Corporate Governance, Nomination and Succession Committee
(3) member of the Compensation Committee

Executive Team

Philip Fraser
President & Chief Executive Officer

Robert Richardson, FCA
Executive Vice President & Chief Financial Officer

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

Dale Noseworthy, CA, CFA
Director, Investor & External Relations
902.442.0388

Auditors

Ernst & Young, LLP
Halifax, NS

Solicitors

Bennett Jones, LLP
Calgary, AB

Stewart McKelvey Sterling Scales
Halifax, NS

Registrar and Transfer Agent

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Suite 2008, Purdy's Wharf, Tower II
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Share Listing

Toronto Stock Exchange (TSX)
Trading Symbol: KMP, KMP: DB

Monthly Dividend

March 2007 - December 2007
$0.046668 per share

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ANNUAL AND SPECIAL MEETING

The Annual and Special Meeting of Shareholders will be held on Thursday, May 8, 2008 at 10:00 am Atlantic Time at the Four Points Sheraton, 1496 Hollis Street, Halifax, Nova Scotia

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