Consolidated Balance Sheets

In thousands

As at

(Unaudited)	September 30, 2009	December 31, 2008
ASSETS		
Real estate properties *(note 3)*	$708,731	$718,550
Cash and cash equivalents *(note 4)*	25,407	4,334
Restricted cash *(note 4)*	4,733	5,544
Accounts receivable	1,608	1,392
Income tax receivable	387	20
Other assets *(note 5)*	11,155	8,828
Deferred financing costs (net)	119	-
Future income taxes	351	-
	$752,491	$738,668
LIABILITIES AND SHAREHOLDERS' EQUITY		
Mortgages and loans payable *(note 6)*	$498,838	$484,092
Convertible debentures *(note 7)*	40,686	40,293
Subordinated debentures *(note 8)*	19,033	18,837
Credit facility *(note 9)*	-	10,441
Accounts payable and accrued liabilities	8,311	7,900
Dividends payable	1,794	1,591
Security deposits	2,100	2,005
Future income taxes	-	316
	570,762	565,475
Shareholders' Equity		
Capital stock *(note 10)*	242,417	218,057
Contributed surplus *(note 10)*	1,734	1,332
Other paid-in capital *(notes 7 and 8)*	2,468	2,468
Accumulated other comprehensive loss	(161)	(550)
Deficit	(64,729)	(48,114)
	181,729	173,193
	$752,491	$738,668

See accompanying notes

On behalf of the Board

(signed) "G. Wayne Watson"
G. Wayne Watson

(signed) "Philip D. Fraser"
Philip Fraser

Consolidated Statements of Income (Loss)

In thousands (except per share amounts)

	For the 3 months ended September 30		For the 9 months ended September 30	
(Unaudited)	2009	2008	2009	2008
Property Operations				
Rental revenue	$26,808	$25,572	$77,679	$72,264
Other operating income	190	155	387	332
Property operating expenses	(9,454)	(9,805)	(30,778)	(30,658)
Income from property operations	17,544	15,922	47,288	41,938
Home Sale Operations				
Home sale revenues	1,205	1,781	1,953	5,242
Cost of home sales	(1,019)	(1,413)	(1,682)	(4,197)
New home placement fees	33	53	52	78
Operating expenses	(35)	(41)	(91)	(147)
Income from home sales	184	380	232	976
Income before undernoted items	17,728	16,302	47,520	42,914
Corporate revenue	(106)	(85)	(320)	(633)
Mortgage and loan interest	6,568	6,258	19,607	18,815
Convertible debenture interest	746	740	2,234	2,220
Subordinated debenture interest	341	340	1,018	1,016
Credit facility interest	2	78	56	78
Depreciation	6,904	6,841	20,247	19,928
Amortization of deferred financing	341	345	1,209	996
General and administrative	1,848	1,453	5,090	4,633
Provincial capital taxes	49	92	325	288
Interest and bank charges	78	66	205	172
	16,771	16,128	49,671	47,513
Income (loss) before income taxes	957	174	(2,151)	(4,599)
Future tax (expense) recovery	(360)	(116)	480	1,284
Net income (loss)	$597	$58	($1,671)	($3,315)
Net income (loss) per share				
- basic	$ 0.01	$ -	$ (0.05)	$ (0.10)
- diluted	$ 0.01	$ -	$ (0.05)	$ (0.10)

Consolidated Statements of Deficit

In thousands

(Unaudited)	*For the three months ended September 30* 2009	2008	*For the nine months ended September 30* 2009	2008
Deficit, beginning of period	($59,943)	($36,977)	($48,114)	($24,023)
Net income (loss)	597	58	(1,671)	(3,315)
Common shares repurchased and cancelled *(note 10)*	-	(20)	-	(186)
Dividends	(5,383)	(4,726)	(14,944)	(14,141)
Deficit, end of period	($64,729)	($41,665)	($64,729)	($41,665)

Consolidated Statements of Comprehensive Income (Loss)

In thousands

(Unaudited)	*For the three months ended September 30* 2009	2008	*For the nine months ended September 30* 2009	2008
Net income (loss)	$597	$58	($1,671)	($3,315)
Fair value of fuel hedges, net of tax	(9)	(546)	389	(406)
Comprehensive income (loss)	$588	($488)	($1,282)	($3,721)

Consolidated Statements of Accumulated Other Comprehensive Loss

In thousands

(Unaudited)	*For the three months ended September 30* 2009	2008	*For the nine months ended September 30* 2009	2008
Balance, beginning of period	($152)	$140	($550)	$0
Fair value of fuel hedges, net of tax	(9)	(546)	389	(406)
Balance, end of period	($161)	($406)	($161)	($406)

Consolidated Statements of Cash Flows

In thousands

(Unaudited)	*For the 3 months ended September 30* 2009	2008	*For the 9 months ended September 30* 2009	2008
OPERATING ACTIVITIES				
Net income (loss)	$597	$58	($1,671)	($3,315)
Add (deduct) items not affecting cash				
Depreciation and amortization	7,245	7,186	21,456	20,924
Non-cash debenture interest	94	85	277	256
Non-cash compensation expense	109	104	341	284
Future income taxes	360	116	(480)	(1,284)
Net change in non-cash working capital items related to operations	2,405	(18)	(1,637)	(3,793)
Cash provided by operating activities	10,810	7,531	18,286	13,072
FINANCING ACTIVITIES				
Increase in deferred financing	(311)	(137)	(1,835)	(1,178)
Issue of common shares for cash	23,369	-	23,369	488
Repurchase of common shares for cash	-	(291)	(283)	(1,157)
(Repayment of) increase in credit facility	(863)	10,600	(10,600)	10,600
Repayment of long-term debt - on refinancing	(14,877)	(7,442)	(52,684)	(27,420)
Regular principal repayments	(3,126)	(3,687)	(9,371)	(9,744)
Issuance of long-term debt	15,864	11,985	78,194	42,039
Cash dividends	(5,183)	(4,159)	(14,017)	(12,141)
Cash provided by financing activities	14,873	6,869	12,773	1,487
INVESTING ACTIVITIES				
(Increase) decrease in restricted cash	(741)	(1,164)	811	1
Purchase of capital assets	(5,047)	(16,125)	(10,797)	(26,398)
Cash used in investing activities	(5,788)	(17,289)	(9,986)	(26,397)
Net increase (decrease) in cash and cash equivalents	19,895	(2,889)	21,073	(11,838)
Cash and cash equivalents, beginning of period	5,512	5,686	4,334	14,635
Cash and cash equivalents, end of period	$25,407	$2,797	$25,407	$2,797

See accompanying notes

Supplemental disclosure of cash paid				
Interest	$7,631	$7,405	$22,852	$22,077
Capital taxes	$222	$0	$693	$333

Notes to Consolidated Financial Statements

Dollar amounts in thousands (except per share amounts)

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 in accordance with CICA Handbook Section 1600.

The financial statements follow the same accounting policies and their methods of application as the Company's consolidated financial statements for the year ended December 31, 2008 except as described below. The Company's interim consolidated financial statements do not include all disclosures required by GAAP for annual financial statements and accordingly, should be read in conjunction with the consolidated financial statements and accompanying notes for the year ended December 31, 2008.

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.

Seasonality

The Company's results for the three and nine months ended September 30, 2009 and 2008 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in utility, landscaping and snow removal costs. The Company has historically experienced higher utility expenses in the first and fourth quarters as a result of the winter months.

Cash and cash equivalents

Cash and cash equivalents consist of cash. As at September 30, 2009, the Company's cash balances were held in bank accounts, which the Company has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs.

2. Summary of Significant Accounting Policies (continued)

New Accounting Policies

Effective January 1, 2009, the Company has adopted the following sections of the Canadian Institute of Chartered Accountants (CICA) Handbook:

Section 3064 – Goodwill and Intangible Assets

The new standard which replaces Section 3062, Goodwill and Other Intangible Assets, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's interim and annual financial statements commencing January 1, 2009. The adoption of this section did not have an impact on the Company's financial results.

EIC-173, Credit Risk and the Fair value of Financial Assets and Financial Liabilities

On January 20, 2009 the Emerging Issues Committee ("EIC") issued a new abstract EIC 173 "Credit risk and the fair value of financial assets and financial liabilities". This abstract concludes that an entity's own credit risk and the credit risk of the counterparty should be taken into account when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract is to apply to all financial assets and liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009. The adoption of this abstract did not impact the Company's financial statements.

Future Accounting Policy Changes

Business combinations

In January 2009, the CICA issued CICA Handbook Section 1582, Business Combinations, Section 1601, Consolidations, and Section 1602, Non-controlling Interests. These sections replace the former CICA Handbook Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements and establish a new section for accounting for a non-controlling interest in a subsidiary. Section 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of consolidated financial statements.

These new section apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently. The Company is currently evaluating the impact of the adoption of these sections

International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board recently ratified a strategic plan that will see Canadian GAAP converged with, and replaced by, International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. During 2008 Killam engaged an external advisor to prepare an initial assessment which included a review of the major differences between Canadian GAAP and IFRS which could affect the Company. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. Further, the Company anticipates a significant increase in disclosures resulting from the adoption of IFRS and is continuing to assess the level of disclosure required and any necessary system changes to gather and process information.

Dollar amounts in thousands (except per share amounts)

3. Real Estate Properties

As at	**September 30, 2009**		December 31, 2008	
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization
Land	**$ 85,396**	**$ —**	$ 85,320	$ —
Buildings	**486,790**	**47,414**	487,172	38,639
Roads and driveways	**71,175**	**9,683**	71,160	7,782
Water and sewer	**71,924**	**14,181**	71,909	11,460
Equipment	**7,410**	**1,842**	7,009	1,432
Suite renovations	**31,174**	**13,246**	28,421	10,325
Project improvements	**45,568**	**10,286**	39,619	7,666
Other assets	**7,984**	**2,569**	6,384	2,075
Intangibles	**3,549**	**3,018**	3,549	2,614
	$810,970	**$102,239**	$800,543	$81,993
Less: accumulated amortization	**(102,239)**		(81,993)	
	$708,731		$718,550	

During the three and nine months ended September 30, 2009, the Company capitalized indirect costs of $0.3 million and $0.7 million respectively (2008 - $0.2 million and $0.6 million) as part of its project improvement and suite renovation program.

4. Cash and Restricted Cash

Cash

As at September 30, 2009, the Company's cash balances were held in bank accounts, which the Company has full access to, and do not include any instruments related to asset-backed securities or commercial paper programs.

Restricted Cash

As at	**September 30, 2009**	December 31, 2008
Real estate deposits and property tax reserves	**$3,082**	$4,128
Tenant security deposits	**1,651**	1,416
Restricted cash	**$4,733**	$5,544

5. Other Assets

As at	**September 30, 2009**	December 31, 2008
Prepaids	**$ 4,283**	$1,704
Inventory	**2,248**	2,461
Deferred charges	**124**	163
Goodwill	**4,500**	4,500
	$11,155	$8,828

Inventory relates to manufactured homes for which sales have not closed at quarter-end, as well as a number of stock homes. Approximately $0.1 million of the inventory is pledged as collateral related to short-term financing on the purchase of new manufactured homes for future sale. Goodwill presented above is the tax effect of the Company's acquisition of a property business through a share purchase transaction. The off-setting liability is presented in future income taxes.

Notes to Consolidated Financial Statements

Dollar amounts in thousands (except per share amounts)

6. Mortgages and Loans Payable

As at	**Maturities**	**Interest Rates**	**September 30, 2009**	December 31, 2008
Mortgages	Oct 2009 – July 2019	2.75% - 8.47%	**$497,164**	$478,367
Vendor financing	May 2010 – June 2016	0.00% - 9.20%	**7,620**	10,692
Total mortgages and loans			**$504,784**	$489,059
Less: deferred financing charges			**(5,946)**	(4,967)
			$498,838	$484,092

Mortgages are secured by a first charge on the properties of the Company and vendor mortgages are secured by either a second charge on the property and/or a general corporate guarantee. The weighted average mortgage rate at September 30, 2009 was 5.2% (December 31, 2008 – 5.3%).

Regular Principal and Maturity Repayments		Average Interest Rate by Year of Maturity	
Year	Amount	Balance September 30, 2009	Weighted Avg. Int. Rate
2009	$ 21,735	$ 18,590	5.56%
2010	55,689	48,262	5.24%
2011	59,335	50,664	5.59%
2012	50,709	50,794	5.46%
2013	64,320	77,318	4.84%
Thereafter	252,996	259,156	5.08%
	$504,784	$504,784	5.17%

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 September 30, 2009 is net of $0.8 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**	**September 30, 2009**	December 31, 2008
$ 5,000	5.92%	347,222	$14.40	**$ 4,896**	$ 4,874
5,000	6.06%	328,947	$15.20	**4,891**	4,869
10,000	6.33%	816,993	$12.24	**9,718**	9,662
$20,000				**$19,505**	$19,405
		Less: Deferred financing charges		**(472)**	(568)
				$19,033	$18,837

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 credit facilities set out as follows:

I. A credit facility with a major financial institution that can be used to finance the Company's on-going acquisition program. The amount available under the revolving facility varies with the value of pledged assets, to a maximum of $15 million. The facility includes the option for a commitment increase, allowing Killam a one-time opportunity to increase the credit limit to $40 million. The interest rate on the debt is either prime plus 300 basis points on prime rate advances or 400 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. As at September 30, 2009 the Company has $1.7 million of assets pledged to the line and had a balance outstanding at September 30, 2009 of $Nil. This facility expires in May 2010 and includes an opportunity to extend the maturity date by an additional year.

II. An operating facility which consists of a $1.0 million revolving demand facility for general business purposes, bearing interest at the lender's prime rate plus 2%. As at September 30, 2009, the Company had letters of credit totaling $0.4 million outstanding against this facility (December 31, 2008 - $0.4 million). The agreement includes certain restrictive covenants and undertakings of which the Company is in compliance.

10. Capital Stock and Contributed Surplus

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 2008, the Company announced that the Toronto Stock Exchange (the "TSX") had accepted Killam's notice of intention to renew its normal course issuer bid for its common shares. Under the normal course issuer bid, Killam may acquire up to 3,120,108 common shares commencing on August 22, 2008, and ending on August 21, 2009. 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 32,171 common shares, other than block purchase exceptions. Any shares acquired are cancelled.

For the three and nine months ended September 30, 2009, Nil and 53,600 common shares were purchased and cancelled respectively (2008 – 42,300 and 151,200 common shares). The shares were purchased at an average price of $Nil and $5.28 per share (2008 - $6.90 and $7.66 per share). The aggregate cost of the common shares purchased and cancelled for the three and nine months ended September 30, 2009 was $Nil million and $0.3 million (2008 - $0.3 million and $1.2 million). For the three and nine months ended September 30, 2009, $Nil million and $0.2 million was recorded as a charge against share capital for the average carrying value of the common shares (2008 - $0.3 million and $1.0 million) with the remainder charged against retained earnings and contributed surplus.

Notes to Consolidated Financial Statements

Dollar amounts in thousands (except per share amounts)

10. Capital Stock and Contributed Surplus (continued)

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:

	2009		2008	
	Number of Shares	**Value**	Number of Shares	Value
Balance, beginning of year	**34,027,582**	**$218,057**	33,392,730	$214,565
Issued during 1st quarter				
Dividend reinvestment plan	**69,278**	**347**	91,232	724
Normal course issuer bid	**(29,600)**	**(190)**	(68,600)	(441)
Stock options exercised	—	—	1,500	11
Tax benefit of issuance costs	—	—	—	1
Balance, end of quarter	**34,067,260**	**$218,214**	33,416,862	$214,860
Issued during 2nd quarter				
Stock options exercised	—	—	2,125	8
Warrants exercised	—	—	125,000	475
Dividend reinvestment plan	**66,699**	**365**	85,241	684
Normal course issuer bid	**(24,000)**	**(154)**	(40,300)	(259)
Balance, end of quarter	**34,109,959**	**$218,425**	33,588,928	$215,768
Issued during 3rd quarter				
Issued for cash (i)	**4,255,000**	**23,369**	—	—
Dividend reinvestment plan	**41,614**	**259**	101,106	707
Normal course issuer bid	—	—	(42,300)	(272)
Tax benefit of issuance costs	—	**364**	—	—
Balance, end of quarter	**38,406,573**	**$242,417**	33,647,734	$216,203

(i) Net of issue costs of $1.3 million.

Contributed Surplus

For the three and nine months ended September 30,	**2009**	2008
Balance, beginning of year	**$1,332**	$ 863
Stock options expensed	**102**	101
Stock options exercised	—	(4)
Normal course issuer bid	**37**	—
Balance, end of 1st quarter	**$1,471**	$ 960
Stock options expensed	**130**	121
Stock options exercised	—	(2)
Stock options forfeited	—	(42)
Normal course issuer bid	**24**	—
Balance, end of 2nd quarter	**$1,625**	$1,037
Stock options expensed	**109**	104
Balance, end of 3rd quarter	**$1,734**	$1,141

Dollar amounts in thousands (except per share amounts)

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 2,125,000 (December 31, 2008 – 2,125,000) and the total number of shares to be optioned to any eligible participant shall not exceed 10% of the issued and outstanding shares of the class as at the date such option is granted;

(iv) the option price for the shares is determined at the time of granting of the option but cannot be less than the fair market value of the shares at the time the option is granted less any applicable discount permitted by the Toronto Stock Exchange; and

(v) the term during which any option granted may be exercised is determined by the Company at the time the option is granted but may not exceed the maximum period permitted from time to time by the Toronto Stock Exchange.

Options granted and exercised during the three and nine months ended September 30 are as follows:

For the three and nine months ended September 30,	**2009**		2008	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**926,875**	**$8.40**	828,500	$6.40
Granted	—	—	1,250	8.11
Exercised	—	—	(1,500)	5.20
Outstanding, end of 1st quarter	**926,875**	**$8.40**	828,250	$8.43
Granted	**405,000**	**5.32**	137,500	8.03
Exercised	—	—	(2,125)	2.60
Forfeited	—	—	(30,500)	8.38
Outstanding, end of 2nd quarter	**1,331,875**	**$7.46**	933,125	$8.39

Dollar amounts in thousands (except per share amounts)

11. Stock Options and Warrants (continued)

The following table summarizes the stock options outstanding at:

As at	**September 30, 2009**			December 31, 2008		
Exercise Prices	**Number of Options Outstanding**	**Remaining Contractual Life**	**Options Exercisable**	Number of Options Outstanding	Remaining Contractual Life	Options Exercisable
$5.32	**405,000**	**4.58 years**	**108,000**	—	—	—
$7.94	**40,000**	**2.79 years**	**5,792**	40,000	3.54 years	4,292
$8.03	**137,500**	**3.67 years**	**64,172**	137,500	4.42 years	43,544
$8.06	**137,500**	**2.88 years**	**60,271**	137,500	3.63 years	39,646
$8.11	**1,250**	**3.34 years**	**416**	1,250	4.09 years	227
$8.20	**420,750**	**0.67 years**	**372,910**	420,750	1.42 years	310,192
$9.40	**137,500**	**1.86 years**	**86,282**	137,500	2.61 years	65,657
$9.60	**48,625**	**1.80 years**	**32,043**	48,625	2.55 years	24,729
$9.92	**2,500**	**1.75 years**	**1,620**	2,500	2.50 years	1,248
$10.04	**1,250**	**2.50 years**	**619**	1,250	3.25 years	433
	1,331,875		**732,125**	926,875		489,968

The exercisable options had a weighted average exercise price of $7.95 at September 30, 2009 ($8.41 as at December 31, 2008).

Warrants

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

As at,	**September 30, 2009**		December 31, 2008	
Exercise price	**Number of Warrants Outstanding**	**Remaining Contractual Life**	Number of Warrants Outstanding	Remaining Contractual Life
$14.40	**347,222**	**3.26 years**	347,222	4.01 years
$15.20	**328,947**	**3.26 years**	328,947	4.01 years
$12.24	**816,993**	**3.26 years**	816,993	4.01 years
	1,493,162		1,493,162	

The above warrants are the warrants attached to the subordinated debentures issued by the Company during 2006 (see note 8).

Notes to Consolidated Financial Statements

Dollar amounts in thousands (except per share amounts)

12. Per Share Information

The following are the weighted average number of shares outstanding for the three and nine months ended September 30, 2009 and 2008. 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 three months ended September 30,	**2009**	2008
Basic	**38,343,534**	33,624,173
Fully diluted	**38,415,263**	33,624,389

For the nine months ended September 30,	**2009**	2008
Basic	**35,492,674**	33,508,731
Fully diluted	**35,573,833**	33,543,214

13. Segmented Information

The Company operates in two rental segments of the multi-family residential industry: apartments and manufactured home communities. The Company also operated in the manufactured home sales segment, information on this segment is provided in the consolidated statements of income.

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 three months ended September 30, 2009

	Apartments	**Manufactured Home Communities**	**Total**
Rental revenue	**$20,000**	**$6,808**	**$26,808**
Other income	**60**	**130**	**190**
	20,060	**6,938**	**26,998**
Property operating expenses	**(7,295)**	**(2,159)**	**(9,454)**
Income from property operations	**$12,765**	**$4,779**	**$17,544**
Capital assets (net)	**$543,742**	**$163,949**	**$707,691**
Corporate assets (net)			**1,040**
Total capital assets (net)			**$708,731**
Capital expenditures	**$2,672**	**$2,352**	**$5,024**

Notes to Consolidated Financial Statements

Dollar amounts in thousands (except per share amounts)

As at and for the three months ended September 30, 2008

	Apartments	Manufactured Home Communities	Total
Rental revenue	$19,008	$6,564	$25,572
Other income	87	68	155
	19,095	6,632	25,727
Property operating expenses	(7,424)	(2,381)	(9,805)
Income from property operations	$11,671	$4,251	$15,922
Capital assets (net)	$534,336	$165,897	$700,233
Corporate assets (net)			1,005
Total capital assets (net)			$701,238
Capital expenditures	$2,806	$1,329	$4,135

For the nine months ended September 30, 2009

	Apartments	**Manufactured Home Communities**	**Total**
Rental revenue	**$59,543**	**$18,136**	**$77,679**
Other income	**164**	**223**	**387**
	59,707	**18,359**	**78,066**
Property operating expenses	**(24,477)**	**(6,301)**	**(30,778)**
Income from property operations	**$35,230**	**$12,058**	**$47,288**
Capital expenditures	**$5,846**	**$4,712**	**$10,558**

For the nine months ended September 30, 2008

	Apartments	Manufactured Home Communities	Total
Rental revenue	$55,197	$17,067	$72,264
Other income	202	130	332
	55,399	17,197	72,596
Property operating expenses	(24,594)	(6,064)	(30,658)
Income from property operations	$30,805	$11,133	$41,938
Capital expenditures	$7,078	$2,882	$9,960

Dollar amounts in thousands (except per share amounts)

14. Financial Risk Management Objectives and Policies

The Company's principal financial liabilities, other than derivatives, comprise mortgages, debentures and trade payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company has various financial assets such as trade receivables and cash which arise directly from its operations.

The Company will also enter into derivative transactions, primarily natural gas and oil swap contracts, to manage the price risk arising from fluctuations in these commodities. It is, and has been, the Company's policy that no speculative trading in derivatives shall be undertaken.

The main risks arising from the Company's financial instruments are cash flow interest rate risk, credit risk, and liquidity risk. 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. As at September 30, 2009 only 0.2% of Killam's mortgage and vendor debt have floating interest rates (December 31, 2008 - 1.3%). An annualized 1% change in the interest rate on Killam's entire mortgage and vendor debt at September 30, 2009 would affect financing costs by approximately $5.0 million per year. However, only $64.9 million of Killam's mortgage and vendor debt matures in the next twelve months and that same interest rate change would impact Killam by $0.6 million per annum.

(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. In addition, the receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant. The Company's bad debt expense experience over the last number of years has been less than 0.5% of revenues. The Company's policy is to write-off tenant receivables when the tenant vacates the unit and any subsequent receipt of funds is netted against bad debts. As a result of the low bad debt experience, no allowance for doubtful accounts is recorded in the accounts.

Pursuant to their respective terms, tenant receivables are aged as follows:

As at	**September 30, 2009**	December 31, 2008
0-30 days	**$ 296**	$ 68
31-60 days	**14**	313
61-90 days	**93**	86
Over 90 days	**171**	187
Total tenant receivables	**574**	654
Other receivables	**1,034**	738
Total	**$1,608**	$1,392

Included in other receivables are accruals for laundry revenue, commission revenues and other non-rental income. The vast majority of these receivables are less than 60 days old.

Dollar amounts in thousands (except per share amounts)

14. Financial Risk Management Objectives and Policies (continued)

(iii) ***Liquidity risk***

The Company is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. Senior management manages the Company's cash resources based on financial forecasts and anticipated cash flows. The maturities of the Company's long-term financial liabilities are set out in Notes 6 to 8 of the consolidated financial statements. The Company structures its financings so as to stagger the maturities of its debt, thereby minimizing the Company's exposure to liquidity risk in any one year. In addition, the Company's apartments qualify for Canada Mortgage and Housing Corporation (CMHC) insured debt, reducing the refinancing risk on mortgage maturities. The Company's MHCs do not qualify for CMHC insured debt, however, they continue to have access to mortgage debt. Management does not expect to be faced with liquidity concerns on the maturity of its mortgages as funds continue to be accessible in the multi-residential sector. During the third quarter, the Company refinanced $12.3 million of maturing apartment and MHC mortgages with new mortgages totaling $14.9 million for net proceeds of $2.6 million ($50.6 million, $66.5 million and $14.9 million, year-to-date). Subsequent to September 30, 2009, Killam has refinanced an additional $2.9 million of maturing apartment debt with new mortgages totaling $3.3 million for net proceeds of $0.4 million.

Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximize shareholder value. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, issue new shares, issue debt securities or adjust mortgage financing on properties.

The Company monitors capital using a total gross debt to gross book value ratio. The Company's strategy is to maintain its total gross debt to gross book value ratio between 65%-70%. The calculation of the total gross debt to gross book value is summarized as follows:

As at	**September 30, 2009**	December 31, 2008
Mortgages and vendor financing	**$ 504,784**	$ 489,059
Convertible debentures	**41,515**	41,338
Subordinated debentures	**19,505**	19,405
Credit facility	**-**	10,600
Total Gross Debt	**$ 565,804**	$ 560,402
Totals assets	**$ 752,491**	$ 738,668
Plus: Deferred financing re-allocated	**7,247**	6,739
Plus: Accumulated depreciation	**102,239**	81,993
Gross Book Value (GBV)	**$ 861,977**	$ 827,400
Total Gross Debt as a Percentage of GBV	**65.6%**	67.7%

Dollar amounts in thousands (except per share amounts)

14. Financial Risk Management Objectives and Policies (continued)

Fair Value

Financial instruments are defined as a contractual right or obligation to receive or deliver cash or another financial asset. The fair values of the Company's financial instruments, except for mortgages and loans payable, approximate their recorded values at September 30, 2009 and December 31, 2008 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 discount rates that reflect current market conditions for instruments with similar terms and risks. These estimates are not necessarily indicative of the amounts that the Company might pay in actual market transactions. These estimates are subjective in nature and therefore cannot be determined with precision. The fair value of mortgage and loan debt is approximately $545.5 million (December 31, 2008 - $529.0) compared to its gross book value of $504.8 million (December 31, 2008 - $489.1 million).

As at September 30, 2009, the Company had entered into natural gas and oil swap contracts to hedge portions of its fuel requirements for various periods, as follows;

Hedge Period	Quantity Hedged	% of estimated usage hedged	NYMEX Price	Fair Value
Oil	*(litres)*		*(C$)*	
Oct-Dec 2009	225,000	31%	$ 0.64	(24.1)
Jan-March 2010	228,000	21%	$ 0.60	(12.0)
				$ (36.1)
Natural Gas	*(MMBTUs)*			
Oct-Dec 2009	30,000	79%	$ 11.43	(183.6)
Jan-March 2010	6,300	10%	$ 8.90	(15.8)
				$ (199.4)
				$ (235.5)

The fair value presented above represents the estimated cost if the Company were to unwind the hedge positions as at September 30, 2009. The actual costs to settle the hedge contracts is recorded to fuel expense in the same period the related hedged transaction occurs.

15. Subsequent Events

Subsequent to September 30, 2009, Killam has refinanced an additional $2.9 million of maturing apartment debt with new mortgages totaling $3.3 million for net proceeds of $0.4 million. The weighted average interest rate on the new debt is 4.50%, replacing debt having a weighted average interest rate of 4.97%.

On October 16, 2009, the Company announced dividends of $0.046668 per share, payable on November 16, 2009 to shareholders of record on October 30, 2009.