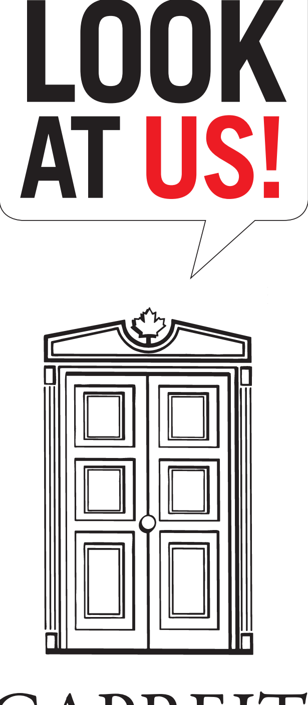
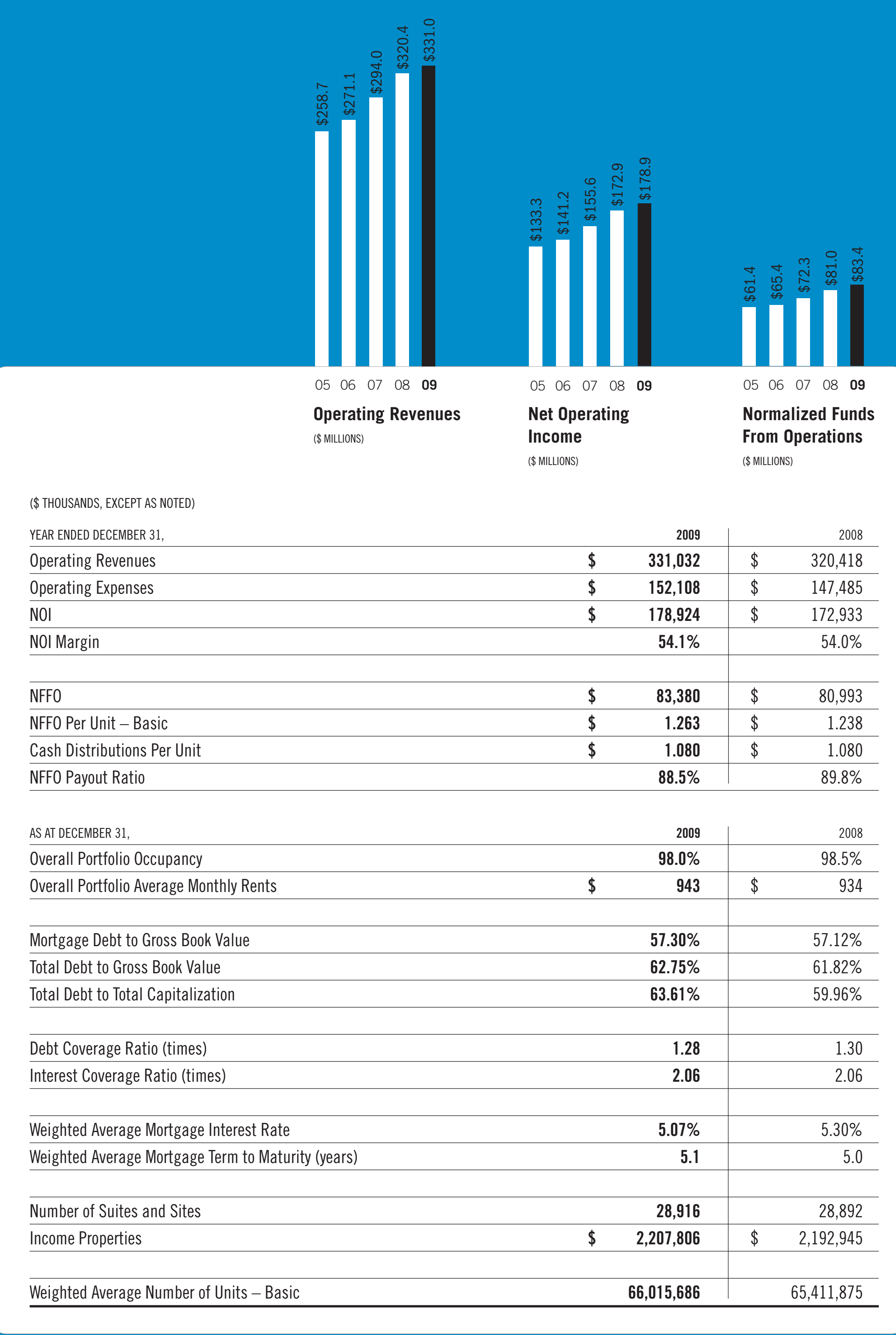
CAPREIT ANNUAL REPORT 2009

QUALITY PERFORMANCE LOCATIONS PEOPLE & RESIDENTS



FINANCIAL PERFORMANCE

Despite challenging economic conditions across Canada during 2009, CAPREIT generated record operating and financial performance for the year.



($ THOUSANDS, EXCEPT AS NOTED)

YEAR ENDED DECEMBER 31,	2009	2008
Operating Revenues	**$ 331,032**	$ 320,418
Operating Expenses	**$ 152,108**	$ 147,485
NOI	**$ 178,924**	$ 172,933
NOI Margin	**54.1%**	54.0%
NFFO	**$ 83,380**	$ 80,993
NFFO Per Unit – Basic	**$ 1.263**	$ 1.238
Cash Distributions Per Unit	**$ 1.080**	$ 1.080
NFFO Payout Ratio	**88.5%**	89.8%

AS AT DECEMBER 31,	2009	2008
Overall Portfolio Occupancy	**98.0%**	98.5%
Overall Portfolio Average Monthly Rents	**$ 943**	$ 934
Mortgage Debt to Gross Book Value	**57.30%**	57.12%
Total Debt to Gross Book Value	**62.75%**	61.82%
Total Debt to Total Capitalization	**63.61%**	59.96%
Debt Coverage Ratio (times)	**1.28**	1.30
Interest Coverage Ratio (times)	**2.06**	2.06
Weighted Average Mortgage Interest Rate	**5.07%**	5.30%
Weighted Average Mortgage Term to Maturity (years)	**5.1**	5.0
Number of Suites and Sites	**28,916**	28,892
Income Properties	**$ 2,207,806**	$ 2,192,945
Weighted Average Number of Units – Basic	**66,015,686**	65,411,875

OPERATING HIGHLIGHTS

1
Occupancies remain strong at 98.0% with a solid increase in average monthly rents

2
Same property NOI up 1.4% with strong 3.2% increase in fourth quarter

3
Sixteen consecutive quarters of year-over-year same property NOI growth

4
Normalized FFO payout ratio strengthens to 88.5% from 89.8% in 2008

5
Capitalizing on low interest rate environment to enhance future cash flows

PROFILE

Canadian Apartment Properties Real Estate Investment Trust ("CAPREIT") is a growth-oriented investment trust owning interests in multi-unit residential complexes, including apartment buildings, townhouses and manufactured home communities ("MHC"), located in or near major urban centres across Canada.

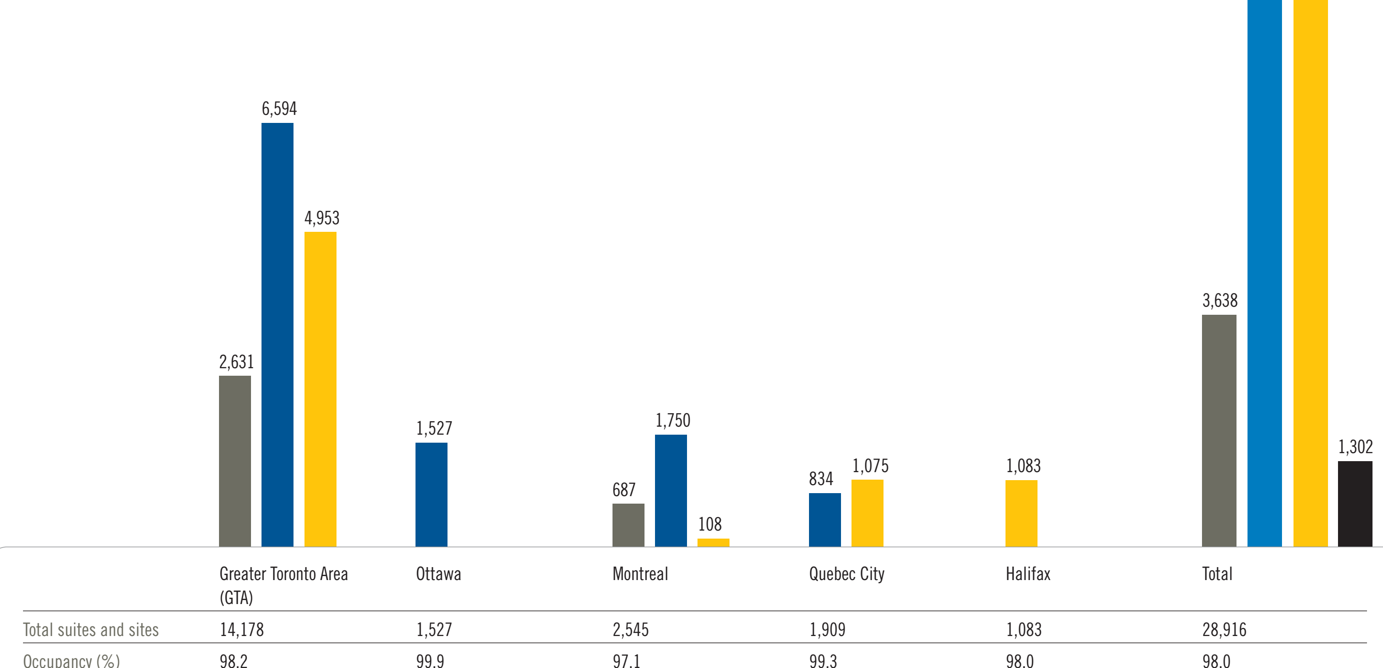
OBJECTIVES

- To provide Unitholders with long-term, stable and predictable monthly cash distributions;
- To grow Normalized Funds From Operations, sustainable distributions and Unit value through the active management of our properties, accretive acquisitions and strong financial management; and
- To reinvest capital within the property portfolio in order to ensure life-safety and maximize earnings and cash flow potential.

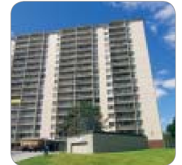
	1,138 661	753 317	310	31 210	143 1,137 190 1,302	146 768 568
	Greater Vancouver Region and Victoria	Calgary	Edmonton	Regina and Saskatoon	Outside GTA	London and Kitchener-Waterloo
Total suites and sites	1,799	1,070	310	241	2,772	1,482
Occupancy (%)	97.9	96.3	94.2	98.8	98.8	95.4
Average monthly rent ($)	894	1,004	1,008	809	779	799

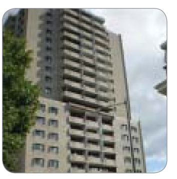
QUALITY LOCATIONS

By our presence in key target markets, CAPREIT's high-quality portfolio is well-positioned in major centres from coast to coast



	Greater Toronto Area (GTA)	Ottawa	Montreal	Quebec City	Halifax	Total
Total suites and sites	14,178	1,527	2,545	1,909	1,083	28,916
Occupancy (%)	98.2	99.9	97.1	99.3	98.0	98.0
Average monthly rent ($)	1,067	850	658	795	1,005	943





REPORT TO UNITHOLDERS

Once again we generated solid and stable growth in 2009, a testament to the success of our operating and financial management strategies, the expertise and dedication of our people, our high-quality properties and the continuing strength of the Canadian multi-unit residential rental sector. Looking ahead, with our strong balance sheet and enhanced management team, we are well-positioned to capitalize on growth opportunities for the benefit of our Unitholders.

Quality Performance

Despite challenging economic conditions across Canada during 2009, CAPREIT generated record operating and financial performance for the year. Net operating income (NOI) rose 3.5% on higher average monthly rents, stable occupancies and effective cost control measures, all contributing to an improved NOI margin of 54.1%. NOI for our stabilized properties, which represented approximately 96.4% of the total portfolio, rose 1.4% in 2009 and 3.2% in the fourth quarter, the sixteenth consecutive quarter of improved or stable year-over-year same-property performance. We are very proud of this strong organic growth, a testament to our management team and its ongoing ability to execute our proven value-enhancing strategies.

Our Normalized Funds From Operations (NFFO), which excludes the effect of changes in the fair value of hedging instruments and other non-recurring expenses, increased by 2.9% to $83.4 million or $1.263 per Unit in 2009. As a result, our NFFO payout ratio improved to 88.5% for the year compared to 89.8% in 2008. Excluding cash re-invested from the distributions declared through our Distribution Reinvestment Plan, the effective payout ratio was 78.9% for the year. We were also pleased to have delivered our twelfth consecutive year of growing or stable monthly cash distributions to our Unitholders.

Despite the significant growth in our portfolio over the past five years, we have maintained what we believe is one of the strongest balance sheets in our industry. Debt ratios and interest coverage ratios remained very conservative at year end, while our mortgage portfolio is well-balanced with a weighted average term to maturity in excess of five years. With our successful mortgage renewal and refinancing programs, we took advantage of the low interest rate environment during the year and steadily reduced our effective weighted average interest rate through the year to 5.07% at year end. Compared to the weighted average interest rate of 5.22% on mortgages maturing during the year, we have generated a substantial 1.27% rate reduction in 2009 that will result in considerable interest rate savings going forward. Looking ahead, we believe our strong financial position will contribute to our stable performance and our ability to capitalize on growth opportunities as they occur.

We remain very comfortable with our ability to complete our mortgage renewals in 2010, while our ongoing refinancing initiatives will generate new funds for our capital investment and growth programs. It is important to note that approximately 96% of our mortgages (excluding our MHC land lease portfolio) are insured by the Canada Mortgage and Housing Corporation (CMHC), considerably reducing renewal risk for mortgage refinancings as well as providing us with access to a large pool of lenders whose interest rates are considerably lower than those of conventional mortgage lenders.

Quality Locations

The foundation of our business is the strong and well-positioned property portfolio we have built since entering the public capital markets in 1997. Spanning the country from coast to coast, we now own what we believe is one of the highest-quality portfolios

QUALITY PERFORMANCE

We are very proud of our solid growth in 2009, a testament to our management team and its success in executing our value-enhancing strategies

Pictured above from left to right: Maria Amaral, Senior Vice President, Finance; Thomas Schwartz, President and Chief Executive Officer; Mark Kenney, Chief Operating Officer; Richard Smith, Chief Financial Officer

in the business, consisting of 27,614 apartment and townhouse suites attractively situated close to parks, transportation, schools, shopping and other amenities in most major Canadian cities.

In 2007, we enhanced the diversification of our portfolio with the purchase of two high-quality manufactured home communities in Ontario, which now total 1,302 land lease sites. Land lease properties benefit our Unitholders because, while managing them is similar to managing apartment buildings, they have significantly lower capital and maintenance costs, minimal rent collection issues, reduced exposure to energy costs, high stable occupancies and generally longer lease terms with low resident turnover. During 2009, we added 24 additional land lease sites at our Grand Bend and Bowmanville communities, and look to further grow our presence in this highly desirable asset class in the years ahead.

2009 was another year in which we made significant investments in our property portfolio. This is a key aspect of our business, and one that continues to enhance the quality of our portfolio while generating increased cash flow through stable occupancies and higher average monthly rents. Prior to purchasing any property, we perform extensive engineering studies to determine how much capital will be required to bring the building up to our standards and to ensure each acquisition will be accretive to our Unitholders.

During the year, we accelerated a number of these planned building improvements, including upgraded parking garages, balconies, sidewalks and life-safety systems, to take advantage of the availability and lower pricing from construction trades, and to ensure our properties are of the highest quality in their markets. While we expect to make similar levels of investment in 2010, future levels will decline dramatically over the following four years. We also continue to invest in environmentally-friendly energy-savings initiatives, including high-efficiency heating boilers, energy-efficient lighting systems, water savings and garbage recycling programs, and individual suite energy metering. All of these investments are contributing to reduced costs, improved operating efficiency and increased resident satisfaction.

Quality People

Our team of dedicated and experienced people remains the most important asset of our business. At CAPREIT, we are real estate people in the real estate business, and our hands-on approach and expertise in the multi-residential rental sector have now delivered more than twelve years of stable and sustainable performance.

During 2009, we enhanced the strength of our management team with a number of key appointments. Mark Kenney was promoted to Chief Operating Officer, Maria Amaral was appointed Senior Vice President, Finance, and we were pleased to name Richard Smith as our new Chief Financial Officer on the retirement of Yazdi Bharucha. We also bolstered our financial reporting, in-house legal, information technology and human resources functions with new people who bring significant depth and experience to their positions. We are confident we have one of the best teams in the business, with the right people in the right places, and are well-positioned to manage our growth and deliver on our ultimate goal of enhancing value for our Unitholders in the years ahead.

Over the past few years we have also invested in information technology and operating platforms. Our new lease management system has improved our operating efficiency, reduced turnover time, and led to increased revenues by tracking market rents to achieve the highest rent possible for any given suite. In addition, our state-of-the-art procurement programs are generating cost savings through nationwide sourcing contracts and more control over our purchases of services and materials.

QUALITY PEOPLE

At CAPREIT, the expertise, dedication and experience of our people have now delivered more than twelve years of stable and sustainable growth

FRPO Winners, left to right:
Winner, Suite Renovation over $5,000 – Ira Kaufman, Resident Relations Manager for 355 St. Clair Avenue West, Toronto
Winner, Website Corporate Branding – Trish MacPherson, VP Sales and Marketing for caprent.com
Winner, Resident Manager of the Year – Rhodora Dorado, Resident Manager, 33 Eastmount Avenue, Toronto

QUALITY RESIDENTS

We work hard to provide our residents with the highest-quality and safest properties, and we focus significant effort on building strong relationships

But CAPREIT is much more than its senior management team and technology platforms. CAPREIT has over 750 people working tirelessly, day in and day out, to ensure our properties are well maintained, our residents are safe and comfortable in their homes, and that CAPREIT remains the destination of choice for people seeking high-quality and attractive rental accommodation.

Quality Residents
Occupancies remained a very strong 98% at year end as we continued to strengthen the quality and scope of our resident base. We work hard to provide our residents with the highest-quality and safest properties, and we focus significant effort on building strong relationships and effective lines of communication with them to ensure their needs and concerns are met. These initiatives are supported by staff training programs that keep our people up-to-date on the latest industry trends and provide them with the right tools to do their jobs. Going forward, we will continue to leverage our proven expertise and hands-on management style to further enhance our reputation as Canada's Landlord of Choice.

A Renewed Focus on Growth
2009 was the only period in our twelve-year history when we did not achieve our annual target of acquiring between 1,500 and 2,000 suites. Accretive transactions simply were not available given the slow economy and tight credit conditions during the year. As we look ahead, our focus is once again on expanding the size and depth of our industry-leading portfolio. Our acquisition program is expected to further diversify and strengthen our portfolio's defensive characteristics, and we are confident we will once again meet our growth objectives in 2010. In addition, we will continue to evaluate and fine-tune our portfolio, potentially disposing of non-core assets that no longer meet our strict operating criteria or which we believe we have maximized value. The proceeds from any property sale will be used to strengthen our financial position, fund future acquisitions or repurchase our trust Units.

We are well-positioned to capitalize on continuing strong fundamentals in the Canadian multi-unit rental residential business. The cost gap between renting and owning/operating a home remains very wide, and recent federal government changes aimed at tightening mortgage requirements should further increase demand for quality rental accommodation. In addition, demand is also being driven by increased immigration to major Canadian cities, little new supply of rental apartment buildings, and a fast-growing seniors population that recognizes rental accommodation as an affordable and viable alternative to owning an expensive home. As a result, renting has become the most realistic and affordable option for many young professionals, families, seniors and new Canadians across the country.

In closing, we have never been so confident of our future. We have the right people in the right positions, one of the best property portfolios in the business, and a solid financial position with the resources and flexibility to capitalize on our growth objectives and meet our ultimate goal of delivering enhanced value to our Unitholders.

Thomas Schwartz
President and
Chief Executive Officer

Michael Stein
Chairman

FINANCIAL PERFORMANCE

MANAGEMENT'S DISCUSSION AND ANALYSIS

[Section 1]

11 Forward-looking Disclaimer
12 Non-GAAP Financial Measures
12 Overview
12 Objectives
12 Business Strategy
13 Key Performance Indicators
14 Performance Measures
15 Property Portfolio

[Section 2]

18 Average Monthly Rents and Occupancy
20 Results of Operations
22 Net Operating Income
23 Operating Performance by Type of Property Interest
24 Stabilized Portfolio Performance
25 Net Income (Loss)
28 Other Comprehensive Income (Loss)

[Section 3]

28 Non-GAAP Financial Measures

[Section 4]

32 Property Capital Investments
34 Productive Capacity
34 Capital Structure
35 Liquidity and Financial Condition
40 Unitholder Taxation

[Section 5]

40 Selected Consolidated Quarterly Information
41 Selected Consolidated Financial Information

[Section 6]

41 Accounting Policies and Estimates
43 International Financial Reporting Standards
48 Controls and Procedures

[Section 7]

49 Risks and Uncertainties
58 Related Party Transactions
58 Commitments and Contingencies

[Section 8]

58 Future Outlook

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

60 Management's Responsibility for Financial Statements
60 Auditors' Report
61 Consolidated Balance Sheets
62 Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
63 Consolidated Statements of Unitholders' Equity
64 Consolidated Statements of Cash Flows
65 Notes to Consolidated Annual Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

[SECTION 1] FORWARD-LOOKING DISCLAIMER

The following Management's discussion and analysis ("MD&A") of the results of operations and financial condition for the years ended December 31, 2009 and 2008 should be read in conjunction with Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") audited consolidated annual financial statements.

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, projected costs, capital investments, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities, financial outlook, including respecting capital investments, statements respecting CAPREIT's acquisition and capital investment strategy, and relating to the real estate industry generally are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including that the Canadian economy will generally experience slow growth with geographic specific areas of weakness including Alberta and parts of Ontario, that inflation will remain at historically low rates, that interest rates will remain stable in 2010, that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates, that conditions within the real estate market, including competition for acquisitions, will be consistent with the current climate, that the Canadian capital markets will continue to provide CAPREIT with access to equity and/or debt at reasonable rates, that vacancy rates for CAPREIT properties will be consistent with historical norms, that rental rates will grow at levels similar to the rate of inflation on renewal, that rental rates on turnovers will remain stable, that CAPREIT will effectively manage price pressures relating to its energy usage and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions Management believes are reasonable as of the date hereof, there can be no assurance actual results will be consistent with these forward-looking statements; they may prove to be incorrect. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond CAPREIT's control, that may cause CAPREIT or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: real property ownership, leasehold interests, co-ownerships, investment restrictions, operating risk, energy costs, environmental, insurance, capital investments, indebtedness, interest rate hedging, taxation, harmonization of federal goods and services tax and provincial sales tax, government regulations, controls over financial accounting, International Financial Accounting Standards, legal and regulatory, the nature of units of CAPREIT ("Trust Units") and of CAPREIT's general partner, CAPLP ("CAPLP Units") (collectively, the "Units"), unitholder liability, liquidity and price fluctuation of units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, continued growth and risks related to acquisitions. There can be no assurance that the expectations of CAPREIT's Management will prove to be correct. For detailed discussion of risk factors see discussion in the Risks and Uncertainties section. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

NON-GAAP FINANCIAL MEASURES

CAPREIT prepares and releases quarterly unaudited and audited consolidated annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In this MD&A, earnings releases and investor conference calls, as a complement to results provided in accordance with GAAP, CAPREIT also discloses and discusses certain non-GAAP financial measures, including Distributable Income ("DI"), Net Operating Income ("NOI"), Funds From Operations ("FFO"), Normalized Funds From Operations ("NFFO") and Adjusted Funds From Operations ("AFFO"). These non-GAAP measures are further defined and discussed in the Non-GAAP Financial Measures section. Since DI, NOI, FFO, NFFO and AFFO are not measures determined under GAAP, they may not be comparable to similarly titled measures reported by other issuers. CAPREIT has presented such non-GAAP measures because Management believes these non-GAAP measures are relevant measures of the ability of CAPREIT to earn and distribute cash returns to investors in Units ("Unitholders") and to evaluate the trust's performance. A reconciliation of non-GAAP measures is provided in the Non-GAAP Financial Measures section of this MD&A. These non-GAAP measures should not be construed as alternatives to net income (loss) or cash flow from operating activities determined in accordance with GAAP as an indicator of CAPREIT's performance.

OVERVIEW

CAPREIT is an unincorporated open-ended real estate investment trust created by a declaration of trust (the "Declaration of Trust") dated February 3, 1997 under the laws of the Province of Ontario, as most recently amended and restated on November 13, 2009. CAPREIT owns interests in multi-unit residential rental properties, including apartments, townhouses and manufactured home communities located in and near major urban centres across Canada. At December 31, 2009, CAPREIT had ownership interests in a portfolio that included 27,614 residential suites (CAPREIT's share – 26,459 suites), diversified by geographic location and asset type, and two Ontario manufactured home communities comprising 1,302 land lease sites. At December 31, 2009, CAPREIT had 783 employees (820 employees at December 31, 2008).

OBJECTIVES

CAPREIT's objectives are:

> To provide Unitholders with long-term, stable and predictable monthly cash distributions;

> To grow Normalized Funds From Operations, sustainable distributions and Unit value through the active management of its properties, accretive acquisitions and strong financial management; and

> To reinvest capital within the property portfolio in order to ensure life-safety and maximize earnings and cash flow potential.

BUSINESS STRATEGY

To meet its objectives, CAPREIT has defined the following strategies:

Customer Service

CAPREIT recognizes that it is in a "people business," and strives to be recognized as the Landlord of Choice in all its chosen markets by providing its residents with safe, secure and comfortable homes. It takes a "hands-on" approach to managing its properties, stressing open and frequent communications to ensure residents' needs are met efficiently and effectively and thereby maintain a high occupancy level. Numerous initiatives such as newsletters, special events, resident committees and other initiatives help to build a true sense of community at its properties. CAPREIT's strong sales and marketing team continues to execute innovative and highly effective strategies to help attract and retain residents and adapt to changing conditions in specific markets. In addition, our lease administration system has improved control of rent setting by suite, increasing resident service, and enhancing the overall profile of its resident base.

Cost Controls

While ensuring the needs of its residents are met, CAPREIT also carefully monitors operating costs to ensure it is delivering services to its residents both efficiently and cost effectively. CAPREIT is also striving to capture potential economies of scale and cost synergies arising from its past growth. CAPREIT's enterprise-wide procurement system has streamlined and centralized

purchasing controls and procedures and is generating reduced costs through national master sourcing contracts, improved pricing and enhanced operating efficiencies.

Capital Investments
CAPREIT strives to acquire properties at prices significantly below their current replacement costs, and is committed to improving its operating performance by incurring appropriate capital investments in order to maintain the productive capacity of its property portfolio and to sustain the portfolio's rental income-generating potential over its useful life. CAPREIT continues to invest in environment-friendly and energy saving initiatives that improve overall net operating income. CAPREIT has completed a capital review of its portfolio and developed a five-year investment plan. This plan will allow Management to ensure capital investments extend the useful economic life of its properties, enhance life safety and improve the long-term cash flow potential of its portfolio.

Portfolio Growth
CAPREIT will grow its portfolio over the long term through accretive acquisitions that meet its strategic criteria and, where possible, enhance geographic diversification while capturing economies of scale and cost synergies, thereby increasing NOI. As a component of this growth strategy, CAPREIT will monitor its portfolio and, from time to time, identify certain non-core properties for divestitures. The funds from these divestitures will be used to acquire additional strategic assets better suited to CAPREIT's portfolio composition and property management objectives or to retire existing debt. Management believes the continued realization and reinvestment of capital is a fundamental component of its growth strategy and demonstrates the success of its investment programs and its ability to maximize and manage the earnings and cash flow potential of its property portfolio.

Financial Management
CAPREIT takes a conservative approach and strives to manage its exposure to interest rate volatility by proactively managing its mortgage debt portfolio to fix and, where possible, reduce average interest rates, effectively manage the average term to maturity and stagger maturity dates. In addition, CAPREIT strives to maintain a conservative overall liquidity position and balance its overall capital resources requirements between debt and equity.

KEY PERFORMANCE INDICATORS

To assist Management and investors in monitoring and evaluating CAPREIT's achievement of its objectives, CAPREIT has defined a number of key operating and performance indicators ("KPIs") to measure the success of its operating and financial strategies:

Occupancy
Management strives, through its focused hands-on approach to its business, to achieve occupancies that are in line with, or higher than, market conditions in each of the geographic regions in which CAPREIT operates while enhancing the overall qualitative profile of its resident base.

Average Monthly Rents
Through its active property management strategies, new lease administration system, and proactive capital investment programs, CAPREIT strives to achieve the highest possible average monthly rents in accordance with local market conditions.

NOI
As a measure of its operating performance, CAPREIT strives to achieve an annual net operating income margin that is in the range of 53% to 54% of operating revenues.

DI, FFO and NFFO
CAPREIT is focused on achieving steady increases in these metrics. Management believes these measures are indicative of CAPREIT's operating performance and sustainability of its distributions.

Payout Ratio
To help ensure it retains sufficient cash to meet its capital investment objectives, CAPREIT targets an annual DI payout ratio of between 85% and 90% of DI. As previously disclosed, beginning in 2010, CAPREIT intends to cease disclosing DI as a key performance indicator (see Non-GAAP Financial Measures) and will endeavour to achieve a payout ratio of 85% to 90% of NFFO on a long-term basis.

Portfolio Growth

Management's objective is to pursue strategic acquisitions of between 1,500 and 2,000 suites on an annual basis, subject to market conditions and available financing, which meet its strategic objectives and serve to accretively increase NFFO.

Financing

CAPREIT takes a very proactive approach with its mortgage portfolio, striving to manage interest expense volatility risk by achieving the lowest possible average interest rates while mitigating refinancing risk by prudently managing the portfolio's average term to maturity and staggering the maturity dates. For this purpose, CAPREIT strives to ensure its overall leverage rates and interest and debt coverage ratios are maintained at a sustainable level. In addition, CAPREIT focuses on maintaining capital adequacy by complying with investment and debt restrictions in its Declaration of Trust and its financial covenants in its credit agreement comprising an acquisition and operating facility ("Acquisition and Operating Facility") and a land lease facility ("Land Lease Facility") (collectively, the "Credit Facilities", as described in Bank Indebtedness and Credit Facilities).

PERFORMANCE MEASURES

The following table presents an overview of certain key GAAP and non-GAAP financial measures and operational results of CAPREIT for the years ended December 31, 2009 and 2008. Management believes that these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. During the year, monthly cash distributions declared to its Unitholders remained steady at $0.09 per Unit.

YEAR ENDED DECEMBER 31,	2009	2008
Portfolio Performance		
Overall Portfolio Occupancy [1]	**98.0%**	98.5%
Overall Portfolio Average Monthly Rents [1]	**$ 943**	$ 934
Operating Revenues (000s)	**$ 331,032**	$ 320,418
NOI (000s) [2]	**$ 178,924**	$ 172,933
NOI Margin	**54.1%**	54.0%
Operating Performance [2]		
DI Per Unit – Basic	**$ 1.287**	$ 1.261
FFO Per Unit – Basic	**$ 1.302**	$ 0.969
NFFO Per Unit – Basic	**$ 1.263**	$ 1.238
Cash Distributions Per Unit	**$ 1.080**	$ 1.080
DI Payout Ratio	**86.9%**	88.2%
FFO Payout Ratio	**85.9%**	114.8%
NFFO Payout Ratio	**88.5%**	89.8%
Liquidity and Leverage		
Total Debt to Gross Book Value Ratio [1]	**62.75%**	61.82%
Weighted Average Mortgage Interest Rate [1]	**5.07%**	5.30%
Weighted Average Mortgage Term (years) [1]	**5.1**	5.0
Debt Coverage (times)	**1.28**	1.30
Interest Coverage (times)	**2.06**	2.06
Available Liquidity – Acquisition and Operating Facility (000s) [1]	**$ 94,369**	$ 94,484
Other		
Number of Suites and Sites Acquired [3]	**24**	1,019
Closing Price of Trust Units [1]	**$ 14.06**	$ 15.74
Market Capitalization ($ millions) [4]	**$ 968**	$ 1,065

(1) As at December 31.

(2) NOI, DI, FFO and NFFO are not defined by GAAP, do not have standard meanings and may not be comparable with other industries or companies (see Non-GAAP Financial Measures).

(3) CAPREIT's share only.

(4) Defined as the closing price of the Units for the last trading date of the period times the number of Units outstanding on that date.

PROPERTY PORTFOLIO

Types of Property Interests

CAPREIT's investments in its property portfolio reflect different forms of property interests, including:

Fee Simple Interests – Apartments and Townhomes – The majority of CAPREIT's investment in its property portfolio is in the form of fee simple, representing freehold ownership of the properties subject only to typical encumbrances such as mortgages.

Operating Leasehold Interests – CAPREIT owns leasehold interests in 15 properties located in the Greater Toronto Area ("GTA"). The leases mature between 2033 and 2037. While separate lease arrangements exist for each property, the general structure is common across all leases: each lease is for a 35-year term and the rent for the entire lease term was fully paid at the time the leasehold interest was acquired. Each lease also provides CAPREIT with a purchase option exercisable between the 26th and 35th year of the lease term (see Portfolio of Operating Leasehold Interests for additional information).

Land Leasehold Interests – CAPREIT owns leasehold interests in two land parcels located in Alberta and one land parcel in British Columbia. CAPREIT acquired a residential building on each of the three land parcels and pays ground rent on an annual basis for its use of the land. These land leases mature in 2045, 2068 and 2070. CAPREIT does not have the unilateral right to acquire the land or extend the lease term at the maturity of the respective leases (see Portfolio of Land Leasehold Interests for additional information).

Fee Simple Interests – Manufactured Home Community ("MHC") Land Lease Sites – CAPREIT has fee simple interests in two MHCs whereby CAPREIT owns sites, which it rents to residents under long-term leases of approximately 21 years.

Portfolio by Type of Property Interest

AS AT DECEMBER 31,	**2009**	**%**	2008	%
Fee Simple Interests – Apartments and Townhomes	**22,900**	**79.2**	22,900	79.3
Operating Leasehold Interests	**3,815**	**13.2**	3,815	13.2
Land Leasehold Interests	**899**	**3.1**	899	3.1
Total Residential Suites	**27,614**	**95.5**	27,614	95.6
Fee Simple Interests – MHC Land Lease Sites	**1,302**	**4.5**	1,278	4.4
Total Residential Suites and MHC Land Lease Sites	**28,916**	**100.0**	28,892	100.0

Portfolio Diversification

CAPREIT's property portfolio continues to be diversified by geography and balanced among asset types and demographic segments. Management's long-term goal is to further enhance the geographic diversification and defensive nature of its portfolio through future acquisitions.

Portfolio by Sector

AS AT DECEMBER 31,	2009	%	2008	%
Affordable	**3,638**	**12.6**	3,638	12.6
Mid-tier	**14,711**	**50.9**	14,711	50.9
Luxury	**9,265**	**32.0**	9,265	32.1
Total Residential Suites	**27,614**	**95.5**	27,614	95.6
MHC Land Lease Sites	**1,302**	**4.5**	1,278	4.4
Total Residential Suites and MHC Land Lease Sites	**28,916**	**100.0**	28,892	100.0

Portfolio by Geography

AS AT DECEMBER 31,	2009	%	2008	%
Ontario				
Greater Toronto Area	**14,178**	**49.0**	14,178	49.1
Ottawa	**1,527**	**5.3**	1,527	5.3
London/Kitchener/Waterloo	**1,482**	**5.1**	1,482	5.1
Other Ontario	**1,470**	**5.1**	1,470	5.1
Ontario Residential Suites	**18,657**	**64.5**	18,657	64.6
MHC Land Lease Sites	**1,302**	**4.5**	1,278	4.4
Ontario Residential Suites and Land Lease Sites	**19,959**	**69.0**	19,935	69.0
Quebec				
Montreal	**2,545**	**8.8**	2,545	8.8
Quebec City	**1,909**	**6.6**	1,909	6.6
	4,454	**15.4**	4,454	15.4
Nova Scotia				
Halifax	**1,083**	**3.7**	1,083	3.7
Alberta				
Edmonton	**310**	**1.1**	310	1.1
Calgary	**1,070**	**3.7**	1,070	3.7
	1,380	**4.8**	1,380	4.8
Saskatchewan				
Saskatoon	**133**	**0.4**	133	0.4
Regina	**108**	**0.4**	108	0.4
	241	**0.8**	241	0.8
British Columbia				
Greater Vancouver Region	**1,291**	**4.5**	1,291	4.5
Victoria	**508**	**1.8**	508	1.8
	1,799	**6.3**	1,799	6.3
Total Residential Suites	**27,614**	**95.5**	27,614	95.6
Total Residential Suites and MHC Land Lease Sites	**28,916**	**100.0**	28,892	100.0

Through accretive acquisitions and non-core or strategic property dispositions, CAPREIT expects to further enhance the geographic diversification of its residential suites portfolio. In 2009, CAPREIT acquired 24 additional land lease sites at its Bowmanville and Grand Bend manufactured home communities for total acquisition costs of $1.4 million. CAPREIT had previously disclosed its objective of acquiring between 1,500 and 2,000 suites on an annual basis. There have been reduced levels of acquisition activity during the year ended December 31, 2009, due largely to a lack of accretive acquisition opportunities. As a result, Management did not achieve its portfolio growth objective for 2009.

During 2008, CAPREIT acquired 1,391 residential suites (CAPREIT's share – 999 suites) and 20 land lease sites for total acquisition costs of approximately $119.8 million. In the same period, pursuant to its strategy to dispose of non-core assets from time to time, CAPREIT sold 1,630 residential suites for total sales price of $127.7 million.

Over the past three years, CAPREIT has focused on diversifying its geographic portfolio by increasing its presence in markets with higher growth potential and also acquired two manufactured home communities while maintaining its strong presence in the Ontario residential suite market. Strategic acquisitions in Ontario were made in 2008 to capitalize on its established infrastructure, and while Management continues to target growth in markets outside Ontario, it continues to believe its accretive investments in Ontario will benefit Unitholders as the province's residential market remains stable. CAPREIT continues to look for investment opportunities that meet its investment criteria and that, where possible, will further its diversification strategy. The geographic diversification of its portfolio also enables CAPREIT to mitigate the risks arising from the downturn in specific markets caused by current economic conditions.

Portfolio of Operating Leasehold Interests

CAPREIT has the option to acquire fee simple interests in 14 of the properties exercisable between the 26th and 35th year of the respective leases. In the case of the 15th property comprising 327 suites, CAPREIT's option entitles it to acquire a prepaid operating leasehold interest in the property maturing in 2072.

The purchase options are independently exercisable, enabling CAPREIT to acquire additional interests in any or all of the properties. The option prices vary by property and by the year in which the option is exercised. The aggregate range of option prices is approximately $283 million to $339 million, if each of the options were exercised in the 26th and 35th years, respectively, of the lease terms. If CAPREIT elects to exercise any option prior to the maturity of the lease term, CAPREIT would be entitled to receive a pro rata amount of the prepaid rent based on the remaining lease term. In addition, under certain circumstances, the option price may be reduced by the unamortized portion of capital expenditures incurred during the last ten years of the lease term.

The mortgages on each of these 15 properties will be fully repaid by their respective option exercise dates, which Management expects will enable CAPREIT to utilize the equity in these properties to fully finance the option prices.

Operating Leasehold Interests Portfolio by Lease Maturity

($ THOUSANDS)
AS AT DECEMBER 31, 2009 AND 2008

				OPTION EXERCISE PRICES		PREPAID LEASE
YEAR OF LEASE MATURITY	PROPERTIES	SUITES	%	26TH YEAR	35TH YEAR	AMOUNT[1]
2033	10	3,099	81.3	$ 202,071	$ 242,596	$ 136,101
2034	2	161	4.2	19,300	23,150	13,700
2035	1	200	5.2	14,200	17,000	9,000
2037	2	355	9.3	47,200	56,000	33,500
Total Operating Leasehold Interests Portfolio	15	3,815	100.0	$ 282,771	$ 338,746	$ 192,301

(1) As at the acquisition dates of these leasehold interests by a CAPREIT predecessor.

Portfolio of Land Leasehold Interests

In the absence of any new arrangements negotiated between CAPREIT and the landowners of the three parcels on which CAPREIT has land leasehold interests, CAPREIT's interests in the properties mature in 2045, 2068 and 2070. Generally, each lease provides for annual ground rent and additional rent calculated from the properties' operating results.

Land Leasehold Interests Portfolio by Lease Maturity

($ THOUSANDS)
FOR YEAR ENDED DECEMBER 31,

			ANNUAL GROUND RENT	
YEAR OF LEASE MATURITY	SUITES	%	**2009**	2008
2045	473	52.6	**$ 779**	$ 1,001
2068	154	17.1	**215**	224
2070	272	30.3	**1,035**	987
Total Land Leasehold Interests Portfolio	899	100.0	**$ 2,029**	$ 2,212

[SECTION 2] AVERAGE MONTHLY RENTS AND OCCUPANCY

Portfolio Average Monthly Rents and Occupancy By Sector

AS AT DECEMBER 31,	TOTAL PORTFOLIO 2009			2008		
		AMR	OCC. %		AMR	OCC. %
Affordable	$	**855**	**98.2**	$	841	98.3
Mid-tier	$	**909**	**97.8**	$	899	98.2
Luxury	$	**1,075**	**98.0**	$	1,070	98.8
Average Residential Suites	$	**959**	**98.0**	$	950	98.4
Average MHC Land Lease Sites	$	**607**	**99.9**	$	596	99.8
Overall Portfolio Average	$	**943**	**98.0**	$	934	98.5

Average monthly rents ("AMR") are defined as actual residential rents, net of vacancies, divided by the total number of suites in the property and do not include revenues from parking, laundry or other sources.

As there were no property acquisitions during 2009, average monthly rents and occupancy levels are comparable between properties owned prior to December 31, 2008 and the total portfolio as at December 31, 2009. Average monthly rents increased in all sectors of the portfolio resulting in a 1.0% increase in overall average monthly rents as at December 31, 2009 to $943, compared to $934 last year. The occupancy at December 31, 2009 for the residential suite portfolio remained strong at 98.0%, slightly under prior year levels.

For the MHC land lease portfolio, average monthly rents rose to $607 from $596 and occupancy improved slightly over 2008 to virtually full occupancy as at December 31, 2009.

Suite Turnovers and Lease Renewals

FOR YEAR ENDED DECEMBER 31,	2009			2008		
	CHANGE IN AMR $	CHANGE IN AMR %	% TURNOVERS & RENEWALS[1]	CHANGE IN AMR $	CHANGE IN AMR %	% TURNOVERS & RENEWALS[1]
Suite Turnovers	**(5.3)**	**(0.5)**	**34.7**	20.0	2.1	34.6
Lease Renewals	**20.5**	**2.1**	**76.7**	20.7	2.2	77.4
Weighted Average of Turnovers & Renewals	**12.5**	**1.3**		20.5	2.2	

(1) Percentage of suites turned over or renewed based on the total number of residential suites (excluding co-ownerships) held at the beginning of the year.

The above table summarizes the change in the average monthly rent due to suite turnovers and lease renewals compared to the prior year.

For the year ended December 31, 2009, suite turnovers in the residential suite portfolio (excluding co-ownerships) resulted in average monthly rent reductions of approximately $5.3 or 0.5% compared to increases of $20.0 or 2.1% in the prior year. The reduction was primarily due to the effect of aggressive rent discounting of approximately 9.9% or $113 per suite in the Alberta market. Excluding the Alberta portfolio, residential suite turnovers would have resulted in average monthly rent increases of $5 or 0.5%.

Pursuant to Management's focus on increasing overall portfolio rents, for the year ended December 31, 2009, average monthly rents on lease renewals increased by approximately $20.5 or 2.1%, which is comparable to growth levels for last year. Management believes that as occupancies stabilize throughout the portfolio and the markets for rental accommodation improve, CAPREIT will generate additional rent increases on both turnover and lease renewals over the long-term.

Portfolio Average Monthly Rents and Occupancy By Geography

AS AT DECEMBER 31,	2009		2008	
	AMR	OCC. %	AMR	OCC. %
Ontario				
Greater Toronto Area	**$ 1,067**	**98.2**	$ 1,058	98.7
Ottawa	**850**	**99.9**	824	99.9
London/Kitchener/Waterloo	**799**	**95.4**	796	96.0
Other Ontario	**932**	**97.8**	923	98.4
	$ 1,023	**98.1**	$ 1,014	98.6
Quebec				
Montreal	**$ 658**	**97.1**	$ 646	97.4
Quebec City	**795**	**99.3**	761	98.9
	$ 717	**98.0**	$ 695	98.1
Nova Scotia				
Halifax	**$ 1,005**	**98.0**	$ 989	99.2
Alberta				
Edmonton	**$ 1,008**	**94.2**	$ 1,059	99.0
Calgary	**1,004**	**96.3**	1,081	97.3
	$ 1,005	**95.8**	$ 1,076	97.7
Saskatchewan				
Saskatoon	**$ 769**	**97.7**	$ 724	98.5
Regina	**858**	**100.0**	822	100.0
	$ 809	**98.8**	$ 768	99.2
British Columbia				
Greater Vancouver Region	**$ 951**	**99.0**	$ 918	98.8
Victoria	**751**	**95.3**	738	96.3
	$ 894	**97.9**	$ 867	98.1
Total Residential Suites	**$ 959**	**98.0**	$ 950	98.4
MHC Land Lease Sites	**$ 607**	**99.9**	$ 596	99.8
Total Residential Suites and MHC Land Lease Sites	**$ 943**	**98.0**	$ 934	98.5

Overall average occupancy declined slightly to 98.0% compared to 98.5% last year as Management continued to focus on tenant quality combined with an emphasis on maintaining or increasing rents in most of the portfolio's core markets, as summarized below:

> Average monthly rents increased in all regions of the portfolio with the exception of Alberta, despite a slight increase in vacancies in most regions.

> Ontario, which represents 69% of the total portfolio, experienced an increase of 0.9% in average monthly rents despite a slight decrease in occupancy levels.

> Occupancy levels remained stable and average monthly rents increased 3.2% from last year in Quebec, which represents 15.4% of the total portfolio. Management expects the Quebec rental market to remain strong during 2010.

> Very weak general market conditions in Alberta, combined with aggressive rent discounting by competitors during the year, resulted in a 6.6% drop in average monthly rents on a year-over-year basis, combined with a 1.9% drop in occupancy levels. Management believes the Alberta market continues to be challenging but is expected to stabilize during 2010.

> Strong conditions in the Halifax rental market resulted in higher overall average monthly rents of 1.6% compared to last year, despite higher vacancies.

Overall average monthly rents for the residential suite portfolio as at December 31, 2009, increased by approximately 1.0% as compared to December 31, 2008. Management believes annual occupancies can be maintained in the 97% to 98% range and the trend for gradual increases in average monthly rents will continue, providing the basis for sustainable year-over-year increases in revenues.

Management also believes the defensive characteristics of its nationwide portfolio and its ongoing strategies to further diversify among Canada's major rental markets and by property type will continue to protect Unitholders from downturns in any specific geographic region or demographic group. This characteristic is demonstrated by CAPREIT's ability to increase average monthly rents and maintain a high occupancy level in the current soft economic climate.

RESULTS OF OPERATIONS

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2009	% (1)	2008	% (1)
Operating Revenues	**$ 331,032**		$ 320,418	
Operating Expenses				
Realty Taxes	**42,604**	**12.9**	41,968	13.1
Utilities	**43,097**	**13.0**	42,765	13.3
Other	**66,407**	**20.0**	62,752	19.6
Total Operating Expenses	**152,108**	**45.9**	147,485	46.0
NOI	**$ 178,924**	**54.1**	$ 172,933	54.0

(1) As a percentage of Operating Revenues.

Management believes NOI is a key indicator of operating performance in the real estate industry. NOI includes all rental revenues generated at the property level, less related direct costs such as utilities, realty taxes, insurance, repairs and maintenance and on-site wages and salaries. It may not, however, be comparable to similar measures presented by other real estate trusts or companies.

Operating Revenues

For the year ended December 31, 2009, total operating revenues increased by 3.3% compared to last year due in part to acquisitions completed in 2008 as well as increased average monthly rents and stable occupancies. CAPREIT increased average monthly rents in the residential portfolio to $959 at December 31, 2009 compared to $950 at December 31, 2008 while occupancy declined slightly to 98.0% compared to 98.4% last year. Total operating revenues were also favourably impacted by continuing increases in ancillary income including parking revenues as a result of improved utilization and enforcement. As CAPREIT continues to enhance the profile of its resident base and increase the level of service to its residents, it expects to realize further increases in operating revenues.

Overall average residential vacancies, as a percentage of operating revenues, rose to 2.4% for the year ended December 31, 2009, compared to 1.7% in the prior year. The increase was due to challenging economic conditions, particularly in the Province of Alberta, and certain operational issues in specific geographic markets.

Bad debt and tenant inducements remained relatively stable as a percentage of revenues as compared to the previous year.

Operating Expenses

Operating expenses for the year ended December 31, 2009 rose in comparison to last year due in part to the increase in the size of the property portfolio resulting from acquisitions completed during 2008 as well as inflationary increases in costs. Total operating expenses as a percentage of operating revenues improved slightly for the year ended December 31, 2009 due to slight reductions in utility costs and realty taxes, expressed as a percentage of operating revenues, which was primarily due to the following factors:

> For the year ended December 31, 2009, realty taxes as a percentage of revenues decreased slightly to 12.9% from 13.1% in the prior year due to the enhanced diversification of the portfolio into regions with lower taxation rates as well as a successful realty tax management program.

> Due to CAPREIT's energy management strategies, which include various energy savings programs, combined with modestly more favourable weather conditions during 2009 compared to 2008, utility costs as a percentage of revenues decreased from 13.3% to 13.0% for the year ended December 31, 2009.

> Other operating expenses as a percentage of revenues increased to 20.0% from 19.6% for the year ended December 31, 2009 compared to last year. Other operating expenses include repairs and maintenance (“R&M”), wages and benefits, insurance and advertising. For the year ended December 31, 2009, R&M costs rose largely in conjunction with the higher level of capital investments during 2009 (see Property Capital Investments section). R&M costs also include $0.8 million (2008 – $0.4 million) incurred this year relating to a new garbage levy introduced in the City of Toronto in late 2008. Management continues to make steady progress in mitigating the impact of the new garbage levy through improved resident education and the implementation of waste recycling programs.

CAPREIT’s utility costs can be highly variable between years and can experience significant increases in costs during the winter months as additional resources are consumed to heat the properties. The table below provides CAPREIT’s utility costs by type.

Utility Costs

($ THOUSANDS) YEAR ENDED DECEMBER 31,	**2009**	2008
Natural Gas	**$ 16,202**	$ 17,007
Electricity	**17,458**	16,822
Water	**9,139**	8,496
Heating Oil	**298**	440
Total	**$ 43,097**	$ 42,765

The reduction in natural gas costs of approximately $0.8 million offset increases in electricity and water costs to keep overall utility costs in line with the prior year. Natural gas costs decreased primarily due to CAPREIT’s ongoing investment in energy management initiatives and lower commodity costs on the portion of CAPREIT’s annual consumption that is not subject to fixed rates. CAPREIT’s fixed rate natural gas hedging program resulted in higher natural gas costs of approximately $4.6 million during 2009 (2008 – $0.6 million lower) as compared to purchasing natural gas on the open market (see note 23 to the audited consolidated annual financial statements).

Subsequent to December 31, 2009, the Board of Trustees authorized Management to implement a revised natural gas hedging strategy. Such strategy includes potentially unwinding some or all of the current natural gas hedging commitments, which could result in the realization of a loss, eliminate some or all of the protection afforded by the fixed pricing arrangements and cause natural gas costs to fluctuate in the future. Management intends to implement this strategy with a view to achieving long-term energy cost savings. As of February 24, 2010, no natural gas hedging commitments have been unwound.

Electricity costs increased by 3.8% or $0.6 million during 2009 primarily due to higher consumption resulting primarily from the acquisitions completed during 2008. The increase in water costs is primarily due to a change in billing rates at CAPREIT’s Grand Bend, Ontario manufactured home community.

NET OPERATING INCOME

The following table shows the change in the revenues, expenses and NOI for each province for 2009 compared to the prior year.

Percentage Change From Prior Year

YEAR ENDED DECEMBER 31, 2009 (AS A PERCENTAGE)	REVENUES	EXPENSES	NOI
Ontario	2.5	2.4	2.7
Quebec	7.9	7.8	7.9
Alberta	(2.4)	3.6	(6.4)
British Columbia	8.6	8.3	8.7
Nova Scotia	5.0	(4.0)	10.6
Saskatchewan	8.2	(4.4)	21.0
Total	3.3	3.1	3.5

The table below shows the NOI, NOI margin attained and share of total NOI contributed by each province during the years ended December 31, 2009 and December 31, 2008.

By Province For Year Ended December 31,

	2009			2008		
($ THOUSANDS)	**NOI**	**NOI MARGIN (%)**	**% OF TOTAL NOI**	NOI	NOI MARGIN (%)	% OF TOTAL NOI
Ontario	**$ 123,405**	**52.7**	**69.0**	$ 120,205	52.6	69.5
Quebec	**20,780**	**53.1**	**11.6**	19,252	53.1	11.1
Alberta	**12,059**	**58.1**	**6.8**	12,877	60.6	7.5
British Columbia	**12,581**	**59.7**	**7.0**	11,569	59.6	6.7
Nova Scotia	**8,844**	**64.6**	**4.9**	7,993	61.3	4.6
Saskatchewan	**1,255**	**55.3**	**0.7**	1,037	49.5	0.6
Total	**$ 178,924**	**54.1**	**100.0**	$ 172,933	54.0	100.0

For the year ended December 31, 2009, the increase in overall NOI was $6.0 million or 3.5% while the NOI margin improved marginally to 54.1% as compared to the prior year. While CAPREIT increased NOI and increased or maintained NOI margins in all of its markets except Alberta, it continues to be focused on improving overall NOI through a combination of its successful sales and marketing strategies to improve revenues while investing in capital programs to further reduce utility costs and enhance the quality and value of its portfolio.

ONTARIO

The NOI contribution from the Ontario portfolio increased 2.7% during the year ended December 31, 2009 compared to the prior year primarily due to acquisitions completed in 2008. As a result of diversification efforts through acquisitions, the Ontario portfolio represented 69.0% of total NOI for the year ended December 31, 2009 compared to 69.5% in the prior year. The NOI margin improved slightly for the year ended December 31, 2009, due to the roll-out of recycling initiatives and the relative reduction in utility costs as outlined above. Management believes the Ontario portfolio will remain stable and generate steady returns in the medium term despite the significant challenges due to the introduction of the harmonized sales tax in Ontario effective July 1, 2010 (see Harmonization of Federal Goods and Services Tax and Provincial Sales Tax discussion under the Risks and Uncertainties section).

QUEBEC

During the year ended December 31, 2009, the NOI margin remained unchanged at 53.1% primarily due to some non-recurring operating expenses combined with slightly lower occupancy levels. CAPREIT believes the Quebec rental market will remain stable and generate steady to improving returns in the medium term.

ALBERTA

The Alberta market has deteriorated significantly in the year ended December 31, 2009, resulting in lower average monthly rents and lower occupancy levels. As a result, the NOI margin decreased to 58.1% for the year ended December 31, 2009 from 60.6% last year. Management believes the Alberta market will continue to be challenging but will stabilize over the near term. The overall impact to CAPREIT will be minimal as less than 5% of its overall residential suite portfolio is located in the province.

BRITISH COLUMBIA

Due to the acquisitions completed in Vancouver and Victoria in 2008, combined with increased average monthly rents in both markets outweighing the effect of reductions in occupancy levels in Victoria, the NOI margin increased slightly to 59.7% for the year ended December 31, 2009. With its growth in the region, CAPREIT has established an infrastructure and critical mass to build its presence and improve its performance in this market going forward. Management believes the ongoing stabilization of occupancies will enable this portfolio to continue to generate improved returns in the medium term. Management believes that the introduction of the harmonized sales tax in British Columbia is a negative development, however, the impact is expected to be more modest than in Ontario as only 6.3% of the portfolio is located in the province.

NOVA SCOTIA

Increased average monthly rents resulted in the NOI margin improving to 64.6% for the year ended December 31, 2009 compared to the prior year despite reductions in occupancies. Management believes its presence primarily in downtown locations will serve to maintain or increase occupancy levels and average monthly rents in the medium term.

SASKATCHEWAN

The Saskatchewan market continues to perform well with increased average monthly rents compared to last year. Lower occupancies in Saskatoon resulted primarily from the timing of lease turnovers. As a result, the NOI margin increased to 55.3% for the year ended December 31, 2009 from 49.5% last year. The overall impact to CAPREIT of changes in operating performance in its Saskatchewan properties is minimal as less than 1% of the overall residential suite portfolio is located in the province. The province's economy remains strong and CAPREIT believes it is well positioned to maintain or improve current occupancy levels and average monthly rents in the province over the medium term.

OPERATING PERFORMANCE BY TYPE OF PROPERTY INTEREST

The following table provides a summary of the NOI by type of property interest held by CAPREIT (see Types of Property Interests in the Property Portfolio section):

NOI by Type of Property Interest

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2009	%	2008	%
Fee Simple Interests – Apartments and Townhomes	**$ 138,377**	**77.3**	$ 132,752	76.8
Operating Leasehold Interests	**27,231**	**15.2**	26,850	15.5
Land Leasehold Interests	**8,113**	**4.5**	7,678	4.4
Total Residential Suites	**$ 173,721**	**97.0**	$ 167,280	96.7
Fee Simple Interests – MHC Land Lease Sites	**5,203**	**3.0**	5,653	3.3
	$ 178,924	**100.0**	$ 172,933	100.0

CAPREIT experienced NOI growth in 2009 for each type of property interest with the exception of its investment in MHC land lease sites. The decline in NOI for MHC land lease sites is primarily attributable to a significant increase in water costs at CAPREIT's Grand Bend, Ontario property owing to a change in billing rates charged by the local municipality.

The following tables provide a summary of the NOI for Operating and Land Leasehold Interests, taking into account the maturity of the respective leases.

NOI of Operating Leasehold Interests Portfolio by Lease Maturity

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2009	%	2008	%
2033	**$ 21,749**	**79.9**	$ 21,337	79.4
2034	**1,415**	**5.2**	1,474	5.5
2035	**1,136**	**4.2**	1,091	4.1
2037	**2,931**	**10.7**	2,948	11.0
	$ 27,231	**100.0**	$ 26,850	100.0

NOI of Land Leasehold Interests Portfolio by Lease Maturity

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2009	%	2008	%
2045	**$ 4,105**	**50.6**	$ 3,878	50.5
2068	**1,160**	**14.3**	1,215	15.8
2070	**2,848**	**35.1**	2,585	33.7
	$ 8,113	**100.0**	$ 7,678	100.0

STABILIZED PORTFOLIO PERFORMANCE

YEAR ENDED DECEMBER 31,	2009	2008
Stabilized Suites and Sites	**26,748**	26,748
Operating Revenues ($ millions)	**$ 318.2**	$ 314.6
Net Operating Income ($ millions)	**$ 172.1**	$ 169.7
Net Operating Income Margin (%)	**54.1**	53.9
Change in Operating Revenues (%)	**1.1**	
Change in Operating Costs (%)	**0.9**	
Change in NOI (%)	**1.4**	

Stabilized properties for the year ended December 31, 2009 are defined as all properties owned by CAPREIT continuously since December 31, 2007 and, therefore, do not take into account the impact on performance of acquisitions completed during 2009 and 2008. As at December 31, 2009, stabilized suites and sites represent 96.4% of the overall portfolio.

As of December 31, 2009, CAPREIT has generated 16 consecutive quarters of stable or improved year-over-year NOI growth for stabilized properties. For the year ended December 31, 2009, operating revenues increased 1.1%, and operating costs increased 0.9%. As a result, stabilized NOI increased by 1.4% for the year ended December 31, 2009.

As noted earlier (see Results of Operations section), a garbage levy was introduced in late 2008 in the City of Toronto, which negatively impacted results. For the year ended December 31, 2009, excluding the garbage levy costs, operating costs would have increased by 0.3% as compared to last year, NOI would have increased by 1.8% and NOI margin would have been 54.3%.

For properties acquired since December 31, 2007, the NOI margin declined to 57.4% for the year ended December 31, 2009 as compared to 58.7% last year.

NET INCOME (LOSS)

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,	2009	2008
Net Operating Income	$ 178,924	$ 172,933
Less:		
Trust Expenses	16,834	13,155
Mortgage Interest	76,401	74,836
Interest on Bank Indebtedness	4,023	4,111
Other Income	(1,853)	(1,886)
Depreciation	78,648	72,007
Amortization	3,528	2,982
Income From Continuing Operations Before Other Costs, Gains (Losses) and Income Taxes	1,343	7,728
Reorganization Costs	–	(1,599)
Unrealized Gain (Loss) on Derivative Financial Instruments	742	(17,627)
Realized Gain on Derivative Financial Instruments	4,063	–
Recovery of (Provision for) Future Income Taxes	9,568	(9,134)
Income (Loss) From Continuing Operations	15,716	(20,632)
Income From Discontinued Operations	–	17,155
Net Income (Loss)	$ 15,716	$ (3,477)
Basic Net Income (Loss) per Unit		
Continuing Operations	$ 0.238	$ (0.315)
Discontinued Operations	$ –	$ 0.262
Basic Net Income (Loss) per Unit	$ 0.238	$ (0.053)
Diluted Net Income (Loss) per Unit		
Continuing Operations	$ 0.238	$ (0.315)
Discontinued Operations	$ –	$ 0.262
Diluted Net Income (Loss) per Unit	$ 0.238	$ (0.053)
Weighted Average Number of Units (000s) – Basic	66,016	65,412
Weighted Average Number of Units (000s) – Diluted	66,122	65,617

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and accounting services, trustees' and officers' insurance premiums, and other general and administrative expenses. Trust expenses increased by $3.7 million to $16.8 million for the year ended December 31, 2009. As a percentage of revenues, trust expenses increased compared to last year mainly due to costs related to the retirement of CAPREIT's former Chief Financial Officer announced on September 29, 2009 and higher compensation and legal costs.

Interest on Mortgages and Bank Indebtedness

Mortgage interest expense increased in the year ended December 31, 2009 to $76.4 million from $74.8 million in the prior year due to new debt associated with the acquisition of properties during 2008 as well as mortgage renewals and top up mortgage financings completed during the year. As a percentage of operating revenues, mortgage interest expense decreased to 23.1% compared to 23.4% for the year ended December 31, 2008 primarily due to CAPREIT capitalizing on the current low interest rate environment, offset by a higher amount of mortgage indebtedness during the period.

Interest on bank indebtedness relates to borrowings under the Credit Facilities (see Bank Indebtedness and Credit Facilities). Interest on bank indebtedness for the year ended December 31, 2009 decreased slightly to $4.0 million from $4.1 million in the prior year as borrowings under the Credit Facilities to fund increased property capital investments were offset by additional top up mortgage financings. The weighted average interest rate for the amounts drawn under the Acquisition and Operating Facility was 3.39% at December 31, 2009 compared to 3.38% at December 31, 2008. At December 31, 2009, the weighted average interest rate for the amounts drawn under the Land Lease Facility was 3.38% as compared to 2.89% at December 31, 2008.

The interest coverage ratio (defined as earnings for the year before interest, depreciation, amortization, income taxes, and other adjustments including non-cash compensation costs less taxes paid divided by interest expense) remained steady at 2.06 times for the four quarters ended December 31, 2009 compared to the prior year.

Other Income

Other income includes interest, dividends and other miscellaneous revenues (see notes 2(g) and 6 to the audited consolidated annual financial statements).

Depreciation and Amortization

CAPREIT depreciates its properties on a straight-line basis over their estimated useful lives, not exceeding 40 years. Depreciation expense increased in the year ended December 31, 2009 due to new acquisitions completed during 2008 as well as capital investments incurred on the property portfolio.

Amortization expense in the year ended December 31, 2009 increased to $3.5 million from $3.0 million mainly due to CMHC premiums incurred with respect to new financings since December 31, 2008.

Reorganization Costs

These costs represent amounts incurred in 2008 to complete the reorganization of CAPREIT's capital structure and include legal, accounting and tax consulting costs to complete the following:

> Establish CAPLP and issue CAPLP Units exchangeable into Trust Units;

> Convert from a closed-end to an open-end trust structure, including effecting changes to the Declaration of Trust; and

> Transfer beneficial interest in all the properties, mortgage debt and trust debt obligations from CAPREIT to CAPLP.

This reorganization provides CAPREIT with greater flexibility in its operations and facilitates its compliance with tax legislation to be enacted as of 2011 (see Taxation Related Risks discussion under the Risks and Uncertainties section). In accordance with GAAP, CAPREIT expensed these reorganization costs as incurred. These costs were added back for the calculation of DI and FFO as they did not impact the determination of CAPREIT's ongoing capacity to pay distributions to the Unitholders or in the measurement of its operating performance.

Realized and Unrealized Gains and Losses on Derivative Financial Instruments

i) Contracts for which hedge accounting is no longer effective: During 2005, CAPREIT entered into interest rate forward contracts aggregating $145.7 million (the "Interest Rate Forward Contracts") to hedge its exposure to the potential rise in interest rates for refinancings of mortgages maturing in 2009.

During the last quarter of 2008, Management terminated the hedging relationship in respect of the Interest Rate Forward Contracts as it was determined that the criteria for hedge accounting treatment were no longer satisfied and accordingly, ceased hedge accounting on a prospective basis effective September 30, 2008, the last date that hedge effectiveness testing was completed. As a result, the unrealized loss on the Interest Rate Forward Contracts of $9.9 million included in AOCL at September 30, 2008, will be amortized to mortgage interest expense over the original terms of the hedged contracts (see note 13(b) in the notes to the audited consolidated annual financial statements). As hedge accounting was no longer applied to these contracts from October 1, 2008, any subsequent change in fair value of these contracts was recognized in the consolidated statements of income (loss) and comprehensive income (loss).

The position of realized and unrealized gains and losses on derivative financial instruments has been summarized as follows:

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2009	2008
Opening Cumulative Unrealized Loss, Beginning of the Year	**$ (27,535)**	$ (4,972)
Unrealized Loss Included in OCI	–	(4,936)
Unrealized Loss Included in Net Income (Loss)	–	(17,627)
Settlement of Losses on Derivative Financial Instruments	**23,472**	–
Realized Gain Included in Net Income (Loss)	**4,063**	–
Closing Cumulative Unrealized Loss, End of the Year	**$ –**	$ (27,535)

During the year ended December 31, 2009, CAPREIT settled Interest Rate Forward Contracts with a notional value of $145.7 million, resulting in a realized net gain of $4.1 million. These settlements also resulted in the realization of a previously accumulated unrealized loss of $27.5 million as at December 31, 2008. As at December 31, 2009, all of the Interest Rate Forward Contracts have been settled, resulting in a cumulative realized loss and cash payment of $23.5 million on these contracts. Such cumulative realized loss includes the cumulative loss of $9.9 million at September 30, 2008, which is included in AOCL, net of accumulated amortization thereon (see note 13(b) to the audited consolidated annual financial statements). As of December 31, 2009, the non-cash impact arising from the amortization of the realized component of the loss on settlement (included in AOCL) on the effective portfolio weighted average interest rate, is an increase of 0.08% (see discussion on effective portfolio weighted average rate in the Mortgages Payable section).

ii) Contracts for which hedge accounting is being applied: As at December 31, 2009, CAPREIT has a $55 million interest rate swap agreement fixing the interest rate at 5.706%, maturing in July 2012, for which hedge accounting is being applied. The agreement effectively converts borrowings on a bankers' acceptance based floating rate credit facility to a fixed rate facility for a five-year term. For the year ended December 31, 2009, an unrealized gain of $1.6 million (December 31, 2008 – unrealized loss of $5.6 million) has been included in OCI (see note 13(b) to the audited consolidated annual financial statements). In addition, for the year ended December 31, 2009, an unrealized gain of $0.7 million (December 31, 2008 – $nil) has been recognized in the consolidated statement of income (loss) and comprehensive income (loss) for the ineffective portion of the interest rate swap agreement. The mark-to-market cumulative unrealized loss of $4.9 million and $7.2 million is included in AOCL and has been set up in accounts payable and other liabilities as at December 31, 2009 and December 31, 2008, respectively. CAPREIT monitors its exposure regarding the unsettled obligations with the counterparty (a Canadian chartered bank) through the regular assessment of CAPREIT's own credit risk and the credit risk of the counterparty.

The position of unrealized gains and losses on the interest rate swap agreement has been summarized as follows:

($ THOUSANDS) YEAR ENDED DECEMBER 31,	**2009**	2008
Opening Cumulative Unrealized Loss, Beginning of the Year	**$ (7,214)**	$ (1,631)
Unrealized Gain (Loss) Included in OCI	**1,622**	(5,583)
Unrealized Gain Included in Net Income (Loss)	**742**	–
Closing Cumulative Unrealized Loss, End of the Year	**$ (4,850)**	$ (7,214)

Future Income Taxes

CAPREIT uses the liability method of accounting for future income taxes. The future income tax balance of $54.1 million represents the cumulative amount of taxes applicable to temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes that are expected to reverse on or after January 1, 2011. For the year ended December 31, 2009, the change in the future income tax liability has been recorded as a recovery of $9.6 million to the consolidated statement of income (loss) and comprehensive income (loss) compared to a provision of $9.1 million for the year ended December 31, 2008. The increase in the provision under Other Comprehensive Income of $0.4 million for the year ended December 31, 2009 (2008 – $2.3 million) relates to the realized and unrealized losses on derivative financial instruments and interest rate swap agreements. Future income taxes are measured at the tax rates expected to apply in the future when temporary differences reverse (see Taxation Related Risks discussion under the Risks and Uncertainties section and note 10 to the audited consolidated annual financial statements).

Discontinued Operations

One of CAPREIT's key performance objectives is to maximize the earnings and cash flow potential from its operating properties and from time to time dispose of non-core properties. During the first quarter of 2008, CAPREIT completed the sale of 12 non-core properties. Included in income from discontinued operations is $0.1 million of net income from sold properties and a gain on sale of approximately $17.0 million ($0.261 per Unit). Management believes the gain demonstrates its success in enhancing the value of its properties primarily through its active property management and capital investment programs, thereby facilitating the continued realization and reinvestment of its capital to implement its growth strategy. CAPREIT has not completed any divestitures during the year ended December 31, 2009.

OTHER COMPREHENSIVE INCOME

Included in Other Comprehensive Income (Loss) ("OCI") are the following:

i) Realized loss on derivative financial instruments: see discussion earlier in the section dealing with the impact of Realized and Unrealized Gains and Losses on Derivative Financial Instruments, including the amortization of balances included in AOCL.

ii) Unrealized loss on interest rate swap agreements: this represents the cumulative mark-to-market loss on an interest rate swap agreement entered into in July 2007, which effectively converts borrowings on a bankers' acceptance ("BA") floating rate credit facility to a fixed rate facility for $55 million for a five-year term. This interest rate swap agreement has been assessed as an effective hedge as per CICA Handbook Section 3865, Hedges. The difference between the effective all-in fixed interest rate and the corresponding three-month BA rate is adjusted to interest expense every quarter. Accordingly, the cumulative mark-to-market loss will ultimately reverse over the remaining term of the interest rate swap agreement.

iii) Change in fair value of investments: this represents the cumulative mark-to-market gain (loss) for the period on investments accounted for as available-for-sale (see note 2(g) to the audited consolidated annual financial statements).

[SECTION 3] NON-GAAP FINANCIAL MEASURES

Net Operating Income

NOI is a key non-GAAP measure of the operating performance of CAPREIT and is defined and reported in the Results of Operations section.

Distributable Income

Management considers DI to be a cash flow measure for determining CAPREIT's capacity to pay cash distributions to its Unitholders, one of CAPREIT's key objectives. In calculating the amount of monthly cash distributions, the Board of Trustees relies on cash flow information including forecasts and budgets.

Over the years, the definition of DI has varied considerably across the real estate industry. This fact has reduced the reliability and comparability of DI as a key performance indicator. Future changes to GAAP, including the introduction of International Financial Reporting Standards, are expected to amplify these concerns. Consequently, as previously disclosed, beginning in 2010 CAPREIT will cease disclosing DI.

Pursuant to guidance provided in National Policy 41-201, summarized below is a reconciliation of cash provided by operating activities as presented in the audited consolidated annual financial statements to DI.

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,	2009	2008
Cash Provided By Operating Activities	**$ 76,048**	$ 86,053
Adjustments:		
Changes in Non-cash Operating Assets and Liabilities	**9,866**	(3,722)
Fair Value Adjustment of Utility Contracts	**(208)**	(36)
Reorganization Costs [1]	**–**	1,599
Retiring Allowance [2]	**1,520**	–
Amortization of Other Financing Costs	**(2,169)**	(1,334)
Amortization of Leasehold Improvements	**(84)**	(79)
DI [3]	**$ 84,973**	$ 82,481
Retention of DI	**(11,168)**	(9,727)
Distributions Declared to Unitholders	**$ 73,805**	$ 72,754
DI per Unit – Basic [3]	**$ 1.287**	$ 1.261
Retention of DI per Unit	**(0.207)**	(0.181)
Distributions Declared to Unitholders per Unit	**$ 1.080**	$ 1.080
DI per Unit – Diluted [3]	**$ 1.285**	$ 1.257

(1) See Reorganization Costs on page 26.

(2) Trust expenses relating to the retirement of CAPREIT's former Chief Financial Officer (see Trust Expenses on page 25). Amount excludes $122 of non-cash compensation costs related to the accelerated vesting of LTIP and SELTIP Units previously awarded, which has already been adjusted in computing Cash Provided by Operating Activities.

(3) For the year ended December 31, 2008, excludes gain on disposal of properties of $17,046 or $0.261 per Unit.

The Board of Trustees relies on cash flow information, including budgets, to establish the level of cash distributions to Unitholders, which are paid monthly. Distributions declared to Unitholders of $73.8 million are based on all outstanding Units except for Units under the Deferred Unit Plan ("DUP"). For the year ended December 31, 2009, DI and DI per Unit increased by 3.0% and 2.1%, respectively, over 2008, due to acquisitions completed during 2008 and stable or higher average monthly rents resulting from Management's sales and marketing programs.

Distributions to Unitholders and Payout Ratio

($ THOUSANDS, EXCEPT WHERE NOTED) YEAR ENDED DECEMBER 31,	2009	2008
Distributions Declared to Unitholders	**$ 73,805**	$ 72,754
Distributions Declared to Unitholders per Unit	**1.080**	$ 1.080
DI	**$ 84,973**	$ 82,481
Payout Ratio [1]	**86.9%**	88.2%

(1) Distributions declared over DI.

The payout ratio of distributions declared to DI improved for the year ended December 31, 2009 to 86.9% compared to 88.2% in the previous year.

Distribution Reinvestment Plan ("DRIP") and Effective Payout Ratio

($ THOUSANDS, EXCEPT WHERE NOTED) YEAR ENDED DECEMBER 31,	2009	2008
Distributions Declared	$ 73,805	$ 72,754
Less: Distributions Reinvested [(1)]	$ 8,023	$ 12,647
Net Distributions Paid [(2)]	$ 65,782	$ 60,107
% Reinvested	10.9%	17.4%
Effective Payout Ratio [(3)]	77.4%	72.9%

(1) Cash reinvested by Unitholders through the DRIP.
(2) Distributions declared less cash reinvested through the DRIP.
(3) Net Distributions Paid over DI.

The average DRIP participation rate decreased for the year ended December 31, 2009 to 11.6% as compared to 17.9% in the prior year. CAPREIT will continue to report the DRIP participation rate, however, since it is subject to factors beyond Management's control and factors that vary between investors, Management will no longer be reporting anticipated DRIP participation rates.

The effective payout ratio, which compares net distributions paid to DI for the year ended December 31, 2009, increased to 77.4% primarily due to the reduction of reinvestment of distributions under the DRIP to $8.0 million.

Funds From Operations and Normalized Funds From Operations

FFO is a measure of the operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO as presented is substantially in accordance with the recommendations of the Real Property Association of Canada. It may not, however, be comparable to similar measures presented by other trusts or companies in similar or different industries. Management considers FFO to be an important measure of CAPREIT's operating performance.

A reconciliation of net income to FFO is as follows:

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,	2009	2008
Net Income (Loss)	$ 15,716	$ (3,477)
Adjustments:		
(Recovery of) Provision for Future Income Taxes	(9,568)	9,134
Reorganization Costs [(1)]	–	1,599
Depreciation	78,648	72,007
Amortization of Tenant Improvements	294	287
Amortization of Intangible Assets	981	1,282
Amortization of Above- and Below-market Leases	(120)	(420)
Gain on Sale of Assets	–	(17,046)
FFO	$ 85,951	$ 63,366
FFO – Continuing Operations	$ 85,951	$ 63,257
FFO – Discontinued Operations	$ –	$ 109
FFO Per Unit – Basic	$ 1.302	$ 0.969
FFO Per Unit – Diluted	$ 1.300	$ 0.966
Distributions Declared	$ 73,805	$ 72,754
FFO Payout Ratio	85.9%	114.8%
Net Distributions Paid [(2)]	$ 65,782	$ 60,107
Excess FFO over Net Distributions Paid	$ 20,169	$ 3,259
FFO Effective Payout Ratio	76.5%	94.9%

(1) See Reorganization Costs on page 26.
(2) Distributions declared less cash reinvested through the DRIP.

CAPREIT calculates NFFO by excluding from FFO the effect of the change in fair value of hedging instruments which were originally put in place for interest rate protection (see note 16 to the audited consolidated annual financial statements and discussion regarding Realized and Unrealized Gains and Losses on Derivative Financial Instruments) and the effect of certain non-recurring items in order to facilitate better comparability to the prior year. Management considers NFFO to be the key measure of CAPREIT's operating performance and the primary indicator with respect to the sustainability of CAPREIT's distributions.

A reconciliation of FFO to NFFO is as follows:

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,	**2009**	2008
FFO	**$ 85,951**	$ 63,366
Adjustments:		
Unrealized (Gain) Loss on Derivative Financial Instruments	**(742)**	17,627
Realized Gain on Derivative Financial Instruments	**(4,063)**	–
Retiring Allowance [1]	**1,642**	–
Amortization of Loss on Derivative Financial Instruments Included in Mortgage Interest	**592**	–
NFFO	**$ 83,380**	$ 80,993
NFFO – Continuing Operations	**$ 83,380**	$ 80,884
NFFO – Discontinued Operations	**$ –**	$ 109
NFFO per Unit – Basic	**$ 1.263**	$ 1.238
NFFO per Unit – Diluted	**$ 1.261**	$ 1.234
Distributions Declared	**$ 73,805**	$ 72,754
NFFO Payout Ratio	**88.5%**	89.8%
Net Distributions Paid [2]	**$ 65,782**	$ 60,107
Excess NFFO Over Net Distributions Paid	**$ 17,598**	$ 20,886
Effective NFFO Payout Ratio	**78.9%**	74.2%

(1) Trust Expenses relating to the retirement of CAPREIT's former Chief Financial Officer (see Trust Expenses on page 25) of $1,642 include $122 of compensation costs related to the accelerated vesting of LTIP and SELTIP Units previously awarded.
(2) Distributions declared less cash reinvested through the DRIP.

NFFO for the year ended December 31, 2009 increased by 2.9% compared to last year primarily due to acquisitions completed during 2008 and stable and higher average monthly rents resulting from Management's sales and marketing programs. NFFO per Unit increased by 2.0% during the year ended December 31, 2009 compared to the prior year.

Comparing distributions declared to NFFO, the NFFO payout ratio for the year ended December 31, 2009 was 88.5% compared to 89.8% for last year. The effective NFFO payout ratio, which compares net distributions paid to Unitholders to NFFO, increased to 78.9% from 74.2% for the year ended December 31, 2009, primarily due to the reduction of reinvestment of distributions under the DRIP. Management believes NFFO will be sufficient to fund CAPREIT's distributions on an annualized basis.

Adjusted Funds From Operations

AFFO is a supplemental measure of cash generated from operations that is used in the real estate industry to assess the sustainability of future distributions paid to Unitholders after provision for maintenance property capital investments.

Management relies on an industry-based estimate to determine the amount of maintenance property capital investments as significant judgment is required to classify property capital investments between *maintenance* and *stabilizing or value-enhancing* (see discussion in the Productive Capacity section below). Management views AFFO as an appropriate performance measure in a net lease operating environment, in which maintenance property capital investments are more clearly identifiable as they are not recoverable from tenants. However, AFFO is less reliable or applicable under a gross lease operating structure, as is the case for CAPREIT, because maintenance property capital investments are not clearly identifiable. As a result, Management no longer considers AFFO a Key Performance Indicator for CAPREIT. However, given the current use by investors and other stakeholders of this non-GAAP measure, CAPREIT currently intends to continue presenting an estimate of AFFO in its quarterly and annual MD&A.

CAPREIT calculates AFFO by deducting from NFFO an industry-based estimate for maintenance property capital investment (see discussion in the Productive Capacity section below) and adding back the non-cash compensation costs for LTIP, SELTIP and the DUP. In order to determine the AFFO payout ratio, CAPREIT compares distributions declared to AFFO. The effective AFFO payout ratio compares net cash distributions paid to Unitholders to AFFO.

A reconciliation of NFFO to AFFO is as follows:

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,	**2009**	2008
NFFO	**$ 83,380**	$ 80,993
Adjustments:		
Provision for Maintenance Property Capital Investments [1]	**(11,907)**	(11,700)
Non-cash Compensation for LTIP, SELTIP and DUP	**1,709**	1,551
AFFO	**$ 73,182**	$ 70,844
AFFO per Unit – Basic	**$ 1.109**	$ 1.083
AFFO per Unit – Diluted	**$ 1.107**	$ 1.080
Distributions Declared	**$ 73,805**	$ 72,754
AFFO Payout Ratio	**100.9%**	102.7%
Net Distributions Paid [2]	**$ 65,782**	$ 60,107
Excess AFFO Over Net Distributions Paid	**$ 7,400**	$ 10,737
Effective AFFO Payout Ratio	**89.9%**	84.8%

(1) Based on an industry estimate of $450 per suite and the weighted average number of residential suites during the period (see Productive Capacity section).

(2) Distributions declared less cash reinvested through the DRIP.

The AFFO payout ratio improved for the year ended December 31, 2009 to 100.9% from 102.7% in the prior year. The effective AFFO payout ratio for the year ended December 31, 2009 has been negatively impacted primarily due to the reduction of reinvestments of distributions under the DRIP.

[SECTION 4] PROPERTY CAPITAL INVESTMENTS

CAPREIT capitalizes all capital investments related to the improvement of its properties. These investments have the objective of increasing NOI in the future.

An important component of CAPREIT's property capital investment strategy is to acquire properties at values significantly below current replacement costs and improve their operating performance by investing annually in order to sustain and grow the portfolio's future rental income generating potential over its useful life.

To achieve its property capital investment objectives, taking into account CAPREIT's acquisition history, the soft economic conditions and the availability of competitive pricing from construction trades, CAPREIT has embarked on a multi-year capital investment plan that accelerates spending on building improvement programs, including upgrading parking garages, balconies and other structural improvements. These investments are closely connected to CAPREIT's property acquisitions, were anticipated at the time of such acquisitions and were included in the acquisition analyses to ensure such transactions were accretive. Management believes these investments will increase the productive capacity, the useful economic life and the operating capabilities of CAPREIT's properties and enhance future cash flow generating potential. Management also believes these building improvement programs, combined with existing suite improvement, common area and environment-friendly and energy-saving programs, will enable CAPREIT to reposition its portfolio and maintain high occupancy levels despite the soft economic conditions. These investments are expected to continue to increase average monthly rents while improving life safety and resident services. Management believes strategic investments taken at this time will position the portfolio for improved operating performance as the economy strengthens and over the long term.

During the year ended December 31, 2009, CAPREIT incurred property capital investments of $90.0 million as compared to $50.0 million for 2008. Property capital investments were higher compared to last year due to the acceleration of building improvement programs and higher suite improvement costs. In addition, CAPREIT continues to invest in environment-friendly and energy savings initiatives, including high-efficiency heating boilers, energy-efficient lighting systems, water savings and waste recycling programs, which have permitted CAPREIT to mitigate potentially higher increases in utility costs and have improved overall portfolio NOI.

A breakdown of property capital investments (excluding head office assets, assets held-for-sale, MHC land lease sites, tenant improvements and signage) is summarized by category below:

Property Capital Investments by Category

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2009	%	2008	%
Building Improvements	**$ 59,192**	**65.8**	$ 19,782	39.6
Suite Improvements	**16,153**	**18.0**	12,845	25.7
Common Area	**4,709**	**5.2**	5,142	10.3
Energy Savings Initiatives	**1,932**	**2.1**	4,081	8.2
Equipment	**5,469**	**6.1**	3,546	7.1
Boiler and Elevators	**1,438**	**1.6**	3,524	7.0
Appliances	**1,077**	**1.2**	1,048	2.1
	$ 89,970	**100.0**	$ 49,968	100.0

For the year ended December 31, 2009, CAPREIT incurred $90.0 million of property capital investments. Based on CAPREIT's multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments of approximately $92.5 million to $97.5 million during 2010.

Set out in the table below is Management's current estimate of CAPREIT's investments in building improvements for 2010 through 2014. Building improvements represented the most significant category of property capital investment during the year ended December 31, 2009, but are expected to decline significantly in the coming years. These estimates exclude the impact of changes in anticipated investment levels resulting from future acquisitions and dispositions of properties.

Future Investments in Building Improvements

($ THOUSANDS) YEAR ENDED DECEMBER 31	ESTIMATED RANGE
2010	$ 60,000 – $ 65,000
2011	$ 43,000 – $ 49,000
2012	$ 30,000 – $ 34,000
2013	$ 29,000 – $ 33,500
2014	$ 10,000 – $ 12,500

Excludes property capital investments in other categories, such as suite improvements and common area.

PRODUCTIVE CAPACITY

The primary focus of the following discussion is to differentiate between investments to maintain the existing cash flows from the properties and investments incurred to achieve CAPREIT's longer term goals to produce enhanced cash flows and Unit distributions.

Maintenance property capital investments vary with market conditions, are partially related to suite turnover and are intended to maintain the earning capacity of the portfolio. Industry estimates for annual overall maintenance capital investments are approximately $450 per residential suite. These maintenance property capital investments are in addition to normal repairs and maintenance costs, which are in the range of $700 to $800 per residential suite and are expensed to NOI.

Stabilizing and value-enhancing property capital investments are focused on increasing the productivity of the property portfolio. These investments enhance operating effectiveness and profitability and increase revenues or reduce costs to improve NOI over the long term. In addition, they improve the economic life and value of the properties and are mainly long-term in nature.

Owing to the gross lease structure of its portfolio, CAPREIT does not distinguish its property capital investments between the two categories described above. Instead, CAPREIT uses industry guidelines for maintenance property capital investments to estimate its stabilizing and value-enhancing property capital investments as follows:

($ THOUSANDS) YEAR ENDED DECEMBER 31,	**2009**	2008
Total Property Capital Investments [1]	**$ 89,970**	$ 49,968
Less: Estimated Maintenance Property Capital Investments [2]	**(11,907)**	(11,700)
Stabilizing and Value-Enhancing Capital Investments	**$ 78,063**	$ 38,268

(1) Excludes capital investments for head office assets, MHC land lease sites, tenant improvements and signage.

(2) Based on an industry estimate of $450 per suite and the weighted average number of residential suites during the period.

Management believes its increased emphasis on targeted property capital investment programs for its property portfolio is yielding positive results, as significant benefits are being, and are expected to continue to be, realized through maintaining high occupancy and increasing average monthly rents.

Management believes it has made good progress to date in raising incremental top up financing (as explained in the Liquidity and Financial Condition section) and increasing amortization periods of new mortgages so as to be in a position to implement the above property capital investment strategy, which enhances productive capacity over the long term.

CAPITAL STRUCTURE

CAPREIT defines capital as the aggregate of Unitholders' equity and debt. CAPREIT's objectives when managing capital are to safeguard its ability to continue to fund its distributions to Unitholders, to meet its repayment obligations under its mortgages and credit facilities, and to ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in CAPREIT's Declaration of Trust ("DOT") and Credit Facilities.

CAPREIT's Credit Facilities (see Bank Indebtedness and Credit Facilities) require compliance with the financial covenants shown in the table below. In addition, borrowings must not exceed the borrowing base, calculated at a predefined percentage to the market value of the properties determined on an annual basis.

In the short term, CAPREIT utilizes the Acquisition and Operating Facility to finance its capital investments, which may include acquisitions. In the long term, equity issuances, mortgage financings and refinancings, including "top ups", are put in place to finance the cumulative investment in the property portfolio and ensure the sources of financing better reflect the long-term useful lives of the underlying investments.

CAPREIT is in compliance with all its investment and debt restrictions and financial covenants contained in the DOT and in the Credit Facilities. The total capital managed by CAPREIT and the results of compliance with the key covenants are summarized below:

($ THOUSANDS) AS AT DECEMBER 31,		2009	2008
Mortgages Payable		**$ 1,545,315**	$ 1,472,822
Bank Indebtedness		**146,891**	121,029
Unitholders' Equity		**457,184**	485,933
Total Capital		**$ 2,149,390**	$ 2,079,784
	THRESHOLD (1)	2009	2008
Total Debt to Gross Book Value (2)	Maximum 70.00%	**62.75%**	61.82%
Tangible Net Worth (3)	Minimum $400,000	**$ 511,243**	$ 549,154
FOR THE YEAR ENDED DECEMBER 31,		2009	2008
Debt Coverage Ratio (times) (4)	Minimum 1.20	**1.28**	1.30
Interest Coverage Ratio (times) (5)	Minimum 1.50	**2.06**	2.06

(1) As at December 31, 2009.
(2) CAPREIT's DOT limits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAPREIT's total assets. GBV is defined as the historical book value of CAPREIT's assets plus accumulated depreciation and amortization, and currently does not include any fair value adjustments to reflect any appreciation in value of the portfolio. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments.
(3) Tangible net worth is generally represented by Unitholders' Equity and is defined as the sum of: i) Units issued; ii) contributed surplus; and iii) retained earnings after adding back the provision for future income taxes payable to a maximum limit of $100 million.
(4) Debt coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes, and other adjustments including non-cash compensation costs ("EBITDA") less taxes paid divided by principal and interest payments.
(5) Interest coverage ratio is defined as EBITDA less taxes paid divided by interest expense.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

Management ensures there is adequate overall liquidity by maintaining sufficient amounts of available credit facilities to fund maintenance and property capital investment commitments, distributions to Unitholders and provide for future growth in its business. CAPREIT finances these commitments through: (i) cash flow from operating activities; (ii) mortgage debt secured by its income properties; (iii) secured short-term debt financing with two Canadian chartered banks; and (iv) equity. Management's view of CAPREIT'S liquidity position going forward continues to be stable based on its evaluation of capital resources as summarized below:

i) CAPREIT's operating business conditions continue to be stable and it expects to generate sufficient cash flow from its operating activities to fund its current level of distributions. Management expects the current level of funds reinvested from its DRIP and the retained portion of its annual NFFO will be sufficient to fund its ongoing maintenance property capital investments. For the year ended December 31, 2009, CAPREIT's effective payout ratios for NFFO and AFFO to net distributions paid (see discussion in Non-GAAP Financial Measures section) were 78.9% and 89.9%, respectively, compared to 74.2% and 84.8% last year. Management believes that on an annualized basis, NFFO will be sufficient to fund its current level of distributions and that the annual NFFO payout ratio will continue to be in the 85% to 90% range.

ii) Notwithstanding the general deterioration in credit markets, Management believes that because of the continuing availability of insured financing through CMHC, CAPREIT is well positioned to meet its mortgage renewals and refinancing goals in 2010. Management does not anticipate any material difficulties in renewing approximately $161.8 million of maturing mortgages and refinancing approximately $46.3 million in principal repayments through 2010, which combined have an effective interest rate of approximately 4.89%, with new mortgages at lower interest rates. For 2009, Management achieved its target refinancing plan to raise additional CMHC-insured financing in the range of $100 million by topping up its existing mortgages.

iii) Management also successfully renewed its Acquisition and Operating Facility aggregating to $250 million which matured on June 30, 2009. The renewed credit facility was effectively amended and simplified to provide a one-year revolving facility of $100 million and a three-year revolving facility of $150 million, subject to compliance with the various provisions of the Credit Facilities, in order to fund operations, acquisitions, capital improvements, letters of credit and other uses. In addition, the Land Lease Facility of $10 million was also renewed for a one-year term maturing on June 30, 2010.

The available borrowing capacity under CAPREIT's Acquisition and Operating Facility at December 31, 2009 is $94.4 million ($94.5 million as at December 31, 2008). The available borrowing capacity under CAPREIT's Land Lease Facility at December 31, 2009, is $7.8 million ($5.8 million as at December 31, 2008).

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at December 31, 2009 are as follows:

($ THOUSANDS)	2010	2011–2012	2013–2014	2015 ONWARD
Mortgages Payable	$ 208,134	$ 485,540	$ 411,989	$ 444,489
Bank Indebtedness	102,075	44,816	–	–
Mortgage Interest Payable	71,424	106,390	63,629	85,986
Bank Indebtedness Interest Payable	3,579	2,516	–	–
Accounts Payable and Accrued Liabilities	49,241	2,082	–	–
Security Deposits	18,624	–	–	–
Distributions Payable	6,191	–	–	–
	$ 459,268	$ 641,344	$ 475,618	$ 530,475

Mortgages Payable

CAPREIT takes a conservative approach and actively manages its mortgage portfolio to reduce interest costs while ensuring it is not overly exposed to interest rate volatility risk. Management takes a portfolio approach to its mortgage debt, proactively staggering maturities to reduce risk while taking advantage of the current low interest rate environment.

The key liquidity metrics are summarized in the table below:

AS AT DECEMBER 31,	**2009**	2008
Mortgage Debt to Gross Book Value	**57.30%**	57.12%
Total Debt to Gross Book Value	**62.75%**	61.82%
Total Debt to Total Capitalization	**63.61%**	59.96%
Debt Coverage Ratio (times) (1)	**1.28**	1.30
Interest Coverage Ratio (times) (1)	**2.06**	2.06
Weighted Average Mortgage Interest Rate (2)	**5.07%**	5.30%
Weighted Average Mortgage Term to Maturity (years)	**5.1**	5.0

(1) For the year ended December 31.

(2) Effective weighted average interest rate including deferred financing costs and fair value adjustments but excluding CMHC premiums. Additionally, including the amortization of the realized component of the loss on settlement of $9.9 million included in AOCL, the effective portfolio weighted average interest rate at December 31, 2009 would be 5.15%.

At December 31, 2009, the overall leverage represented by the ratio of total debt to gross book value increased to 62.75% as compared to 61.82% at December 31, 2008. The maximum ratio allowable under CAPREIT's DOT is 70%. Due to the decline in CAPREIT's Unit price during 2009 and overall market capitalization, as at December 31, 2009, CAPREIT's total debt rose to approximately 63.61% of total market capitalization compared to 59.96% last year. In addition, CAPREIT's coverage ratios, represented by debt and interest coverage tests, have remained relatively stable during the year ended December 31, 2009, compared to last year despite difficult market conditions, demonstrating Management's prudent operating and financing strategies.

The effective portfolio weighted average interest rate has steadily declined from 5.30% as at December 31, 2008, to 5.07% as at December 31, 2009, which will result in significant interest rate savings in future years. Management believes that as CAPREIT's refinancing plan continues to be implemented, there is scope to further reduce the effective portfolio weighted average interest rate based on current market conditions. Management is also focused on ensuring the portfolio weighted average term to maturity remains steady in the five-year range and expects to gradually extend the term as credit conditions improve and longer term interest rates are deemed accretive.

CAPREIT focuses on multi-unit residential real estate, which is eligible for government-backed insurance for mortgages administered by CMHC, which benefits CAPREIT in two ways:

- CAPREIT obtains lower interest rate spreads for mortgage financing; and
- CAPREIT's overall renewal risk for mortgage refinancings is reduced as the mortgage insurance premium is transferable between approved lenders and is effective for the full amortization period of the underlying mortgage ranging between 25 to 35 years.

At December 31, 2009, 96.2% (December 31, 2008 – 95.0%) of CAPREIT's mortgage portfolio is CMHC-insured (excluding the MHC land lease sites portfolio).

The following table summarizes the changes in the mortgage portfolio during the year:

($ THOUSANDS) AS AT DECEMBER 31,	2009	2008
Balance, Beginning of the Year	**$ 1,472,822**	$ 1,455,181
Add:		
New Borrowings	–	44,557
Assumed	–	31,249
Refinanced	**304,577**	86,010
Less:		
Mortgage Repayments	**(49,182)**	(46,139)
Mortgages Repaid on Disposals	–	(59,830)
Mortgages Matured	**(182,027)**	(38,108)
Deferred Financing Costs and Fair Value Adjustments, net	**(875)**	(98)
Balance, End of the Year	**$ 1,545,315**	$ 1,472,822

Despite tight credit markets in the first half of 2009, Management was successful in achieving its overall mortgage renewal and refinancing plan target for the year of $300 million ($200 million for renewals and $100 million for additional refinancings). During the year ended December 31, 2009, total refinancings of $304.6 million, including renewals of existing mortgages aggregating to $182.0 million and additional top up financing of $122.6 million, were completed at a weighted average interest rate of 3.95%, significantly below the weighted average interest rate of mortgages matured in 2009 of 5.22%.

The table below summarizes refinancings for the year ended December 31, 2009, and the weighted average interest rates obtained. All mortgages entered into bear fixed rates of interest.

($ THOUSANDS)	ORIGINAL MORTGAGE AMOUNT	ORIGINAL INTEREST RATE[(1)]	NEW MORTGAGE AMOUNT	NEW INTEREST RATE[(1)]	WEIGHTED AVERAGE TERM ON NEW MORTGAGE (YRS)	TOP UP FINANCING
First Quarter	$ 26,025	4.80%	$ 43,400	3.86%	7.1	$ 17,375
Second Quarter	75,062	5.24%	112,137	3.50%	5.2	37,075
Third Quarter	52,839	5.65%	89,347	4.27%	7.9	36,508
Fourth Quarter	28,101	4.75%	59,693	4.38%	9.5	31,592
Total and Weighted Average	$ 182,027	5.22%	$ 304,577	3.95%	7.1	$ 122,550

(1) Weighted average.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2009 is as follows:

($ THOUSANDS, EXCEPT WHERE NOTED)

YEAR	PRINCIPAL REPAYMENTS	MORTGAGE MATURITIES	TOTAL DEBT	% OF TOTAL DEBT	INTEREST RATE (%)[1]
2010	$ 46,289	$ 161,845	$ 208,134	13.4	4.89
2011	39,695	202,897	242,592	15.6	5.28
2012	35,396	207,552	242,948	15.7	5.28
2013	31,122	133,104	164,226	10.6	5.18
2014	24,531	223,232	247,763	16.0	4.28
2015	20,698	25,946	46,644	3.0	5.02
2016	18,325	22,026	40,351	2.6	6.35
2017	15,093	80,867	95,960	6.2	4.89
2018	14,456	52,234	66,690	4.3	4.69
2019	12,071	82,760	94,831	6.1	5.18
2020 – 2024	32,895	59,865	92,760	6.0	5.76
2025 onwards	3,558	3,695	7,253	0.5	5.15
Total	**$ 294,129**	**$ 1,256,023**	**$ 1,550,152**	**100.0**	**5.07** [2]
Deferred financing costs and fair value adjustments			(4,837)		
Mortgages Payable			**$ 1,545,315**		

(1) Effective weighted average interest rates for maturing mortgages only.

(2) Effective weighted average interest rate including deferred financing costs and fair value adjustments but excluding CMHC premiums. Additionally, including the amortization of the realized component of the loss on settlement of $9.9 million included in AOCL, the effective portfolio weighted average interest rate at December 31, 2009 would be 5.15%.

To ensure CAPREIT is not overly exposed to interest rate volatility risk, Management has also been successful in staggering the maturity dates of its mortgage portfolio. During 2010, total debt repayments (including maturing mortgages) will be approximately 13.4% of the total mortgage portfolio.

To reduce its interest cost and cost of capital, Management will continue to leverage its balance sheet strength and the stability of its property portfolio to fund its capital investment plan and reduce borrowings on its Credit Facilities.

Future Mortgage Renewals and Top Up Financing Potential

For purposes of estimating top up financing potential, the table below provides the NOI for those properties with mortgages maturing between 2010 and 2015 and onwards. A property's full NOI is included in the first year in which a mortgage matures. The balance of mortgages remaining on the same property but maturing in other years is also shown. Based on this mortgage maturity profile, Management believes it will be in a position to achieve its overall 2010 mortgage renewal and refinancing plan of approximately $285 million to $300 million.

($ THOUSANDS)
AS AT DECEMBER 31, 2009

YEAR OF MATURITY	MORTGAGE MATURITIES	MORTGAGES ON THE SAME PROPERTIES MATURING IN OTHER YEARS	TOTAL MORTGAGES	NOI OF PROPERTIES WITH MATURING MORTGAGE(S)[1]
2010	$ 161,845	$ 54,847	$ 216,692	$ 32,321
2011	202,897	32,173	235,070	30,361
2012	207,552	4,029	211,581	22,379
2013	133,104	(13,886)	119,218	17,882
2014	223,232	(16,611)	206,621	26,127
2015 onwards	327,393	(60,552)	266,841	49,853
Total	$ 1,256,023	$ –	$ 1,256,023	$ 178,924

(1) NOI for year ended December 31, 2009.

Bank Indebtedness and Credit Facilities

On April 1, 2008, CAPREIT transferred the beneficial interest in all of its properties along with the related debt obligations to CAPLP. The Acquisition and Operating Facility and the Land Lease Facility were restructured on June 30, 2008 into one credit agreement comprising an Acquisition and Operating Facility and a Land Lease Facility. Effective June 30, 2009, the Credit Facilities were renewed (see discussion in the Liquidity and Capital Resources section) as described in note 9 to the audited consolidated annual financial statements. Bank indebtedness includes borrowings on the Acquisition and Operating Facility and the Land Lease Facility. As at December 31, 2009, $144.8 million (December 31, 2008 – $116.9 million) was outstanding on the Acquisition and Operating Facility. In addition, at December 31, 2009, letters of credit in the amount of $6.0 million (December 31, 2008 – $3.9 million) were outstanding, which reduce the maximum amount available under the facility. The excess borrowing capacity on the Acquisition and Operating Facility, after taking into account outstanding letters of credit and the hedge liability on the interest rate swap agreement was $94.4 million.

The Land Lease Facility of $10 million, which was established to fund operating, development and acquisition costs for the Bowmanville and Grand Bend manufactured home communities, matured on June 30, 2009 and was renewed for one year as explained in note 9 to the audited consolidated annual financial statements. As at December 31, 2009, $2.1 million (December 31, 2008 – $4.1 million) was outstanding on this Facility. In addition, letters of credit in the amount of $0.1 million (December 31, 2008 – $0.1 million) were outstanding, which reduce the maximum amount available under the facility.

Unitholders' Equity

Since its Initial Public Offering in May 1997, the total market value of CAPREIT's equity as at December 31, 2009 has risen to $968 million. The total Units outstanding of CAPREIT as at December 31, 2009 were 68,846,833 (including 60,624 Units relating to the DUP and 411,311 exchangeable limited partnership Units ("CAPLP Units")), of which trustees, officers and executives owned approximately 5.5%. As of December 31, 2009, 387,200 options to acquire Trust Units were outstanding and exercisable.

During 2008, CAPREIT implemented the DUP for the benefit of the non-executive trustees as approved by the Unitholders on May 21, 2008. This plan gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred Units (see note 13(j) to the audited consolidated annual financial statements). For the year ended December 31, 2009, total compensation costs of $0.4 million (2008 – $0.5 million) were expensed in relation to awards under the DUP.

Normal Course Issuer Bid

On June 19, 2009, CAPREIT announced that the Toronto Stock Exchange ("TSX") had approved its normal course issuer bid ("NCIB") to acquire up to 6,344,344 Units, representing 10% of the public float at the time, at market prices over the 12-month period ending June 24, 2010. Purchases are made at market prices through the facilities of the TSX. Any Units purchased by CAPREIT are cancelled. CAPREIT believes the ongoing purchase of its outstanding Units may be an appropriate use of its resources from time to time and can provide liquidity to Unitholders who desire to sell their Units. No Units under this NCIB were acquired as of December 31, 2009.

On June 20, 2008, CAPREIT announced that the TSX had approved its NCIB to acquire up to 6,309,967 Units, representing 10% of the public float at the time, at market prices over the 12-month period ending June 24, 2009. As at June 30, 2009, CAPREIT had acquired for cancellation 264,100 Units at market prices during the period June 25, 2008 to June 24, 2009 at an aggregate cost of $3.9 million. For the year ended December 31, 2009, CAPREIT acquired for cancellation a total of 13,500 Units at market prices under its NCIB at an aggregate cost of $0.2 million.

UNITHOLDER TAXATION

For taxable Canadian resident Unitholders, the distributions are treated as follows for tax purposes:

FOR YEAR ENDED DECEMBER 31,	**2009**	2008
Taxable to Unitholders as Other Income	**0.00%**	26.05%
Taxable to Unitholders as Capital Gain Income	**0.22%**	35.71%
Tax Deferral	**99.78%**	38.24%
Total	**100.00%**	100.00%
Total Effective Non-taxable Portion of Distributions	**99.89%**	56.10%

[SECTION 5] SELECTED CONSOLIDATED QUARTERLY INFORMATION

(THOUSANDS, EXCEPT PER UNIT AMOUNTS)	**Q4 09**	**Q3 09**	**Q2 09**	**Q1 09**	Q4 08	Q3 08	Q2 08	Q1 08
Operating Revenues	**$ 83,827**	**$ 82,990**	**$ 82,017**	**$ 82,198**	$ 82,616	$ 80,721	$ 78,977	$ 78,104
NOI	**$ 44,826**	**$ 47,726**	**$ 46,644**	**$ 39,728**	$ 43,567	$ 46,364	$ 44,581	$ 38,421
Income (Loss) from Continuing Operations	**$ 10,192**	**$ 950**	**$ 9,073**	**$ (4,499)**	$ (26,221)	$ 4,994	$ 3,446	$ (2,851)
Net Income (Loss)	**$ 10,192**	**$ 950**	**$ 9,073**	**$ (4,499)**	$ (26,221)	$ 4,994	$ 3,387	$ 14,363
DI	**$ 20,492**	**$ 23,926**	**$ 23,523**	**$ 17,032**	$ 19,552	$ 23,730	$ 22,582	$ 16,617
FFO	**$ 20,639**	**$ 21,059**	**$ 28,630**	**$ 15,623**	$ 1,573	$ 23,469	$ 22,164	$ 16,160
NFFO	**$ 20,178**	**$ 23,581**	**$ 23,153**	**$ 16,468**	$ 19,200	$ 23,469	$ 22,164	$ 16,160
Income (Loss) from Continuing Operations Per Unit								
– Basic	**$ 0.154**	**$ 0.014**	**$ 0.138**	**$ (0.068)**	$ (0.400)	$ 0.076	$ 0.053	$ (0.044)
– Diluted	**$ 0.153**	**$ 0.014**	**$ 0.137**	**$ (0.068)**	$ (0.400)	$ 0.076	$ 0.053	$ (0.044)
Net Income (Loss) Per Unit								
– Basic	**$ 0.154**	**$ 0.014**	**$ 0.138**	**$ (0.068)**	$ (0.400)	$ 0.076	$ 0.052	$ 0.220
– Diluted	**$ 0.153**	**$ 0.014**	**$ 0.137**	**$ (0.068)**	$ (0.400)	$ 0.076	$ 0.052	$ 0.220
DI Per Unit – Basic	**$ 0.309**	**$ 0.362**	**$ 0.357**	**$ 0.259**	$ 0.298	$ 0.362	$ 0.346	$ 0.255
FFO Per Unit – Basic	**$ 0.311**	**$ 0.319**	**$ 0.434**	**$ 0.238**	$ 0.024	$ 0.358	$ 0.339	$ 0.248
NFFO Per Unit – Basic	**$ 0.305**	**$ 0.357**	**$ 0.351**	**$ 0.250**	$ 0.293	$ 0.358	$ 0.339	$ 0.248
Weighted Average Units								
– Basic	**66,262**	**66,086**	**65,938**	**65,770**	65,572	65,496	65,334	65,243
– Diluted	**66,416**	**66,208**	**66,002**	**65,854**	65,643	65,795	65,648	65,381

Non-GAAP financial measures are reconciled with GAAP reported amounts in the respective quarterly SEDAR filings.

CAPREIT's operations are affected by seasonal cycles and operating performance in one quarter may not be indicative of potential operating performance in any other quarter of the year. The fourth and first quarters of each year tend to generate weaker performance due to increased energy consumption during the winter months.

Fourth Quarter

Operating revenues in the fourth quarter of 2009 increased by 1.5% over the same quarter in 2008, however, NOI rose by 2.9% due in part to lower realty taxes and R&M costs. Net income for the fourth quarter of 2009 also increased due to a recovery of the future income taxes payable due to the loss realized on settlement of interest rate forward contracts during the year and due to lower substantively enacted tax rates in future years. Unrealized losses of $17.6 million on mark-to-market valuations of the above contracts negatively impacted the FFO for the fourth quarter of 2008.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table presents a summary of selected financial information prepared in accordance with GAAP for the fiscal years indicated below:

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,	**2009**	2008	2007
Income Statement Data			
Operating Revenues	**$ 331,032**	$ 320,418	$ 293,978
Net Income (Loss) From Continuing Operations	**$ 15,716**	$ (20,632)	$ (51,258)
Net Income (Loss)	**$ 15,716**	$ (3,477)	$ (50,196)
Net Income (Loss) per Unit – Basic	**$ 0.238**	$ (0.053)	$ (0.831)
Distributions			
Distributions Declared	**$ 73,805**	$ 72,754	$ 66,802
Distributions per Unit	**$ 1.080**	$ 1.080	$ 1.080
Balance Sheet Data			
Income Properties	**$ 2,207,806**	$ 2,192,945	$ 2,093,312
Total Assets	**$ 2,279,779**	$ 2,243,294	$ 2,262,056
Mortgages Payable	**$ 1,545,315**	$ 1,472,822	$ 1,395,321
Bank Indebtedness	**$ 146,891**	$ 121,029	$ 103,066

[SECTION 6] ACCOUNTING POLICIES AND ESTIMATES

Changes in Accounting Policies and New Accounting Standards

As required by the Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2009, CAPREIT adopted CICA Handbook Section 3064, Goodwill and Intangible Assets, and the amended Section 1000, Financial Statement Concepts.

Section 3064, Goodwill and Intangible Assets, clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. Section 1000, Financial Statement Concepts, was also amended to provide consistency with Section 3064. The adoption of these standards did not have any impact on CAPREIT's consolidated financial results.

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which requires the entity to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for CAPREIT's 2009 fiscal year commencing January 1, 2009 and is required to be applied retrospectively without restatement of prior periods. The adoption of this standard has been incorporated into Management's fair value estimates but did not have any significant impact on the valuation of CAPREIT's financial assets or liabilities.

In June 2009, the CICA issued amendments to Section 3862, Financial Instruments – Disclosures, which CAPREIT has adopted effective for its December 31, 2009 audited consolidated annual financial statements, as required by the standard. Specifically, the standard expands disclosure requirements regarding fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements. CAPREIT has classified and disclosed in note 21(a) to the audited consolidated annual financial statements the financial instruments presented at fair value on the balance sheet based on the three-level fair value hierarchy specified in the new standard. The section has also been amended to require additional liquidity risk disclosures. The adoption of this standard did not have any impact on the valuation of CAPREIT's financial assets, but expands disclosure in this regard.

The CICA also issued Section 1582, Business Combinations, which replaces Section 1581, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which together replace Section 1600, Consolidated Financial Statements. Under Section 1582, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of change in control. Furthermore, virtually all acquisition costs will be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities, except for future contingent considerations that meet the definition of equity, are to be recognized at fair value at the

acquisition date and will be remeasured at fair value through earnings for each period until settled. Sections 1601 and 1602 revise and enhance the standards for the preparation of consolidated financial statements subsequent to a business combination. All three sections come into effect for financial periods beginning January 1, 2011 with prospective application. Early adoption of these sections is permitted. All three sections must be adopted concurrently. CAPREIT intends to adopt these sections effective for CAPREIT's 2011 fiscal year commencing January 1, 2011. These new sections will only have an impact on CAPREIT's consolidated financial statements for acquisitions made subsequent to January 1, 2011, the date of adoption.

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011 (the "changeover date"). CAPREIT will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information (see the IFRS and Risks and Uncertainties sections for discussion of the potential impact on CAPREIT of the adoption of IFRS).

Accounting Estimates

In preparing the audited consolidated annual financial statements, certain accounting policies require Management to make estimates or assumptions that, in some cases, relate to matters that are inherently uncertain. Certain areas of estimation are considered less critical or involve a lesser degree of subjectivity and, therefore, are limited in their potential positive or negative impact to the results of operations or financial position of CAPREIT. However, such estimates still have the potential to affect the reported amounts. Areas of such estimation include, but are not limited to: financial instruments that are required to be measured or disclosed at fair value on initial recognition or on a periodic basis, valuation of accounts receivable, capitalization of costs, accounting accruals, the allocation of fair value on acquisition of investment properties and the depreciation and amortization of certain assets. Changes to estimates and judgments may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

Management believes the nature of the business and portfolio is defensive against economic downturns and therefore the current economic conditions have not had as significant an impact on CAPREIT's critical accounting estimates as may have been realized in other industries. However, the current economic conditions impacting the general economy or that may be more specific to the industry or to CAPREIT could have the potential to alter accounting estimates and could impact CAPREIT's financial condition, changes in financial condition or results of operations. Disclosures in the MD&A, including specifically the Property Portfolio, Results of Operations, Property Capital Investments, Liquidity and Financial Condition and Future Outlook sections, outline the risks and both the positive and negative impacts on CAPREIT's performance that have or may in the future result from the unusual economic conditions.

The estimates deemed by Management to be more significant, due to subjectivity, relate to the testing for impairment and future income taxes and are discussed below.

IMPAIRMENT

GAAP requires CAPREIT to evaluate the recoverability of the net carrying amount of its income properties whenever events or changes in circumstances indicate its carrying amount may not be recoverable. CAPREIT recognizes an impairment of an asset when the carrying value of the asset exceeds the total undiscounted future cash flows expected from the use and eventual disposal of the asset. On an annual basis, CAPREIT's entire portfolio is subject to a comprehensive appraisal of its market value for financing purposes. This independent appraisal of each CAPREIT property involves estimation of future cash flows and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. Factors impacting the evaluation include (i) general economic conditions, (ii) local conditions, such as loss of jobs or an increase in the supply of apartments, might adversely affect apartment occupancy or rental rates, (iii) increases in operating costs due to inflation and other factors, which may not be offset by increased rents, (iv) changes in governmental regulations, tax laws and housing laws including the enactment of rent control laws or other laws regulating multifamily housing, (v) changes in market capitalization rates, and (vi) competition from other apartment communities and other housing options. Given that the estimates to determine recoverability (or if required, a fair value-based impairment) are inherently subjective, a change in the assumptions and estimates used in its calculations may lead to significant impairment losses, which would adversely impact the results of CAPREIT.

FUTURE INCOME TAXES

Amendments to the Income Tax Act (Canada) ("Tax Act") in 2007 impacted the tax treatment of public entities such as CAPREIT effective January 1, 2011. Management is required to estimate future tax assets and liabilities under the amended Tax Act. A future income tax asset or liability is determined for each temporary difference expected as at January 1, 2011, and is based on future tax rates substantively enacted at the balance sheet date that will apply in the periods that the temporary differences are expected to reverse. The provision for future income taxes represents Management's estimate of the future income tax implications of the transactions and events during the period, all of which require judgment to be applied, including interpretation of the relevant tax laws and its estimate of the future income tax implications of the transactions during the period along with assumptions regarding how temporary differences are expected to reverse and the expected timing of the reversal of such temporary differences. There is an inherent risk associated with Management's ability to qualify as a REIT which could affect the future tax rates to be applied and ultimately realized (see Taxation Related Risks discussion under the Risks and Uncertainties section and note 10 to the audited consolidated annual financial statements).

INTERNATIONAL FINANCIAL REPORTING STANDARDS

As discussed under the Changes in Accounting Policies section, in February 2008, the AcSB confirmed that Canadian public entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011 (the "changeover date"). CAPREIT will issue its first financial statements in accordance with IFRS commencing the quarter ended March 31, 2011, with comparative information. CAPREIT currently does not intend to adopt IFRS ahead of the mandatory conversion date for Canadian public companies.

It is anticipated that certain changes under IFRS, relative to GAAP, will be reflected through CAPREIT's opening retained earnings as of the changeover date, while other changes are anticipated to be reflected on a prospective basis.

In May 2008, the Canadian Securities Administrators issued Staff Notice 52-320, which provides guidance on the disclosure of changes in expected accounting policies related to the changeover to IFRS. In accordance with the notice and additional guidance provided by the CICA, for purposes of the year ended December 31, 2009, CAPREIT is required to discuss the status of the key elements and timing of its changeover plan as well as providing more illustrative and entity specific implications of the transition.

CAPREIT is in the process of executing its changeover plan from GAAP to IFRS. It has established a project team which is led by its finance group, and includes representatives from other departments to plan, design, and implement the changeover process. Quarterly progress reporting to CAPREIT's Board of Trustees began in the fourth quarter of 2008 on the status of IFRS implementation and is ongoing.

CAPREIT's changeover plan encompasses three primary phases:

i) Scope/Diagnostic Phase – a preliminary high-level diagnostic to identify key areas in which there may be significant differences between IFRS and GAAP for CAPREIT's financial statements. This phase also includes preliminary considerations with respect to processes, controls, systems, and resources to facilitate the changeover process.

   In the fourth quarter of 2008, CAPREIT finalized this phase, and identified certain standards that may have a significant financial statement impact including IAS 40 Investment Property, IAS 32 Financial Instruments: Presentation, and IFRS 1 First-Time Adoption of IFRS. CAPREIT has also identified certain material agreements that may be affected as a result of the changeover, such as the Declaration of Trust, mortgage and credit agreements, and employment agreements.

   The diagnostic also identified a potential impact of IFRS changeover to information technology and data systems, IFRS staff training initiatives, and certain business and internal control processes.

ii) Assessment/Design Phase – outlines key changeover milestone dates, establishing internal training and external resource requirements, procedures and processes to accommodate the changeover, a review of material agreements of CAPREIT, a review of internal control requirements, and an assignment of responsibility to various departments in the organization. A more detailed assessment of the impact of IFRS has been undertaken during this phase of the changeover plan with many preliminary conclusions formulated. These assessments have and will continue to result in recommendations on the implementation of the standards, taking into account implications to various areas of the business, including the impact of the changeover to the Key Performance Indicators and Performance Measurements of CAPREIT.

In the first quarter of 2009, CAPREIT formulated an internal comprehensive project plan to accommodate this phase of IFRS changeover. The changeover plan involved the formation of multiple task forces, who were assigned responsibilities associated with:

> Research and analysis of the standards;
> Training;
> Information technology systems; and
> Financial statement presentation and disclosure requirements.

These task forces include both internal staff and external consultants to CAPREIT. Strategic milestones and objectives were established as part of the changeover plan, including responsibility assignment and timelines pertaining to all IFRS being assessed and analyzed for both impact and actions required. The work efforts of the various task forces are being led and co-ordinated by CAPREIT's finance group. As policies are developed in relation to IFRS, internal controls, financial reporting and disclosure considerations will be evaluated as well.

iii) Implementation/Monitoring Phase – involves implementation of the recommendations formulated during the assessment/design phase. This phase includes monitoring the progress of the implementation of changes to business processes and information systems, finalization of recommended accounting policy changes and completion of training programs for staff. Completion of this phase will involve collection of all financial information necessary, so as to work toward an effective and efficient transition to IFRS by the changeover date.

As CAPREIT has progressed through the changeover plan, the implementation of the plan continues to adapt due to changes to IFRS and from more detailed analysis during the assessment/design phase, relative to the scope/diagnostic phase. CAPREIT continues to progress through the assessment/design phase and has entered into the implementation and monitoring phase, the results of which are discussed below. Conclusions discussed below are preliminary and are subject to change based on further analysis by Management, interpretations of more complex issues by advisors, auditors and industry associations, and the finalization of accounting policy choices such as elections under IFRS 1, many of which could change based on a final comprehensive review of the impact of IFRS prior to the changeover date. However, Management believes it is important to provide the more significant though preliminary conclusions to stakeholders well in advance of the transition reporting deadlines.

Standards

CAPREIT has identified certain standards that may have a significant financial statement impact at the changeover date. A general discussion of these standards is as follows:

i) IAS 40 INVESTMENT PROPERTY ("IAS 40"):

Investment property is defined as property that is held to earn rentals or for capital appreciation or both. Investment property is recognized initially at cost. Subsequent to initial recognition, all Investment Property is measured using either the fair value model or the cost model. When the fair value model is chosen, changes in fair value are recognized for each reporting period in the profit or loss statement. If the cost model is chosen to measure Investment Property, the properties would be recorded at cost less accumulated depreciation and any impairment change; however, the fair value would be disclosed in the notes to the financial statements.

CAPREIT considers its income properties to be investment properties under IAS 40 – Investment Property. In the fourth quarter of 2009, CAPREIT's Board of Trustees approved a resolution to adopt the fair value model to account for its income properties as Investment Property; thus CAPREIT expects to use the fair value model when preparing its consolidated financial statements under IFRS. Management has engaged a third-party appraiser to assist in determining the fair value of the Investment Properties as at January 1, 2010, the results of which have not yet been finalized.

It is expected that prospective application will be utilized pursuant to IFRS 1 exemptions and, as a result, CAPREIT's opening balance sheet, including opening retained earnings, will reflect the revaluation of substantially all income properties to fair value. In addition, the intangible assets and liabilities established under GAAP in connection with business combinations will no longer be separately recognized under IFRS. Finally, all changes to the opening balance sheet will require that a corresponding tax asset or liability be established based on the resultant differences between the carried value of assets and liabilities and their associated tax bases. Also, fluctuations in the book value of Investment Property as a result of the application of the fair value method will likely cause greater volatility in temporary tax differences being reported under IFRS. The quantum of tax impact described above will depend on CAPREIT's ability to satisfy the REIT exemption to be excluded from the definition of a specified investment flow-through trust ("SIFT") and thus not subject to the SIFT rules.

Management expects the impact of these IAS 40-related differences on its January 1, 2010 opening balance sheet under IFRS compared to its December 31, 2009 balance sheet under GAAP will result in an increase in Unitholders' equity; however, Management cannot quantify the impact of this and other changes at the present time. In accordance with applicable securities laws and regulations, this information will be disclosed in the MD&A for the quarter ended March 31, 2011, or earlier, where Management deems it appropriate.

The measurement of Investment Property using the fair value model under IAS 40 requires a gain or loss arising from a change in the fair value of Investment Property in the period to be recognized in income. Net income during any given period may be greater or less than as determined under GAAP, as currently applied, depending on whether an increase or decrease in fair value occurs during the period of measurement. Also, under the fair value model, depreciation of Investment Property is not recorded nor is amortization of the historic intangible balances established under GAAP in respect of business combinations, all of which are no longer to be separately recognized and accordingly not amortized under IFRS.

Management has selected, and the Board of Trustees has approved, the fair value model as they are of the opinion that it is considered the most relevant standard of reporting for real estate, that the cost model is becoming increasingly irrelevant, and that industry organizations with more experience on IFRS matters, such as the European Public Real Estate Association, are directing preparers toward fair value basis of accounting for Investment Property.

Management is in the process of finalizing its review of its agreements that may be impacted by this decision such as the Credit Facilities, mortgage, employment and other agreements (as discussed below).

ii) IAS 32 FINANCIAL INSTRUMENTS ("IAS 32"):

Presentation – REITs that are open-ended trusts with redeemable units must determine whether the units should be classified as equity or debt based on guidance in IFRS under IAS 32 Financial Instruments: Presentation. Effective January 1, 2009, IAS 32 was amended to include additional criteria to consider in determining whether puttable financial instruments (such as redeemable REIT units) may be classified as equity. Trust Units and CAPLP Units, currently categorized under GAAP as equity, may be considered a financial liability under IFRS. Accordingly, CAPREIT's Board of Trustees proposed certain amendments to its DOT which Unitholders approved at the Annual General Meeting held on May 20, 2009 (see Other Considerations below). These changes were made to address the issues related to the accounting and presentation of units under IFRS. As a result of these amendments and based on Management's review of the terms of the Trust Units, Management believes the Trust Units will be able to utilize the exemption in IAS 32 to present the Trust Units as equity for purposes of classification in accordance with IAS 32.

Although Management believes the Trust Units and CAPLP Units are economically equivalent, based upon Management's review of the terms of the CAPLP Units, CAPREIT will likely be unable to utilize the exemption in IAS 32 to present the CAPLP Units as equity as they are required to be converted into Trust Units on liquidation and are not "identical" to Trust Units from an IFRS accounting perspective. As a result, the CAPLP Units are expected to be presented as financial liabilities, which is expected to have the following impact:

a) CAPLP Units will need to be classified outside of equity as financial liabilities;
b) CAPLP Units will be presented at fair value at the transition date with an adjustment to opening retained earnings for the difference between cost and fair value at the transition date;
c) Distributions to CAPLP Units will be presented as interest expense; and
d) The fair value of CAPLP Units subsequent to the transition date will need to be remeasured at each reporting period with fair value changes charged to Net Income.

This same scope limitation in the IAS 32 exemptive relief is expected to result in some of the existing Unit-based compensation arrangements being classified as financial liabilities and marked-to-market through Net Income until settled. This will likely cause increased volatility in Net Income and impact the Retained Earnings for the cumulative fair value transition adjustment. In addition, existing, and new Unit-based compensation awards issued in the future that include grading vesting will be required to apply accelerated amortization of compensation expense over the vesting period. This may result in higher compensation expense during the initial years of vesting, and is expected to also create greater earnings volatility.

Classification – Management has determined that it will elect the same classification categories (i.e., held-for-trading, available-for-sale, held to maturity, etc.) as under GAAP for all Financial Assets and Liabilities as the intention on how to realize these financial instruments has not changed.

Hedges – Management has re-designated unrealized interest hedges under IAS 32 and IAS 39 to allow for the same presentation of such hedges under IFRS as currently presented under GAAP. This will continue to minimize future Net Income volatility that would have otherwise resulted from marking-to-market such hedges through Net Income instead of through Other Comprehensive Income. Existing AOCL balances on realized and unrealized hedges are expected to continue to be recognized and amortized to Net Income under IFRS.

iii) IFRS 1, FIRST-TIME ADOPTION OF IFRS ("IFRS 1"):

The adoption of IFRS will initially require retrospective application as of the changeover date, on the basis that an entity has prepared its financial statements in accordance with IFRS since its formation. Certain adoptive relief mechanisms are put forward in the standard, to assist with difficulties associated with reformulating historical accounting information. The general relief mechanism is to allow for prospective, rather than retrospective treatment, under certain conditions, as prescribed by IFRS 1. The standard specifies that adjustments arising on the convergence of IFRS from GAAP should be recognized in opening retained earnings.

Business Combinations – Under both the revised GAAP standard and the revised IFRS standard, acquisition-related transaction costs will be charged to Net Income, which differs from current GAAP. Under IFRS, transitional provisions allow for the choice of retroactive or prospective adoption, but require full application to all business combinations as at or after the transition date to IFRS. The adoption of the GAAP equivalent standard is required for January 1, 2011, however, early adoption is permitted. Management expects to adopt IFRS on a prospective basis from the transition date, January 1, 2010, which will eliminate the requirement to restate past business combinations. Management has determined it will not early adopt the revised GAAP standard and therefore adoption will not coincide with IFRS. As a result, there is the potential for an IFRS adjustment to be required for the comparative 2010 periods.

A first-time adopter can apply the IFRS 2 exemption to equity instruments that were granted on or before November 7, 2002, or vested before the date of transition to IFRS. As a result, IFRS 2 is not required to be applied to such instruments. As CAPREIT's Unit-based plans are likely to be considered to be share-based liabilities under IFRS, this exemption will likely not apply, however, a similar exemption exists for share-based liabilities that are settled before the date of transition to IFRS. CAPREIT expects to utilize this exemption for Units already vested and settled before the date of transition, where applicable, thus re-measurement for prior periods would not be required for Unit-based compensation plans such as: a) CAPREIT's Unit Option Plan where options have been exercised; b) Unit Purchase Plan where loans have been repaid; and c) Deferred Units where units have been withdrawn and Trust Units have been issued. This will eliminate the impact of such changes to Cumulative Capital and Cumulative Net Income as those instruments will not be required to be settled retroactively through opening balances.

Other Considerations

CAPREIT continues to assess the business implications resulting from the IFRS changeover. It has commenced certain key modifications to borrowing agreements, and finalized certain changes to its DOT at the Annual General Meeting held on May 20, 2009, so as to accommodate both current and changing IFRS requirements, some of which include the following:

- Providing additional discretion to CAPREIT's Board of Trustees to make changes to the DOT due to changes in accounting standards; and
- Removing the requirement for mandatory cash distributions which may constitute a contractual requirement to distribute cash resulting in CAPREIT's Units being considered a liability for IFRS purposes.

The key covenants under CAPREIT's DOT and Credit Facilities, which are expected to be impacted are discussed below.

DECLARATION OF TRUST

The Debt to Gross Book Value ratio is not to exceed 70%. CAPREIT has elected to adopt the fair value model to account for its Investment Property under IAS 40, which may require that this ratio be amended.

Investments in any single real property (net of assumed or borrowed financings), mortgages, mortgage bonds and other investments may not exceed 20% of Adjusted Unitholders' Equity (as defined in CAPREIT's Declaration of Trust). It is expected that the Adjusted Unitholders' Equity will be materially impacted by the IFRS changes noted above. Currently, Management does not expect negative implications in its ability to invest further in accretive investments as a result of this change, but the definition of Adjusted Unitholders' Equity or the threshold applied to the ratio may require further clarification or amendment in the future.

CREDIT FACILITIES

EBITDA and Tangible Net Worth are expected to be impacted by the adoption of IFRS as noted above. At present, the fair value adjustment associated with revaluing CAPREIT's Investment Property and other non-cash or unusual items are currently excluded from the definition of EBITDA per the Credit Facilities' Agreement. However, as many of the adjustments expected under IFRS have not yet been quantified, the impact these changes may have on the following ratios, either positive or negative, cannot yet be quantified:

Debt Coverage = (EBITDA – Cash Taxes) / (Principal Repayments + Interest Expense)

Interest Coverage = (EBITDA – Cash Taxes) / Interest Expense

Tangible Net Worth = Units Issued + Contributed Surplus + Retained Earnings + Future Income Taxes Payable

Key Performance Indicators and Performance Measurements

The following are the potential impacts to certain Key Performance Indicators and Performance Measurements included in the MD&A.

Non-GAAP per Unit amounts may need to be adjusted to reflect the impact of CAPREIT and CAPLP Units being classified as financial liabilities for purposes other than financial statement presentation in accordance with IAS 32, and thus not included in per Unit calculations under IFRS. Non-GAAP measures will require further adjustments to ensure consistency to non-GAAP measures derived from current GAAP reported amounts. Non-GAAP measures such as FFO and NFFO, which are derived from Net Income under GAAP will likely also be impacted by other accounting differences between IFRS and GAAP, some of which are noted above, and which could make the non-GAAP measures less comparable or could require an increased number of adjustments to achieve comparability in such non-GAAP measures. For example, non-GAAP measures such as FFO and NFFO are expected to add back the fair value adjustment associated with the fair value model, as applied under IAS 40 – Investment Properties.

As discussed above, the CAPLP Units that form part of Unitholders' Equity under GAAP are expected to be deemed financial liabilities under IAS 32. Consequently, further amendments would be required to the definitions of certain non-GAAP measures such as FFO and NFFO to ensure consistency to non-GAAP measures derived from current GAAP reported amounts. This would include amending the definition to add back:

> The distributions payable to holders of CAPLP Units that under IAS 32 are classified as interest expense, thus reducing Net Income; and
> Any mark-to-market adjustment impacting Net Income due to the requirement under IAS 32 to fair value the CAPLP Units on a recurring basis as a result of their classification as financial liabilities.

IFRS Training and Changeover Plans

CAPREIT has formulated a strategic training plan, which establishes training at all levels and departments of the organization, including its Board of Trustees. On the training of finance, accounting and operating personnel, a training program has been established to address the following:

> A broad understanding of IFRS real estate accounting practices; and
> CAPREIT specific policy and procedural training, which will be required pursuant to internal systems and processes.

Management has begun its strategic training within the organization and, in addition, has increased its IFRS technical resources competencies through recent hiring at the senior management level.

CAPREIT continues to monitor the progress of the changeover plan relative to milestone dates and is continually assessing its resource requirements to accommodate the IFRS changeover. At this time, the changeover plan prescribes usage of both internal and external resources.

CAPREIT also continues to assess the information technology system and design implications as a result of the IFRS changeover. Comprehensive reviews of its general ledger and fixed asset modules are taking place in anticipation of 2010, for which comparative financial information under IFRS will be required. In accordance with this requirement, CAPREIT is planning to accommodate financial information preparation under both GAAP and IFRS in 2010.

CAPREIT has also initiated planning of systems and processes to accommodate quarterly fair value requirements of its Investment Properties under IFRS.

Upon adoption of IFRS in 2011, users of CAPREIT's financial information are encouraged to consider certain Key Performance Indicators such as NOI, average monthly rents, and occupancy levels. It is not anticipated that these measures will be significantly impacted by IFRS adoption. CAPREIT may identify other, or new, Key Performance Indicators not currently used, as a basis of understanding for users of CAPREIT's financial information as new standards are adopted in CAPREIT's financial results.

At the present time, Management is unable to reasonably quantify or report the quantitative impacts of the effects of IFRS differences on the consolidated annual financial statements.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures designed to ensure information is accumulated and communicated to Management, including the President and Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

As at December 31, 2009, Management evaluated the effectiveness of the disclosure controls and procedures against the rules adopted by the Canadian Securities Administrators as defined under National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation using the Committee of Sponsoring Organizations of the Treadway Commission control framework, the President and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as at December 31, 2009.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management assessed the effectiveness of the internal controls over financial reporting as at December 31, 2009, and based on that assessment, determined that the internal controls over financial reporting were designed and operating effectively.

CAPREIT did not make any changes to the design of internal controls over financial reporting during the year ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected.

The design of any system of controls is also based in part on certain assumptions about the likelihood of future events, and there can be no assurances that any design will succeed in achieving its stated goals under all potential conditions.

[SECTION 7] RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and in the activities of CAPREIT, including the following, which investors should carefully consider before investing in Units.

Related to Ownership and Operation of Real Property

REAL PROPERTY OWNERSHIP

Real property investments are relatively illiquid. This illiquidity will tend to limit the ability of CAPREIT to respond to changing economic or investment conditions. If CAPREIT were required to quickly liquidate assets, there is a risk the proceeds realized from such sale would be less than the book value of the assets. By specializing in a particular type of real estate, CAPREIT is exposed to adverse effects on that segment of the real estate market and does not benefit from a broader diversification of its portfolio by property class.

CAPREIT is committed to preserving the life safety of its residents and to ensuring its properties are well maintained. The multi-family rental business, like any other real estate enterprise, is capital intensive and is exposed to various risks associated with maintaining the infrastructure of its property portfolio.

LEASEHOLD INTERESTS

Some long-term leases and ground leases are subject to elements of risk. Unlike a freehold interest, a lessee's interest in a lease may be affected by mortgage defaults by the lessor, which cannot be cured by the lessee.

In connection with some of the long-term leases, CAPREIT is responsible for payment of all taxes, utilities, insurance, maintenance, repairs and replacements in respect of all of the leased premises, with certain exceptions in the last 10 years of each of those long-term leases. Upon the transfer of such a long-term lease by CAPREIT, CAPREIT will only be released from liability thereunder if the transferee meets certain tests. The lessor under any such long-term lease may terminate such long-term lease, only if there is a substantial event of default (as defined in the leases) by CAPREIT, which remains uncured after a cure period.

CAPREIT has the option to acquire fee simple interests in 14 of the operating leasehold interest properties, exercisable between the 26th and 35th year of the respective leases. In the case of the 15th property, CAPREIT's option entitles it to acquire a prepaid operating leasehold interest in the property maturing in 2072. If Management chooses not to exercise its options, the NOI and cash flow associated with these properties would no longer contribute to CAPREIT's results of operations and could adversely impact its ability to make distributions to Unitholders.

CO-OWNERSHIPS

CAPREIT has entered into co-ownership relationships with two other entities. If the properties in the respective portfolios do not perform, do not perform as expected, or there is a default on financial obligations, CAPREIT has an associated risk. CAPREIT reduces this risk by seeking to: (i) negotiate contractual rights upon default of a partner; (ii) enter into agreements with financially stable partners; and/or (iii) work with partners who have a historical record of success.

INVESTMENT RESTRICTIONS

CAPREIT has been structured and operates in adherence to the stringent investment restrictions and operating policies as set out in its DOT and as applicable under tax laws relating to real estate investment trusts (also see Taxation Related Risks in this section). These policies cover such matters as the type and location of properties that CAPREIT can acquire, the maximum leverage allowed, environmental matters and investment restrictions.

OPERATING RISK

CAPREIT is subject to general business risks and to risks inherent in the multi-residential rental property industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economic rents (including anticipated increases in rent), controlling bad debt exposure, rent control regulations, increases in labour costs and other operating costs including the costs of utilities, possible future changes in labour relations, competition from or the oversupply of rental accommodations, the imposition of increased taxes or new taxes, capital investment requirements, changes in interest rates, and changes in the availability and cost of money for long-term financing which may render refinancing of mortgages difficult or unattractive.

While CAPREIT strives to achieve geographic and asset class diversification of its portfolio, changes in general economic conditions will also affect the performance of the portfolio. Additionally, the portfolio is currently weighted with 69% of its overall portfolio (by number of suites) in Ontario (49% in the GTA), making CAPREIT's performance particularly sensitive to its performance in and changes affecting, Ontario and, in particular, the GTA.

CAPREIT's investment portfolio properties generate income through rental payments made by the residents thereof. Residential tenant leases are relatively short exposing CAPREIT to market rental-rate volatility. Upon the expiry of any lease, there can be no assurance that such lease will be renewed or the resident replaced. The terms of any subsequent lease may be less favourable to CAPREIT than the existing lease. Renewal rates may be subject to restrictions on increases to the then current rent. (See Government Regulations in this section.) As well, unlike commercial leases which generally are "net" leases and allow a landlord to recover expenditures, residential leases are generally "gross" leases and the landlord is not able to pass on costs to its residents. Moreover, there is no assurance that occupancy levels achieved to date at the properties and expected in the future will continue or be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to, or the financial position of CAPREIT.

ENERGY COSTS AND HEDGING

Approximately 28.3% of CAPREIT's 2009 operating expenses are attributable to energy and energy related charges and fees. Accordingly, significant fluctuations in the price of energy and any related charges and fees (including taxes), could have a material impact on the performance of CAPREIT, its ability to pay distributions and the value of the Units.

From time to time CAPREIT may enter into agreements to receive fixed prices on all or certain of its energy requirements (principally, natural gas and electricity in certain markets) to offset the risk of rising expenditures if prices for these energy commodities increase; however, if the prices for these energy commodities decline beyond the levels set in these agreements, CAPREIT will not benefit from such declines in energy prices and we will be required to pay the higher price contracted for such energy supplies. As at December 31, 2009, approximately 69% and 54% of CAPREIT's natural gas requirements for 2010 and 2011, respectively, were subject to fixed price contracts having an average price of $7.61 and $7.64, respectively.

Subsequent to December 31, 2009, the Board of Trustees authorized Management to implement a revised natural gas hedging strategy. Such strategy includes potentially unwinding some or all of the current natural gas hedging commitments, which could result in the realization of a loss, eliminate some or all of the protection afforded by the fixed pricing arrangements and cause natural gas costs to fluctuate in the future. Management intends to implement this strategy with a view to achieving long-term energy cost savings. As of February 24, 2010, no natural gas hedging commitments have been unwound.

ENVIRONMENTAL MATTERS

Environmental and ecological legislation and policies have become increasingly important, and generally restrictive, in recent years. Under various laws, CAPREIT could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims against the owner by private plaintiffs. Unless determined otherwise by the Board of Trustees, it is CAPREIT's operating policy to obtain a Phase I environmental assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property. Phase I environmental assessments have been performed in respect of each of the properties. Where Phase I environmental assessments warrant further assessment, it is CAPREIT's operating policy to obtain Phase II or Phase III environmental assessments. Wherever required by environmental regulations, CAPREIT also carries out assessments to determine the presence of asbestos containing material and underground storage tanks to ensure compliance with appropriate provincial legislation. CAPREIT maintains environmental liability insurance to protect Unitholders against such risks (also see "Insurance" in this section). Notwithstanding the foregoing, Management is not aware of any environmental condition with respect to any of the properties that it believes would have a material adverse effect on CAPREIT.

INSURANCE

All real property investments owned and operated by CAPREIT entail an inherent risk of liability. From time to time, CAPREIT will be subject to lawsuits as a result of its business operations. It is CAPREIT's policy to protect against this risk by maintaining a comprehensive insurance program to cover general liabilities i.e. fire, flood, injury or death, rental loss, environmental insurance, etc., with policy specification limits and deductibles as deemed appropriate based on the nature of the risk, historical experience and industry standards. There are some types of losses, including those of a catastrophic nature, that are generally uninsurable or not economically insurable, or might be subject to insurance coverage limitations, such as large deductibles or co-payments. There can be no assurance that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. In addition, should an uninsured or underinsured loss occur, CAPREIT could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but CAPREIT would continue to be obligated to repay any recourse mortgage indebtedness on such properties. These types of events/losses could adversely affect the performance of CAPREIT, its ability to make distributions and the market value of the Units.

On November 26, 2008, a tragic accident occurred at one of CAPREIT's properties located in St. Laurent, Quebec, resulting in one fatality. An investigation of the accident by the authorities is currently underway and CAPREIT is working closely with the authorities. The incident, while very unfortunate, is not expected to have a material impact on CAPREIT's financial results or operations. When the investigation is complete, CAPREIT will be in a position to provide further information on its findings.

CAPITAL INVESTMENTS

For prudent management of its property portfolio, CAPREIT makes significant property capital investments throughout the period of ownership of its properties (for example, to upgrade and maintain building structure, balconies, parking garages, electrical and mechanical systems). CAPREIT has prepared building condition reports and has committed to a multi-year property capital investment plan. CAPREIT must continuously monitor its properties to ensure appropriate and timely capital repairs and replacements are carried out in accordance with its property capital investment programs. CAPREIT requires sufficient capital to carry out its planned property capital investment and repair and refurbishment programs to upgrade its properties or be exposed to operating business risks arising from structural failure, electrical or mechanical breakdowns, fire or water damage, etc., which may result in significant loss of earnings to CAPREIT. A significant increase in capital maintenance requirements or difficulties securing financing or the availability of financing on reasonable terms could adversely impact the cash available to CAPREIT and its ability to pay distributions.

Related to Financing

INDEBTEDNESS

A portion of CAPREIT's cash flow is devoted to servicing its debt, and there can be no assurance that CAPREIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. CAPREIT has and will continue to have substantial outstanding consolidated indebtedness comprising mainly property mortgages and indebtedness under its Credit Facilities. CAPREIT is subject to the risks associated with debt financing, including the risk that CAPREIT may be unable to make interest or principal payments or meet loan covenants, the risk that defaults under a loan could result in cross defaults or other lender rights or remedies under other loans, and the risk that existing indebtedness may not be able to be refinanced or that the terms of such refinancing may not be as favourable as the terms of existing indebtedness. In such circumstances, CAPREIT could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing and its ability to make property capital investments and distributions to Unitholders could be adversely affected.

CAPREIT currently has access to the government-backed mortgage insurance program through the National Housing Act, which is administered by CMHC, and seeks to minimize its interest rate risk by ensuring the maturity dates of its mortgage portfolio are staggered over a number of years. However, there can be no guarantee that the provisions of the mortgage insurance program may not be changed in the future so as to make costs of obtaining mortgage insurance prohibitive or not being able to access the insurance program in the future. To the extent that any financing requiring CMHC consent or approval is not obtained or that such consent or approval is only available on unfavourable terms, CAPREIT may be required to finance a conventional mortgage which may be less favourable to CAPREIT than a CMHC-insured mortgage.

CAPREIT's $10 million Land Lease Facility and the one-year revolving portion of CAPREIT's Acquisition and Operating Facility of $100 million matures on June 30, 2010 and the three-year revolving credit facility of $150 million matures on June 30, 2012. CAPREIT's Acquisition and Operating Facility and Land Lease Facility are at floating interest rates and, accordingly, changes in short-term borrowing rates will affect CAPREIT's costs of borrowing. CAPREIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing or cost-effective financing. As at the date hereof, it is difficult to forecast the future state of the commercial loan market. If, because of CAPREIT's level of indebtedness, the level of cash flows, lenders' perceptions of CAPREIT's creditworthiness, or for other reasons, Management is unable to renew, replace or extend the Credit Facilities on acceptable terms, or to arrange for alternative financing, CAPREIT may be required to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding could be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring property capital investments, dispositions of one or more properties on unfavourable terms, reducing or eliminating future cash distributions or other discretionary uses of cash, or other, more severe actions. Also, disruptions in the credit markets and uncertainty in the economy could adversely affect the banks that currently provide the Credit Facilities, could cause the banks or bank to elect not to participate in any new Credit Facilities sought, or could cause other banks that are not currently participants in the Credit Facilities to be unwilling or unable to participate in any such new facility.

Furthermore, given the relatively small size of the Canadian marketplace, there are a limited number of lenders from which CAPREIT can reasonably expect to borrow and the number of lenders currently participating in the CMHC insured mortgage market is even smaller. Consequently, it is possible that financing which CAPREIT may require in order to grow and expand its operations, upon the expiry of the term of existing financing, or refinancing any particular property owned by CAPREIT or otherwise, may not be available or may not be available on favourable terms.

INTEREST RATE HEDGING

CAPREIT has in the past, and may in the future, use interest rate hedging arrangements to manage its exposure to interest rate volatility. Such hedging activities may not prove successful and may not have a positive impact on the results of operations or financial condition.

In general, hedging activities may subject CAPREIT to additional costs, such as transaction fees or breakage costs, if these arrangements are terminated. In addition, although Management's hedging strategy establishes minimum criteria for counterparties, it does not eliminate the risk that a counterparty might fail to honour its obligations.

Related to Taxes and Regulations

TAXATION RELATED RISKS

There can be no assurance that Canadian federal income tax laws in respect of the treatment of mutual fund trusts will not be changed in a manner that adversely affects CAPREIT or CAPREIT's Unitholders. If CAPREIT ceases to qualify as a "mutual fund trust", CAPREIT will be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by CAPREIT may have adverse income tax consequences for certain of CAPREIT's Unitholders, including non resident persons and trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, which acquired an interest in CAPREIT directly or indirectly from another CAPREIT Unitholder. If CAPREIT ceases to qualify as a "mutual fund trust" or "registered investment" under the Tax Act and CAPREIT Units cease to be listed on a designated stock exchange, CAPREIT Units will cease to be qualified investments for trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans. CAPREIT will endeavour to ensure CAPREIT Units continue to be qualified investments for trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit sharing plans, registered retirement income funds and registered education savings plans; however, there can be no assurance that this will be so. The Tax Act imposes penalties for the acquisition or holding of non qualified investments by such trusts.

On June 22, 2007, amendments to the Tax Act were enacted (the "SIFT Rules"), which modify the federal income tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships ("SIFT"). Under the SIFT Rules, a SIFT will generally be taxed in a manner similar to corporations on income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act) at a rate similar to the combined federal/provincial tax rate of a corporation. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be taxed as an eligible dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. The SIFT Rules are applicable to SIFTs beginning with the 2007 taxation year. However, subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 and as amended by the explanatory notes to the November 28, 2008 Notice of Ways and Mean Motion released on December 4, 2008 (the "Normal Growth Guidelines"), the SIFT Rules will not apply until the 2011 taxation year to SIFTs that were publicly traded prior to November 1, 2006, such as CAPREIT.

Certain real estate investment trusts that satisfy specified conditions (the "REIT Exception") are excluded from the SIFT definition and, therefore, will not be subject to the SIFT Rules. In general, in order to qualify for the REIT Exception in respect of a taxation year:

i) The trust must, at no time in that taxation year, hold non-portfolio property other than "qualified REIT properties" (as defined in the Tax Act);
ii) Not less than 95% of the trust's revenues for that taxation year must be derived from rent from real or immovable properties, interest, capital gains from disposal of real or immovable properties, dividends and royalties;
iii) Not less than 75% of the trust's revenues for that taxation year must be derived from rent from, interest from mortgages or hypothecs on, and capital gains from the disposal of, real or immovable properties; and
iv) The trust must, throughout the taxation year, hold real or immovable properties, cash and certain government-guaranteed debt with a total fair market value that is not less than 75% of the trust's equity value.

Excluded from the definition of a SIFT is a partnership, such as CAPLP, that is not publicly-traded and the equity (and equity like debt) of which is wholly owned by any combination of a SIFT, a REIT, or a taxable Canadian corporation. If CAPREIT does not qualify for the REIT Exception, the SIFT Rules, subject to compliance with the Normal Growth Guidelines, will apply to CAPREIT effective for the 2011 taxation year. To the extent that CAPREIT does not qualify for the REIT Exception, CAPREIT will consider alternative measures, including restructuring, assuming that these measures are in the best interests of its Unitholders, in order to qualify for the REIT Exception. No assurances can be given that CAPREIT will qualify for the REIT Exception. If applicable, the SIFT Rules may have a material adverse effect on Unitholders' returns.

CAPREIT or its subsidiaries may be reassessed for taxes from time to time. Such reassessments together with associated interest and penalties could adversely affect CAPREIT and CAPREIT's Unitholders.

HARMONIZATION OF FEDERAL GOODS AND SERVICES TAX AND PROVINCIAL SALES TAX

Both Ontario and British Columbia have enacted legislation to harmonize the PST with the Federal GST into the HST effective July 1, 2010. Currently, there is no GST on residential rents (i.e. GST exempt) and input tax credits can only be claimed for commercial activities. In the future, the effect of extensions of the PST to a variety of new business input costs that are presently exempt means landlords will have to absorb the additional tax costs on business inputs. Management estimates the HST harmonization will increase operating costs by approximately $1.6 million in 2010 and approximately $3.4 million in 2011. In addition, the HST harmonization is expected to increase future capital investment costs.

GOVERNMENT REGULATIONS

Multi-family rental properties are subject to rent control legislation in most provinces in Canada. Each province in which CAPREIT operates, maintains distinct regulations with respect to tenants' and landlord's rights and obligations. The legislation in various degrees provides restrictions on the ability of a landlord to increase rents above an annually prescribed guideline or require the landlord to give tenants sufficient notice prior to an increase in rent or restrict the frequency of rent increases permitted during the year. The annual rent increase guidelines as per applicable legislation attempts to link the annual rent increases to some measure of changes in the cost of living index over the previous year. The legislation also, in most cases, provides for a mechanism to ensure rents can be increased above the guideline increases for extraordinary costs. As a result, CAPREIT may incur property capital investments in the future that will not be fully recoverable from the residents.

Applicable legislation may be further amended in a manner that may adversely affect the ability of CAPREIT to maintain the historical level of cash flow from its properties. In addition, applicable legislation provides for compliance with several regulatory matters involving tenant evictions, work orders, health and safety issues, fire and maintenance standards, etc.

CONTROLS OVER FINANCIAL REPORTING

CAPREIT maintains information systems, procedures and controls to ensure all information disclosed externally is as complete, reliable and timely as possible. Such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with GAAP.

Because of the inherent limitations in all control systems, including well-designed and operated systems, no control system can provide complete assurance that the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include, without limitation, the possibility that Management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by Management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The AcSB has confirmed its strategic plan that will result in GAAP, as used by publicly accountable enterprises, being fully converged with IFRS as issued by the AcSB over a transitional period to be completed by 2011. Implementing IFRS will have an impact on accounting, financial reporting and supporting information technology systems and processes. It may also have an impact on taxes, contractual commitments involving GAAP-based clauses (including debt covenants), employee compensation plans and performance metrics. Accordingly, CAPREIT's implementation plan will include measures to provide extensive training to key finance personnel, to review relevant contracts and agreements and to increase the level of awareness and knowledge amongst CAPREIT's Management, the Board of Trustees, the Audit Committee and investors. Changing from current GAAP to IFRS may materially affect CAPREIT's reported financial position, FFO, NFFO and other financial measures.

OTHER LEGAL AND REGULATORY RISKS

CAPREIT is subject to a wide variety of laws and regulations across all jurisdictions and faces risks associated with legal and regulatory changes and litigation. CAPREIT relies on internal and external legal counsel to assist in remaining current with legal and regulatory changes and its ability to respond to litigation.

Related to CAPREIT's Securities, Organization and Structure

NATURE OF CAPREIT UNITS

Units and Special Units are not traditional equity investments and Unitholders and Special Unitholders do not have all of the statutory rights normally associated with ownership of shares of a company including, for example, the right to bring "oppression" or "derivative" actions against CAPREIT. The Units and Special Voting Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporation Act* and are not insured under the provisions of that Act or any other legislation. Furthermore, CAPREIT is not a trust company and, accordingly, it is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company. In addition, although CAPREIT is intended to qualify as a "mutual fund trust" as defined by the Tax Act, CAPREIT is not a "mutual fund" as defined by applicable securities legislation.

Securities like the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the business of CAPREIT and should not be viewed by investors as shares or interests in CAPREIT, or any other company or entity. The Units do not represent debt instruments and there is no principal amount owing to Unitholders under the Units. Each Unit represents an equal, undivided, beneficial interest in CAPREIT.

UNITHOLDER LIABILITY

Recourse for any liability of CAPREIT is limited to the assets of CAPREIT. The DOT provides that no Unitholder, holders of special voting units ("Special Unitholder") or annuitant (an "annuitant") under a plan of which a Unitholder or Special Unitholder acts as a trustee or carrier will be held to have any personal liability and that no recourse shall be had to the private property of any Unitholder, Special Unitholder or annuitant for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of CAPREIT or of the trustees.

Certain provincial legislators have passed legislation that provides for statutory limited liability for unitholders of public income trusts governed as a contractual matter by the laws of their jurisdictions. Certain of these statutes have not yet been judicially considered and it is possible that reliance on such statute by a Unitholder or Special Unitholder could be successfully challenged on jurisdictional or other grounds.

LIQUIDITY AND PRICE FLUCTUATION OF UNITS

CAPREIT is an unincorporated "open-end" investment trust and its Units are listed on the TSX. There can be no assurance that an active trading market in the Units will be sustained.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. The prices at which Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions and other factors beyond the control of CAPREIT. One of the factors that may influence the market price of the Units is the annual yield on the Units. Accordingly, an increase in market interest rates may lead purchasers of Units to demand a higher annual yield which could adversely affect the market price of the Units. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units. Accordingly, the Units may trade at a premium or a discount to the value of CAPREIT's underlying assets.

In addition, changes in CAPREIT's creditworthiness or perceived creditworthiness may affect the market price or value and/or the liquidity of the Units.

The DOT imposes various restrictions on Unitholders. Non-residents and non-Canadian partnerships are prohibited from beneficially owning more than 49% of the outstanding Units (on a non-diluted and diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain non-resident persons and partnerships, to acquire Units, to continue to hold Units and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and other investors and thereby adversely affect the liquidity and market value of the Units.

DILUTION

CAPREIT is authorized to issue an unlimited number of Units for the consideration and on the terms and conditions that the trustees determine without Unitholders' approval. Unitholders have no pre-emptive right in connection with any such further issuance. The trustees have the discretion to issue additional Units in other circumstances, pursuant to CAPREIT's various incentive plans. Any issuance of additional Units may have a dilutive effect on the holders of Units. Furthermore, timing differences may occur between the issuance of additional Units and the time the proceeds may be used to invest in new properties. Depending on the duration of this timing difference, this may be dilutive.

DISTRIBUTIONS

Cash distributions are not guaranteed. Distributions on the Units are established by the Board of Trustees and are subject to change at the discretion of the Board of Trustees. CAPREIT has adopted a policy of making regular monthly cash distributions to Unitholders. The actual amount of distributions paid in respect of the Units will depend upon numerous factors, all of which are susceptible to a number of risks and other factors beyond the control of CAPREIT. The market value of the Units will deteriorate if CAPREIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of the cash distributions for tax purposes may change over time and may affect the after-tax return for Unitholders.

DRIP PARTICIPATION

Participation by Unitholders in CAPREIT's DRIP is determined by factors such as CAPREIT's overall performance and also by many factors outside the control of Management such as, but not limited to, market trends, general economic conditions and the liquidity and credit crisis. Declining DRIP participation may adversely affect funds available for distribution to Unitholders, to make interest and principal payments and make property capital investments. Additionally, such effects may adversely affect Unit prices.

POTENTIAL CONFLICTS OF INTEREST

CAPREIT may be subject to various conflicts of interest because of the fact that certain of the trustees and officers of CAPREIT are engaged in a wide range of real estate and other business activities. CAPREIT may become involved in transactions which conflict with the interests of the foregoing.

The trustees may from time to time deal with persons, firms, institutions or corporations with which CAPREIT may be dealing, or which may be seeking investments similar to those desired by CAPREIT. The interests of these persons could conflict with those of CAPREIT.

CAPREIT's DOT contains "conflicts of interest" provisions requiring trustees to disclose material interests in material contracts and transactions and to refrain from voting thereon.

DEPENDENCE ON KEY PERSONNEL

The success of CAPREIT depends to a significant extent on the efforts and abilities of its executive officers and other members of Management, as well as its ability to attract and retain qualified personnel to manage existing operations and future growth. Although CAPREIT has entered into employment agreements with certain of its key employees, it cannot be certain that any of those persons will not voluntarily terminate his or her employment with CAPREIT.

The loss of an executive officer or other key employee could have a material adverse effect on the business, operating results or financial condition of CAPREIT.

Related to the Real Estate Industry

GENERAL ECONOMIC CONDITIONS

CAPREIT is affected by general economic conditions, local real estate markets, competition from other available rental premises, including new developments, and various other factors. The competition for residents also comes from opportunities for individual home ownership, including condominiums, which can be particularly attractive when home mortgage loans are available at relatively low interest rates. The existence of competing developers, managers and owners and competition for CAPREIT's residents could have an adverse effect on CAPREIT's ability to lease suites in its properties and on the rents charged, increased leasing and marketing costs and increased refurbishing costs necessary to lease and release suites, all of which could adversely affect CAPREIT's revenues and, consequently, its ability to meet its obligations and pay distributions. In addition, any increase in the supply of available rental accommodation in the markets in which CAPREIT operates or may operate could have an adverse effect on CAPREIT.

COMPETITION FOR RESIDENTS

The real estate business is competitive. Numerous other developers, managers and owners of properties compete with CAPREIT in seeking residents. The existence of competing developers, managers and owners and competition for CAPREIT's residents could have an adverse effect on CAPREIT's ability to lease suites in its properties and on the rents charged, and could adversely affect CAPREIT's revenues and, consequently, its ability to meet its obligations and pay distributions. For example, increased condominium construction in the GTA could impact the rental market and affect residential rental fundamentals.

Furthermore, a decrease in interest rates may encourage residents to purchase condominiums or other types of housing, which could result in a reduction in demand for rental properties. Changes in interest rates may also have effects on vacancy rates, rent levels, refurbishing costs and other factors affecting CAPREIT's business and profitability including its financing costs (also see "Financing" in this section).

COMPETITION FOR REAL PROPERTY INVESTMENTS

CAPREIT competes for suitable real property investments with individuals, corporations and institutions (both Canadian and foreign) and other real estate investment trusts which are presently seeking, or which may seek in the future, real property investments similar to those desired by CAPREIT. A number of these investors may have greater financial resources than those of CAPREIT, or operate without the investment or operating restrictions of CAPREIT or according to more flexible conditions. An increase in the availability of investment funds, and an increase in interest in real property investments, may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

CAPREIT's growth in the past has come from its focused acquisition program. CAPREIT has demonstrated an ability to locate and complete property purchases at accretive capitalization rates. There is a risk that continuing increased competition for apartment and townhouse acquisitions may increase purchase prices to levels that are not accretive to Unitholders.

CONTINUED GROWTH

CAPREIT expects it will have opportunities to acquire properties that will be accretive and enable CAPREIT to increase cash flow to Unitholders, but there can be no assurance that this will be the case. Furthermore, as CAPREIT's intention is to distribute a substantial proportion of its NFFO, the ability of CAPREIT to fund growth will be dependent on external sources of funding. Lack of availability of such funds could limit the future growth of CAPREIT. In addition, CAPREIT's ability to grow may involve the disposition of non-core or underperforming properties, which may be affected by market conditions and other factors.

ACQUISITIONS

CAPREIT's external growth prospects will depend in large part on identifying suitable acquisition opportunities that meet CAPREIT's investment criteria and satisfy its rigorous due diligence process. In addition, external growth prospects will be affected by competition for acquisition opportunities, the purchase price, ability to obtain adequate financing and financing on reasonable terms, consummating acquisitions (including obtaining necessary consents) and effectively integrating and operating the acquired properties. Acquired properties may not meet financial or operational expectations due to unexpected costs associated with acquiring the property, as well as the general investment risks inherent in any real estate investment or acquisition. Moreover, newly acquired properties may require significant management attention or property capital investments that would otherwise be allocated to other properties. If CAPREIT is unable to manage its growth and integrate its acquisitions effectively, its business, operating results and financial condition could be adversely affected.

Acquisition agreements entered into with third parties may be subject to unknown, unexpected or undisclosed liabilities which could have a material adverse impact on the operations and financial results of CAPREIT. CAPREIT's due diligence investigations and representations and warranties obtained from third party vendors may not adequately protect against these liabilities and any recourse against such vendors may be limited by the financial capacity of such vendors.

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2009, CAPREIT paid construction management fees of $1.6 million (based on 4.5% of construction costs up to $20.0 million, 3.0% for the next $15.0 million and 1.0% thereafter) in consideration for construction management services provided by a company owned by two trustees and officers of CAPREIT in connection with the capital investment programs for the properties.

CAPREIT has a lease for office space with a company in which one of the trustees and officers has an 18% beneficial interest. The rent paid for the office space (which is based on fair market rents at the date the lease was entered into) for the year ended December 31, 2009 was $0.7 million including property operating costs and has been expensed as trust expenses. On August 21, 2009, the lease was renewed for an additional term of five years commencing November 1, 2009, and expiring October 31, 2014. The yearly minimum rental payments are $0.4 million plus GST/HST.

For the year ended December 31, 2009, CAPREIT paid consulting fees of $0.02 million to a company controlled by a trustee and officer. The agreement expired in May 2009 and has not been renewed.

CAPREIT has entered into an agreement with a company to supply suite utility meters. This company is managed by a trustee and officer of CAPREIT. For the year ended December 31, 2009, no new costs have been capitalized to income properties.

COMMITMENTS AND CONTINGENCIES

CAPREIT has entered into commitments for fixed price natural gas, hydro and land lease agreements as outlined in note 23 to the audited consolidated annual financial statements.

CAPREIT is contingently liable under guarantees provided to certain of CAPREIT's lenders in the event of defaults and with respect to litigation and claims that arise in the ordinary course of business. These matters are generally covered by insurance. In the opinion of Management, any liability that may arise from such contingencies would not be expected to have a material adverse effect on the consolidated financial statements of CAPREIT.

Natural gas is a key input to CAPREIT's heating costs. CAPREIT's income properties consume an estimated 1.5 million gigajoules of natural gas per year. CAPREIT has contracted with various utility companies to supply them with a generally fixed daily amount of natural gas (the "Daily Delivery Requirement"), which is then used by these utility companies to supply natural gas to CAPREIT's income properties. As CAPREIT's Daily Delivery Requirement is generally fixed throughout the year but consumption fluctuates based on seasonality, CAPREIT is generally "under-delivered" during the cooler months but balances this position during the warmer months (see note 23 to the audited consolidated annual financial statements).

[SECTION 8] FUTURE OUTLOOK

Despite tight global credit markets and a slow economy, Management believes the multi-unit residential rental business will remain relatively stable over the near term in the majority of the markets in which CAPREIT operates. As a result, Management expects to generate modest annual increases in overall average monthly rents while stabilizing average occupancies in the range of 97% to 98% on an annual basis over this period of time. Management also anticipates operating revenues will benefit from programs over the long term to enhance revenues from parking, commercial leases, laundry, cable, telecommunications and other income sources. In addition, numerous successful cost control initiatives have proven effective, which should lead to stable net operating income over this period.

However, as a result of the tight global credit markets and the slow economy, CAPREIT may have to account for an increase in bad debt. It is also possible that CAPREIT may experience a reduction in occupancy levels in certain markets and that tenant inducement costs may increase over the short term. In addition, CAPREIT may experience difficulty in obtaining long-term financing (i.e., financing for terms of ten years and longer) at acceptable interest rates. CAPREIT believes the strong defensive characteristics of its property portfolio due to diversification by both geography and property type will serve to mitigate some of the negative impact due to the slowing economy certain regions are experiencing. CAPREIT intends to continue to seek opportunities to further diversify the property portfolio.

Beginning in July 2010, the Provinces of Ontario and British Columbia will harmonize the GST with their PST into one HST and it will be applied to the majority of goods and services sold in each province. Once implemented, Management believes the HST will result in a modest increase in CAPREIT's operating costs in these provinces, which cannot immediately be passed through to residents in rental rate increases. CAPREIT has identified and implemented procurement practices to mitigate such risks (see also Harmonization of Federal Goods and Services Tax and Provincial Sales Tax discussion in the Risks and Uncertainties section).

In addition, CAPREIT has defined a number of strategies to capitalize on its strengths and achieve its objectives of providing Unitholders with stable and predictable monthly cash distributions while growing distributions and Unit value over the long term.

First, Management will maintain its focus on maximizing occupancy and average monthly rents in accordance with local conditions in each of its markets. Since its inception in May 1997, CAPREIT's hands-on management style, focus on resident communications and capital investment programs aimed at increasing the long-term value of its properties have contributed to a strong track record of stable portfolio occupancy and average monthly rents.

Second, Management will continue to focus on reducing its operating costs as a percentage of total revenues. Management is investing in various environment-friendly and energy saving initiatives including energy efficient heating boilers and lighting systems, and is evaluating all energy purchasing programs to reduce or stabilize overall net energy costs.

Third, Management will continue to direct its efforts on its building infrastructure improvement programs to upgrade properties across the portfolio and to reposition the portfolio by completing value-enhancing capital investments. These investments are expected to enhance the life safety of residents and to improve the portfolio's long-term cash flow generating potential and increase its useful life over the long term.

Fourth, CAPREIT will continue to prudently focus on accretive acquisitions that meet its strategic criteria and enhance CAPREIT's geographic diversification. From time to time, CAPREIT will also identify certain non-core assets for sale that do not meet with its current portfolio composition or operating strategies. Management believes the realization and reinvestment of capital is a fundamental component of its growth strategy and demonstrates the success of its investment programs.

Fifth, CAPREIT will continue to effectively manage interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce borrowings on its credit facilities, while appropriately staggering the maturity dates of its mortgage portfolio to ensure it is not exposed in any one year to a refinancing risk. Management believes that because of the continuing availability of lower cost financing insured by CMHC than is currently available under conventional mortgages, CAPREIT is well positioned to meet its financing and refinancing objectives at reasonable costs over the medium term.

CAPREIT will continue to maintain its conservative approach to its capital structure, leverage and coverage ratios and strive to further improve its distribution payout ratio. Management believes its successful equity financing and mortgage refinancing programs have resulted in CAPREIT possessing one of the strongest balance sheets in its industry, well suited to delivering consistent, stable and secure monthly cash distributions over the long term.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and information included in this Annual Report have been prepared by the management of CAPREIT in accordance with Canadian generally accepted accounting principles, and include amounts based on management's informed judgements and estimates. Management is responsible for the integrity and objectivity of these consolidated financial statements. The financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements in all material respects.

To assist management in the discharge of these responsibilities, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing financial statements and other financial information, transactions are properly authorized and recorded, and assets are safeguarded.

As at December 31, 2009, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

PricewaterhouseCoopers LLP, the auditors appointed by the Unitholders, have examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the Unitholders their opinion on the consolidated financial statements. Their report as auditors is set forth below.

The consolidated financial statements have been further reviewed and approved by the Board of Trustees and its Audit Committee. This committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

February 24, 2010

Thomas Schwartz
President and Chief Executive Officer

Richard J. Smith
Chief Financial Officer

AUDITORS' REPORT

To the Unitholders of Canadian Apartment Properties Real Estate Investment Trust

We have audited the consolidated balance sheets of Canadian Apartment Properties Real Estate Investment Trust ("CAPREIT") as at December 31, 2009 and 2008 and the consolidated statements of income (loss) and comprehensive income (loss), Unitholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of CAPREIT's management. Our responsibility is to express an opinion on these consolidated 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 CAPREIT as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants,
Licensed Public Accountants

Toronto, Ontario
February 24, 2010

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

CONSOLIDATED BALANCE SHEETS

($ THOUSANDS) AS AT DECEMBER 31,	**2009**	2008
Assets		
Income properties (note 5)		
Cost	**$ 2,599,301**	$ 2,505,498
Less: accumulated depreciation	**(391,495)**	(312,553)
Net book value	**2,207,806**	2,192,945
Sundry assets (note 6)	**71,481**	48,854
Intangible assets (note 7)	**492**	1,495
	$ 2,279,779	$ 2,243,294
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages payable (note 8)	**$ 1,545,315**	$ 1,472,822
Bank indebtedness (note 9)	**146,891**	121,029
Accounts payable and other liabilities (note 16(b))	**51,323**	75,019
Security deposits	**18,624**	18,852
Distributions payable	**6,191**	6,084
Intangible liabilities (note 7)	**192**	334
Future income taxes (note 10)	**54,059**	63,221
	1,822,595	1,757,361
Unitholders' Equity	**457,184**	485,933
	$ 2,279,779	$ 2,243,294

See accompanying notes to consolidated annual financial statements.

Contingencies (note 24)

Signed on behalf of the Trustees:

Thomas Schwartz
Trustee

Michael Stein
Trustee

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) FOR THE YEARS ENDED DECEMBER 31,	**2009**	2008
Operating Revenues		
Revenue from income properties	**$ 331,032**	$ 320,418
Operating Expenses		
Realty taxes	**42,604**	41,968
Property operating costs	**109,504**	105,517
	152,108	147,485
Income Before the Undernoted	**178,924**	172,933
Depreciation	**78,648**	72,007
Amortization (note 14)	**3,528**	2,982
Trust expenses (note 3)	**16,834**	13,155
Mortgage interest	**76,401**	74,836
Interest on bank indebtedness	**4,023**	4,111
Other income	**(1,853)**	(1,886)
Income From Continuing Operations Before Other Costs, Gains (Losses) and Income Taxes	**1,343**	7,728
Reorganization Costs (note 15)	**–**	(1,599)
Unrealized Gain (Loss) on Derivative Financial Instruments (note 16)	**742**	(17,627)
Realized Gain on Derivative Financial Instruments (note 16)	**4,063**	–
Recovery of (Provision for) Future Income Taxes (note 10)	**9,568**	(9,134)
Income (Loss) From Continuing Operations	**15,716**	(20,632)
Income From Discontinued Operations (note 17)	**–**	17,155
Net Income (Loss)	**$ 15,716**	$ (3,477)
Other Comprehensive Income (Loss) (note 13(b))	**$ 16,046**	$ (29,046)
Comprehensive Income (Loss)	**$ 31,762**	$ (32,523)
Basic Net Income (Loss) Per Unit		
Continuing operations	**$ 0.238**	$ (0.315)
Discontinued operations	**$ –**	$ 0.262
Basic Net Income (Loss) Per Unit	**$ 0.238**	$ (0.053)
Diluted Net Income (Loss) Per Unit		
Continuing operations	**$ 0.238**	$ (0.315)
Discontinued operations	**$ –**	$ 0.262
Diluted Net Income (Loss) Per Unit	**$ 0.238**	$ (0.053)

See accompanying notes to consolidated annual financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

($ THOUSANDS)	CUMULATIVE CAPITAL	CUMULATIVE NET INCOME	CUMULATIVE DISTRIBUTIONS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
Unitholders' Equity, January 1, 2009	**$ 877,590**	**$ 82,153**	**$ (435,410)**	**$ (38,400)**	**$ 485,933**
Net Income	–	**15,716**	–	–	**15,716**
Distributions declared and paid	–	–	**(67,614)**	–	**(67,614)**
Distributions payable	–	–	**(6,191)**	–	**(6,191)**
Distribution Reinvestment Plan (note 13(c))	**8,583**	–	–	–	**8,583**
Employee Unit Purchase Plan (note 13(f))	**229**	–	–	–	**229**
Long-Term Incentive Plan ("LTIP") (note13(g))	**1,785**	–	**1,005**	–	**2,790**
Senior Executive Long-Term Incentive Plan ("SELTIP") (note 13(h))	**661**	–	**642**	–	**1,303**
Costs related to accelerated vesting of LTIP and SELTIP (note 13(i))	**122**	–	–	–	**122**
Deferred Unit Plan (note 13(j))	**436**	–	–	–	**436**
Units cancelled (note 13(k))	**(169)**	–	–	–	**(169)**
Other comprehensive income (note 13(b))	–	–	–	**16,046**	**16,046**
Unitholders' Equity, December 31, 2009	**$ 889,237**	**$ 97,869**	**$ (507,568)**	**$ (22,354)**	**$ 457,184**

	CUMULATIVE CAPITAL	CUMULATIVE NET INCOME	CUMULATIVE DISTRIBUTIONS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
Unitholders' Equity, January 1, 2008	$ 872,118	$ 85,630	$ (364,113)	$ (9,354)	$ 584,281
Net loss	–	(3,477)	–	–	(3,477)
Distributions declared and paid	–	–	(66,670)	–	(66,670)
Distributions payable	–	–	(6,084)	–	(6,084)
New Units issued (note 13(a))	(128)	–	–	–	(128)
Distribution Reinvestment Plan (note 13(c))	12,661	–	–	–	12,661
Unit Option Plan (note 13(d))	340	–	–	–	340
Employee Unit Purchase Plan (note 13(f))	195	–	–	–	195
Long-Term Incentive Plan ("LTIP") (note 13(g))	1,306	–	800	–	2,106
Senior Executive Long-Term Incentive Plan ("SELTIP") (note 13(h))	692	–	657	–	1,349
Deferred Unit Plan (note 13(j))	476	–	–	–	476
Units cancelled (note 13(k))	(10,070)	–	–	–	(10,070)
Other comprehensive loss (note 13(b))	–	–	–	(29,046)	(29,046)
Unitholders' Equity, December 31, 2008	$ 877,590	$ 82,153	$ (435,410)	$ (38,400)	$ 485,933

See accompanying notes to consolidated annual financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ THOUSANDS) FOR THE YEARS ENDED DECEMBER 31,	**2009**	2008
Cash Provided By (Used In):		
Operating Activities		
Net income (loss)	**$ 15,716**	$ (3,477)
Items not affecting cash:		
Gain on sale of assets (note 17)	**–**	(17,046)
Unrealized (gain) loss on derivative financial instruments (note 16)	**(742)**	17,627
Realized gain on derivative financial instruments (note 16)	**(4,063)**	–
(Recovery of) Provision for future income taxes	**(9,568)**	9,134
Depreciation	**78,648**	72,007
Amortization (note 14)	**3,528**	2,982
Amortization of above and below market leases	**(120)**	(420)
Amortization of loss on derivative financial instruments in AOCL	**592**	–
Fair value adjustment of utility contracts (note 2(g))	**208**	36
Straight-line rent adjustment	**(116)**	(63)
Costs related to accelerated vesting of LTIP and SELTIP (note 13(i))	**122**	–
Compensation component of LTIP, SELTIP and DUP awards granted	**1,709**	1,551
	85,914	82,331
Changes in non-cash operating assets and liabilities (note 18(a))	**(9,866)**	3,722
Cash Provided By Operating Activities	**76,048**	86,053
Investing Activities		
Acquisition of income properties (note 18(e))	**(1,389)**	(88,562)
Capital investments (note 18(d))	**(86,683)**	(55,515)
Disposition of income properties (note 18(f))	**–**	62,993
Investments	**–**	(378)
Change in restricted cash	**379**	(437)
Cash Used In Investing Activities	**(87,693)**	(81,899)
Financing Activities		
Mortgage financings	**304,577**	130,567
Mortgage principal repayments	**(49,182)**	(46,139)
Mortgages repaid on maturity	**(182,027)**	(38,108)
Mortgage financing costs	**(1,878)**	(1,113)
Settlement of derivative financial instruments (note 16)	**(23,472)**	–
Bank indebtedness, net	**25,862**	17,963
Proceeds on issuance of Units	**229**	407
Net cash distributions to Unitholders (note 18(b))	**(65,115)**	(60,041)
Cancellation of Units	**(169)**	(10,070)
Amounts received under the LTIP and SELTIP	**2,820**	2,380
Cash Provided By (Used In) Financing Activities	**11,645**	(4,154)
Changes in Cash and Cash Equivalents During the Year	**–**	–
Cash and Cash Equivalents, Beginning of Year	**–**	–
Cash and Cash Equivalents, End of Year	**$ –**	$ –

See accompanying notes to consolidated annual financial statements.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008
($ THOUSANDS, EXCEPT UNIT AND PER UNIT AMOUNTS)

[NOTE 1] ORGANIZATION OF THE TRUST

Canadian Apartment Properties Real Estate Investment Trust ("CAPREIT") became an open-end real estate investment trust on January 8, 2008 and is governed under the laws of the Province of Ontario by a Declaration of Trust ("DOT") dated February 3, 1997, as most recently amended and restated on November 13, 2009. CAPREIT commenced active operations on February 4, 1997, when it acquired an initial portfolio of properties and became a reporting issuer on May 21, 1997 pursuant to an initial public offering prospectus dated May 12, 1997. CAPREIT's net assets and operating results are derived from real estate located in Canada.

[NOTE 2] SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation
CAPREIT's accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles ("GAAP"), the more significant of which are described below.

b) Principles of consolidation
The consolidated annual financial statements include the accounts of CAPREIT and its subsidiaries, together with CAPREIT's proportionate share of assets and liabilities and revenues and expenses of co-ownerships in which it participates. All inter-entity transactions and accounts have been eliminated.

c) Income properties
Income properties, including leasehold interests, are recorded at cost less accumulated depreciation, net of impairment loss, if any. Cost of the properties includes all amounts related to the acquisition and improvement of the properties. Costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance, are capitalized.

Depreciation on buildings held through a freehold interest is recorded on a straight-line basis so as to fully depreciate the cost of the buildings over their estimated useful lives, not exceeding 40 years. Capital improvements are depreciated on a straight-line basis over their estimated useful lives ranging from three to 40 years.

Depreciation on buildings and improvements held through a leasehold interest is recorded on a straight-line basis over the term of the leases ranging from 29 to 40 years. Annual lease payments under the leasehold interests are included in property operating costs.

Options to purchase properties held through a leasehold interest are capitalized at fair value at their respective acquisition dates. Should a decision be made to not exercise an option, the value ascribed would be expensed at that date. Otherwise, on acquisition of title, the carrying value would form part of the purchase price of the income properties. No depreciation is recorded on these assets.

Tenant improvements – amounts incurred for lease obligations are characterized as either tenant improvements owned by CAPREIT, or tenant inducements. When the obligations are determined to be tenant improvements, the costs are accounted for as property improvements. Tenant improvements are amortized over the asset's useful life.

Equipment is amortized on a straight-line basis over its estimated useful life ranging from three to 25 years.

d) Tenant inducements
Tenant inducements such as free rent or move-in allowances, which are provided upon signing a lease with a term of one year or more, are initially deferred and included in sundry assets, and amortized over the respective term of the lease and included in the determination of revenues from income properties. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance will result in a reduction of revenues at that time.

e) Intangible assets and liabilities acquired on acquisitions

For property acquisitions, a portion of the purchase price is allocated to intangible amounts for the fair value of tenant in-place leases, above and below market leases and tenant relationships. These intangible amounts are amortized over the respective terms of the leases or relationships and are included in amortization expense except for the amounts related to above and below market leases, which are amortized to revenues from income properties in respect of tenant leases and property operating expenses in respect of land leases on leasehold properties. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance will be fully recognized at that time.

f) Prepaid CMHC premiums

Fees paid to Canada Mortgage and Housing Corporation ("CMHC") for mortgage insurance premiums are amortized over the remaining amortization period of the underlying mortgage loans (initial amortization period typically 25 to 35 years) and are included in amortization expense. Unamortized amounts are expensed when the underlying mortgage loan has been discharged or fully repaid.

g) Financial instruments

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and CAPREIT's designation of such instruments. The standards require that all financial assets and financial liabilities be classified as held-for-trading, held-to-maturity, available-for-sale, loans and receivables or other liabilities.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following summarizes the accounting model CAPREIT has elected to apply to each of its significant categories of financial instruments:

Cash and cash equivalents	Held-for-trading
Restricted cash	Held-for-trading
Other receivables	Loans and receivables
Investments	Available-for-sale
Mortgages payable	Other liabilities
Bank indebtedness	Other liabilities
Accounts payable and other liabilities	Other liabilities
Security deposits	Other liabilities
Distributions payable	Other liabilities

HELD-FOR-TRADING

Financial assets that are acquired with the intention of generating profits in the near term are accounted for at fair value. Interest earned or accrued is included in revenue from income properties.

LOANS AND RECEIVABLES

Loans and receivables are accounted for at amortized cost.

AVAILABLE-FOR-SALE

Investments are accounted for as *available-for-sale*. The assets are measured at fair value at each balance sheet date and the differences between the fair value of the asset and its cost basis is included in other comprehensive income (loss). Differences accumulated in accumulated other comprehensive loss are transferred to net income when the asset is removed from the balance sheet or an impairment loss on the asset has to be recognized. Income on available-for-sale investments is recognized as earned and included in other income.

OTHER LIABILITIES

Other liabilities are recorded at amortized cost and include all liabilities other than derivatives or liabilities, which are designated to be accounted for at fair value.

Deferred financing costs are netted against the carrying value of mortgages payable and amortized using the effective interest method.

TRANSACTION COSTS

Transaction costs related to *held-for-trading* financial assets are expensed as incurred. Transaction costs related to loans and receivables and other liabilities are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest method. Transaction costs relating to available-for-sale financial assets are included in the cost of the asset on initial recognition.

DETERMINATION OF FAIR VALUE

The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received (note 2(s)).

Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities.

DERIVATIVES

Derivatives are carried at fair value and where they have a positive value, are included in sundry assets and where they have a negative value, are included in accounts payable and other liabilities.

Prior to January 1, 2007, CAPREIT entered into fixed price supply contracts for the physical delivery of gas and hydro. As these contracts provide for physical delivery or net settlement in cash, they are treated as derivatives measured at fair value with changes therein recognized in the consolidated statement of income (loss) and comprehensive income (loss) in property operating costs, except for those contracts that are designated for its own use. At December 31, 2009, the change in fair value for those contracts not designated for its own use was an unrealized loss of $208 (December 31, 2008 – $36).

EMBEDDED DERIVATIVES

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free standing derivative; and the combined instrument or contract is not measured at fair value. These embedded derivatives are measured at fair value with changes therein recognized in the consolidated statement of income (loss) and comprehensive income (loss).

As at December 31, 2009 and 2008, CAPREIT did not have any outstanding contracts or financial instruments with embedded derivatives that required bifurcation.

h) Hedging relationships

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income (“OCI”), while the ineffective portion is recognized in net income. Should the cash flow hedging relationship become ineffective and/or hedge accounting no longer appropriate, previously unrealized gains and losses remain within accumulated other comprehensive loss (“AOCL”) and are amortized to mortgage interest expense in the same periods during which the hedged items affect earnings, while future changes in the fair value of the hedging derivatives are recognized in the consolidated statement of income (loss) and comprehensive income (loss).

i) Comprehensive income (loss)

Comprehensive income (loss) includes net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes changes in the fair value of investments and the effective portion of cash flow hedges less any amounts reclassified to mortgage interest expense in the period. The components of comprehensive income (loss) are disclosed in note 13(b).

j) Accumulated Other Comprehensive Loss ("AOCL")

AOCL is included in the consolidated balance sheet as a separate component of Unitholders' Equity and includes the unrealized gains and losses in changes in the fair market value of cash flow hedges, derivatives and investments.

k) Impairment of long-lived assets

CAPREIT reviews its long-lived assets for impairment if events or circumstances indicate the carrying value of the asset may be impaired. A recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from the asset's operations and projected disposition to determine if the carrying value is recoverable. If the analysis indicates the carrying value is not recoverable, the asset is written down to its estimated fair value and an impairment loss is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

l) Revenue recognition

CAPREIT recognizes rental revenue using the straight-line method whereby the total amount of rental revenue to be received from all leases is accounted for on a straight-line basis over the term of the related leases. The difference between the rental revenue recognized and the amounts contractually due under the lease agreements are accrued as rent receivable.

Other income includes interest, dividends and other. Interest and dividend income is recognized as earned.

m) Discontinued operations

CAPREIT allocates interest on its credit facilities to discontinued operations based on the ratio of net assets to be sold to the sum of total net assets.

n) Stock-based compensation

CAPREIT accounts for its Long-Term Incentive Plan ("LTIP") and Senior Executive Long-Term Incentive Plan ("SELTIP") using the fair value based method under which compensation expense is recognized at the time of grant for the estimated fair value of the participant's rights, as they vest. The Units are treated as options for accounting purposes and are included in the calculation of diluted net income (loss) per Unit.

Deferred Units granted under the Deferred Unit Plan ("DUP") are recognized in compensation expense based on the closing market price of CAPREIT's Units on the date of grant (see note 13(j)). The Deferred Units are considered to be outstanding Units from the date of grant for basic and diluted earnings per Unit calculations.

o) Co-ownerships

CAPREIT carries out certain of its activities under co-ownerships and records its proportionate share of assets, liabilities, income and expenses of all co-ownerships in which it participates. In general, CAPREIT has recourse against all the assets of the co-ownerships in the event that CAPREIT is called upon to pay liabilities in excess of its proportionate share.

p) Use of significant estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the consolidated financial statements and accompanying notes. Areas of such estimation include, but are not limited to: testing for impairment; future income taxes; financial instruments that are required to be measured or disclosed at fair value on initial recognition or on a periodic basis; valuation of accounts receivable; capitalization of costs; accounting accruals; the allocation of fair value upon acquisition of income properties; and the depreciation and amortization of certain assets. Actual results could differ from those estimates.

q) Cash flow statements

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments with an original term to maturity of 90 days or less at acquisition. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the consolidated cash flow statements and are disclosed separately.

r) Income taxes

CAPREIT is taxed as a Mutual Fund Trust for income tax purposes. CAPREIT distributed its income for income tax purposes each year to its Unitholders to such an extent that it would not be liable for income tax under Part I of the Income Tax Act (Canada) ("Tax Act"). Accordingly, no provision for current income taxes payable is required.

CAPREIT uses the liability method of accounting for future income taxes. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the carrying amounts of assets and liabilities and their carrying amounts for tax purposes. Future income taxes are measured at the tax rates expected to apply in the future when temporary differences reverse. Changes to future income taxes related to changes in tax rates are recognized in income in the period when the tax rate change is substantively enacted.

s) Changes in accounting policies

The Canadian Institute of Chartered Accountants ("CICA") issued the new accounting standard, CICA Handbook Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards were effective for CAPREIT's 2009 fiscal year commencing January 1, 2009. Adoption of this standard, effective January 1, 2009, did not have any significant impact on CAPREIT's consolidated financial results.

In January 2009, the CICA issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which requires the entity to consider its own credit risk as well as the credit risk of its counterparty when determining the fair value of financial assets and liabilities, including derivative instruments. The standard is effective for CAPREIT's 2009 fiscal year commencing January 1, 2009 and is required to be applied retrospectively without restatement of prior periods. The adoption of this standard has been incorporated into management's fair value estimates but did not have any significant impact on the valuation of CAPREIT's financial assets or liabilities.

In June 2009, the CICA issued amendments to Section 3862, "Financial Statements – Disclosures," which CAPREIT has adopted effective for its December 31, 2009 consolidated annual financial statements, as required by the standard. Specifically, the standard expands disclosure requirements regarding fair value measurements of financial instruments, including the relative reliability of the inputs used in those measurements. CAPREIT has classified and disclosed in note 21(a) to the consolidated annual financial statements the financial instruments presented at fair value on the consolidated balance sheet based on the three levels of fair value hierarchy specified in the new standard. The section has also been amended to require additional liquidity risk disclosures. The adoption of this standard did not have any impact on the valuation of CAPREIT's financial assets, but expands its disclosure in this regard.

t) Future accounting changes

The CICA has issued Section 1582, Business Combinations, which replaces Section 1581, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which together replace Section 1600, Consolidated Financial Statements. Under Section 1582, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of change in control. Furthermore, virtually all acquisition costs will be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities, except for future contingent consideration that meet the definition of equity, are to be recognized at fair value at the acquisition date and will be remeasured at fair value through earnings for each period until settled. Sections 1601 and 1602 revise and enhance the standards for the preparation of consolidated financial statements subsequent to a business combination. All three sections come into effect for financial periods beginning January 1, 2011 with prospective application. Early adoption of these sections is permitted. All three sections must be adopted concurrently. CAPREIT intends to adopt these sections effective for CAPREIT's 2011 fiscal year commencing January 1, 2011. These new sections will only have an impact on CAPREIT's consolidated financial statements for future acquisitions that may be made in periods subsequent to the date of adoption.

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011 (the "changeover date"). CAPREIT will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information. The impact of the adoption of IFRS on the consolidated financial statements of CAPREIT will likely be significant and, as such, CAPREIT is in the process of executing on its convergence plan in order to transition its consolidated financial statement reporting, presentation and disclosure for IFRS to meet the January 1, 2011 deadline. CAPREIT will continue to evaluate the impact of IFRS on its consolidated financial statements. The process will be ongoing as new standards and recommendations are issued by the International Accounting Standards Board. It is not CAPREIT's intention to early adopt IFRS prior to January 1, 2011.

[NOTE 3] SIGNIFICANT MATTERS

On September 29, 2009, CAPREIT announced the retirement of its Chief Financial Officer. Costs related to the former Chief Financial Officer's retirement were accrued and included in trust expenses in 2009, including compensation costs related to the accelerated vesting of the LTIP and SELTIP Units previously awarded (note 13(i)).

[NOTE 4] RECENT PROPERTY ACQUISITIONS

CAPREIT completed the following acquisitions, which have contributed to the operating results effective from their respective acquisition dates:

For the year ended December 31, 2009:

> On August 14, 2009, CAPREIT Limited Partnership ("CAPLP") acquired 14 MHC land lease sites (11 sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of $841, all of which were funded from the Land Lease Facility (note 9(b)).

> On February 10, 2009, CAPLP acquired ten MHC land lease sites (eight sites near Bowmanville, Ontario and two sites in Grand Bend, Ontario) for total acquisition costs of $548, all of which were funded from the Land Lease Facility (note 9(b)).

For the year ended December 31, 2008:

> On December 5, 2008 CAPREIT acquired a 153-suite, 19-storey, luxury apartment building in Quebec City, Quebec. The total acquisition costs of approximately $17,839 were satisfied by the assumption of a CMHC- insured mortgage of approximately $10,472 maturing in 2011 with an interest rate of 4.21%, a new $2,168 five-year mortgage with an interest rate of 3.62%, and the balance from the Acquisition and Operating Facility (note 9(a)).

> On September 1, 2008, CAPLP acquired an additional 11 MHC land lease sites (nine sites near Bowmanville, Ontario and two sites in Grand Bend, Ontario) for total acquisition costs of $679, which were funded from the Land Lease Facility (note 9(b)).

> On August 29, 2008, CAPREIT acquired a 137-suite apartment building in Victoria, British Columbia. The total acquisition costs of $14,299 were satisfied by new CMHC-insured financing of $10,182 for a five-year term at 4.35%, and the balance from the Acquisition and Operating Facility (note 9(a)).

> On July 31, 2008, CAPREIT acquired a 50% interest in a portfolio of eight high-quality properties in Toronto, Ontario totalling 784 suites. The total acquisition costs for the 50% interest of $47,902 were satisfied by the assumption of $15,010 of existing mortgages maturing between 2011 and 2019, at an average interest rate of 4.75%, new CMHC-insured mortgages of $14,658 for five-year terms at an average interest rate of 4.55%, and the balance funded from the Acquisition and Operating Facility (note 9(a)).

> On April 30, 2008, CAPREIT completed the acquisition of an apartment property located in Richmond, British Columbia consisting of 174 suites. The total acquisition costs of $24,164 were satisfied by the assumption of an existing first mortgage of $5,767 for an eight-year term at 4.6% and a new CMHC-insured mortgage of $6,767 for a five-year term at an interest rate of 4.45% and the balance from the Acquisition and Operating Facility (note 9(a)).

- On April 8, 2008, CAPLP acquired nine MHC land lease sites (six sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of $639, which were funded from the Land Lease Facility (note 9(b)).
- On January 10, 2008, CAPREIT completed the acquisition of two adjoining apartment properties located in Toronto, Ontario consisting of 143 suites. The total acquisition costs of $14,289 were satisfied by a new CMHC-insured mortgage of $10,782 for a five-year term at an interest rate of 4.69% and the balance from the Acquisition and Operating Facility (note 9(a)).

The assets acquired and liabilities assumed in these transactions were allocated as follows:

	2009	2008
The consideration paid consists of:		
New mortgages payable	**$ –**	$ 44,557
Assumed mortgages payable	**–**	31,249
Bank indebtedness	**1,389**	44,005
	$ 1,389	$ 119,811
The allocation of consideration paid is as follows:		
Income properties		
Land	**$ 1,059**	$ 33,149
Buildings and improvements	**330**	85,565
Equipment	**–**	330
	1,389	119,044
Intangible assets		
Value of tenant in-place leases	**–**	891
Value of tenant relationships	**–**	115
Value of above market leases	**–**	18
	–	1,024
Intangible liabilities		
Value of below market leases	**–**	(257)
	$ 1,389	$ 119,811

[NOTE 5] INCOME PROPERTIES

	2009	2008
Fee Simple Interest		
Land	**$ 362,287**	$ 361,081
Buildings and improvements		
Cost	**1,700,421**	1,628,393
Accumulated Depreciation	**(285,207)**	(228,088)
Net Book Value – Buildings and improvements	**1,415,214**	1,400,305
Net Book Value – Fee Simple Interest	**1,777,501**	1,761,386
Leasehold Interest		
Buildings and improvements		
Cost	**475,610**	462,036
Accumulated Depreciation	**(90,426)**	(72,829)
Net Book Value – Buildings and improvements	**385,184**	389,207
Options to purchase	**10,830**	10,830
Net Book Value – Leasehold Interest	**396,014**	400,037
Equipment		
Cost	**50,153**	43,158
Accumulated Depreciation	**(15,862)**	(11,636)
Net Book Value – Equipment	**34,291**	31,522
Total Cost	**2,599,301**	2,505,498
Total Accumulated Depreciation	**(391,495)**	(312,553)
Net Book Value – Income Properties	**$ 2,207,806**	$ 2,192,945

Leasehold interest – buildings and improvements represent buildings and improvements relating to three properties under long-term land leases and 15 properties under long-term operating leases. There are no future obligations with respect to the long-term operating leases as all rents were prepaid.

Leasehold interest – options to purchase represent the fair value assigned at the date of acquisition of the fixed price options to acquire the leasehold properties under long-term operating leases at their lease expiry dates ranging from 2033 to 2037. Options are exercisable by CAPREIT between the 26th and 35th year of the respective leasehold terms.

[NOTE 6] SUNDRY ASSETS

	2009	2008
Prepaid CMHC premiums – net of amortization of $5,993 (2008 – $4,864)	**$ 28,109**	$ 19,712
Prepaid expenses	**2,784**	2,836
Tenant inducements	**540**	212
Other receivables	**4,889**	4,951
Restricted cash	**2,546**	2,925
Deposits on purchases (a)	**824**	1,519
Deposits	**633**	612
Investments	**28,739**	14,270
Leasehold improvements – net of amortization of $530 (2008 – $446)	**663**	782
Other assets – net of amortization of $1,534 (2008 – $692)	**1,754**	1,035
Total	**$ 71,481**	$ 48,854

a) Under the terms of the development agreements entered into concurrently with the acquisition of MHC land lease sites on July 10, 2007, CAPLP is required to fund servicing costs on the lands in the land lease communities for future developments. These funded amounts will be deducted from the final purchase price when the MHC land lease sites are acquired by CAPLP. The Agreements are for a ten-year term and can be extended for an additional ten years.

[NOTE 7] INTANGIBLE ASSETS AND LIABILITIES

	2009	2008
Intangible assets		
Value of tenant in-place leases		
Cost	**$ 15,084**	$ 15,084
Accumulated amortization	**(14,674)**	(13,853)
Net Book Value	**410**	1,231
Value of tenant relationships		
Cost	**1,571**	1,571
Accumulated amortization	**(1,497)**	(1,337)
Net Book Value	**74**	234
Value of above market leases		
Cost	**1,243**	1,243
Accumulated amortization	**(1,235)**	(1,213)
Net Book Value	**8**	30
Total Cost	**17,898**	17,898
Total Accumulated amortization	**(17,406)**	(16,403)
Net Book Value – Intangible assets	**$ 492**	$ 1,495
Intangible liabilities		
Value of below market leases		
Cost	**$ 1,908**	$ 1,908
Accumulated amortization	**(1,716)**	(1,574)
Net Book Value – Intangible liabilities	**$ 192**	$ 334

[NOTE 8] MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average effective rate of 5.15% (December 31, 2008 – 5.30%), and mature between 2010 and 2027. The effective interest rate as at December 31, 2009 includes 0.08% (December 31, 2008 – nil) for the amortization of the realized component of the loss on settlement of derivative financial instruments included in AOCL. All mortgages payable are financed at fixed interest rates. The income properties have been pledged as security. Future principal repayments ending December 31 for the years indicated are as follows:

	PRINCIPAL AMOUNT	% OF TOTAL PRINCIPAL
2010	$ 208,134	13.4
2011	242,592	15.6
2012	242,948	15.7
2013	164,226	10.6
2014	247,763	16.0
Subsequent to 2014	444,489	28.7
	1,550,152	100.0
Deferred financing costs and fair value adjustments	(4,837)	
	$ 1,545,315	

As at December 31, 2009, unamortized deferred financing costs of $5,518 and fair value adjustments of ($681) are netted against mortgages payable.

[NOTE 9] BANK INDEBTEDNESS

On April 1, 2008, CAPREIT transferred the beneficial interest in all of its properties along with related debt obligations to CAPLP. The existing revolving credit facilities were restructured on June 30, 2008 into one credit agreement comprising an acquisition and operating facility ("Acquisition and Operating Facility") and a land lease facility ("Land Lease Facility") (the "Credit Facilities"). Effective June 30, 2009, the Credit Facilities were renewed and amended as summarized below.

a) Acquisition and Operating Facility

The maximum amount available is $250,000, comprising one facility of $100,000 for a one-year term maturing on June 30, 2010 and another facility of $150,000 for a three-year term maturing on June 30, 2012, subject to compliance with the various provisions of the credit agreement, in order to fund ongoing working capital requirements, general corporate purposes and acquisition and improvements to the properties. Floating charge debentures on certain of CAPREIT's income properties have been provided as security. At December 31, 2009, the weighted average floating interest rate for amounts drawn under this credit facility is 3.39% (December 31, 2008 – 3.38%). At December 31, 2009, the borrowings outstanding for this facility were $144,816 (December 31, 2008 – $116,911). In addition, at December 31, 2009, letters of credit in the amount of $5,965 (December 31, 2008 – $3,856) were outstanding, which reduce the maximum amount available under the facility.

b) Land Lease Facility

The Land Lease Facility was established (notes 4 and 6) to fund operating, development and acquisition costs associated with CAPREIT's MHC land lease portfolio. The maximum amount of the facility is $10,000 for a one-year term and matures on June 30, 2010. Floating charge debentures on the MHC land lease properties have been provided as security. At December 31, 2009, the weighted average floating interest rate for amounts drawn under this facility is 3.38% (December 31, 2008 – 2.89%). At December 31, 2009, the borrowings outstanding for this facility were $2,075 (December 31, 2008 – $4,118). In addition, letters of credit in the amount of $106 (December 31, 2008 – $130) were outstanding, which reduce the maximum available under the facility.

[NOTE 10] FUTURE INCOME TAXES

Prior to June 22, 2007, no provision for income taxes was recorded in the consolidated financial statements. On June 22, 2007, amendments to the Tax Act were substantively enacted (as a result of tax legislation included in Bill C-52, the Budget Implementation Act, 2007), which modified the tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships ("SIFTs"). Under the SIFT Rules, a SIFT will generally be taxed in a manner similar to corporations on income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act) at a combined federal/provincial tax rate similar to that of a corporation. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be taxed as a dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. Subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 (the "Normal Growth Guidelines"), the SIFT Rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006 if the "SIFT trust" and "SIFT partnership" definitions in the Tax Act had been in force as of that date.

Certain real estate investment trusts that satisfy specified conditions (the "REIT Exception") are excluded from the SIFT definition and therefore will not be subject to the SIFT Rules. As CAPREIT did not meet the REIT Exception as at October 31, 2006, June 22, 2007 or as at December 31, 2009, a future income tax liability in the amount of $54,059 has been recorded as at December 31, 2009 (December 31, 2008 – $63,221) based on the temporary differences that are expected to reverse on or after January 1, 2011. The change in the future income tax liability has been recorded as a recovery to the consolidated statement of income (loss) and comprehensive income (loss) in the amount of $9,568 for the year ended December 31, 2009 (December 31, 2008 – provision of $9,134) and a provision to other comprehensive income (loss) for $406 (December 31, 2008 – $2,298) relating to the unrealized loss on derivative financial instruments and interest rate swap agreements. If CAPREIT should meet the REIT Exception in the future, the future income tax liability will be reversed and recorded as a recovery through the consolidated statement of income (loss) and comprehensive income (loss) at that time. CAPREIT is not currently taxable and accordingly, no current income taxes have been recorded for 2009 and 2008. CAPREIT has not exceeded the Normal Growth Guidelines.

A reconciliation of income tax (recovery) expense for the year is as follows:

	2009	2008
Current income taxes at Canadian statutory tax rate	$ –	$ –
Provision for future income taxes relating to OCI (note 13(b))	582	2,298
Recovery of future income taxes for changes in substantively enacted tax rates for OCI (note 13(b))	(176)	–
(Recovery of) provision for future income taxes	(4,619)	9,134
Recovery of future income taxes for changes in substantively enacted tax rates	(4,949)	–
Future income tax (recovery) expense	$ (9,162)	$ 11,432

The future income tax liability is as follows:

	2009	2008
Future income tax liability, beginning of the year	$ 63,221	$ 51,789
Future income taxes relating to OCI (note 13(b))	406	2,298
Future income tax (recovery) expense	(9,568)	9,134
Future income tax liability, end of the year	$ 54,059	$ 63,221

The components of the future income tax liability are as follows:

	2009	2008
Net book value in excess of tax value of income properties	$ 47,960	$ 57,841
Future income taxes relating to OCI (note 13(b))	2,704	2,298
Other	3,395	3,082
Future income tax liability, end of the year	$ 54,059	$ 63,221

[NOTE 11] DISTRIBUTIONS

CAPREIT paid distributions to its Unitholders in accordance with its Declaration of Trust. Distributions declared by its Board of Trustees were paid monthly, on or about the 15th day of each month.

	2009	2008
Distributions declared (note 18(b))	$ 73,805	$ 72,754
Distributions Per Unit	$ 1.080	$ 1.080

[NOTE 12] PER UNIT CALCULATIONS

Basic per Unit calculations are based on the weighted average number of participating voting units of the trust ("Trust Units") and exchangeable limited partnership units ("CAPLP Units") (collectively, "Units") outstanding for the year, including deferred Units allocated under the Deferred Unit Plan (note 13(j)), but excluding Units issued under the LTIP (note 13(g)), SELTIP (note 13(h)) and unexercised options under the Unit Option Plan (note 13(d)).

The following table provides a reconciliation between total weighted average Units and weighted average basic Units:

	2009	2008
Weighted average number of total Units	68,341,787	67,333,085
Less:		
Weighted average LTIP Units	(1,508,187)	(1,103,296)
Weighted average SELTIP Units	(817,914)	(817,914)
Weighted average number of basic Units	66,015,686	65,411,875

The calculation of per Unit information on a diluted basis considers the potential exercise of outstanding Unit options to the extent each Unit option is dilutive and takes into consideration the effect of any dilutive LTIP and SELTIP Units. The following table provides a reconciliation between the outstanding weighted average number of basic Units and the number of diluted Units:

	2009	2008
Weighted average number of basic Units	**66,015,686**	65,411,875
Effect of dilutive Unit options, LTIP and SELTIP Units	**106,102**	205,271
Weighted average number of diluted Units	**66,121,788**	65,617,146

[NOTE 13] UNITHOLDERS' EQUITY

Authorized – Unlimited, voting Units

The number of issued and outstanding Units comprises the following:

	TRUST UNITS	CAPLP UNITS	TOTAL
Units outstanding, January 1, 2009	**67,221,091**	**411,311**	**67,632,402**
Issued during the year:			
Distribution Reinvestment Plan	**670,711**	**–**	**670,711**
Employee Unit Purchase Plan	**17,085**	**–**	**17,085**
Long-Term Incentive Plan ("LTIP")	**508,183**	**–**	**508,183**
Deferred Unit Plan ("DUP")	**31,952**	**–**	**31,952**
Units cancelled	**(13,500)**	**–**	**(13,500)**
Units outstanding, December 31, 2009	**68,435,522**	**411,311**	**68,846,833**
Units outstanding, January 1, 2008	66,606,085	411,311	67,017,396
Issued during the year:			
Distribution Reinvestment Plan	860,692	–	860,692
Unit Option Plan	27,400	–	27,400
Employee Unit Purchase Plan	12,542	–	12,542
LTIP, net	370,000	–	370,000
DUP	28,672	–	28,672
Units cancelled	(684,300)	–	(684,300)
Units outstanding, December 31, 2008	67,221,091	411,311	67,632,402

Each Unitholder of the Trust Units is entitled to redeem their Units at any time at prices determined and payable in accordance with the conditions specified in the DOT. The outstanding 411,311 CAPLP Units are entitled to distributions equivalent to distributions on Trust Units, must be exchanged solely for Trust Units on a one-for-one basis, and are exchangeable at any time at the option of the holder. An equivalent number of Special Voting Units were issued at the same time as the exchangeable CAPLP Units. The holders of such Units have no entitlement to any share of or interest in the distributions or net assets of CAPREIT. The holders are entitled to an equivalent number of votes at all meetings of Unitholders or in respect of any written resolution of Unitholders equal to the number of Units into which the Exchangeable Securities to which such Special Voting Units relate are, directly or indirectly, exchangeable or convertible (other than in respect of Exchangeable Securities, which have been so exchanged, converted or cancelled).

The maximum number of Units issuable under all of CAPREIT's Unit incentive plans, namely the Unit Option Plan, the Employee Unit Purchase Plan, the Unit Purchase Plan, the LTIP, the SELTIP and the DUP is 6,000,000 Units. The maximum available for future issuance under all Unit incentive plans as at December 31, 2009 is 853,376 Units (December 31, 2008 – 1,410,596 Units).

a) New Units Issued

On November 7, 2007, CAPREIT issued 5,350,000 Trust Units at $18.65 per Unit for aggregate gross proceeds of $99,778. The net proceeds after underwriters' fees and issue costs were $95,006. This includes $128 of issue costs incurred during the year ended December 31, 2008.

b) Accumulated Other Comprehensive Loss ("AOCL") and Other Comprehensive Income ("OCI")

	2009	2008
AOCL balance, beginning of year	**$ (38,400)**	$ (9,354)
Other comprehensive income (loss):		
Loss on derivative financial instruments (1)	–	(4,936)
Amortization of AOCL to mortgage interest (1)	**592**	–
Gain (loss) on interest rate swap agreements	**1,622**	(5,583)
Provision for future income taxes (note 10)	**(406)**	(2,298)
Loss on amounts designated as cash flow hedges settled in prior years and transferred to mortgage interest expense	**(231)**	(283)
Change in fair value of investments	**14,469**	(15,946)
Other comprehensive income (loss)	**16,046**	(29,046)
AOCL balance, end of year	**$ (22,354)**	$ (38,400)
AOCL comprised of:		
Loss on derivative financial instruments (1)		
Cumulative realized loss	**$ (9,908)**	$ (9,908)
Amortization to mortgage interest	**592**	–
Loss on interest rate swap agreements	**(5,592)**	(7,214)
Provision for future income taxes (note 10)	**(2,704)**	(2,298)
Unamortized balance of loss on amounts designated as cash flow hedges settled in prior years	**31**	262
Change in fair value of investments	**(4,773)**	(19,242)
AOCL balance, end of year	**$ (22,354)**	$ (38,400)

(1) The cumulative realized loss on derivative financial instruments aggregating to $9,908 before tax will be amortized as mortgage interest expense to the consolidated statement of income (loss) and comprehensive income (loss) over periods ending in December 2014 to September 2022, being the original terms of the hedged contracts. The estimated amount of the amortization that is expected to be reclassified to net income (loss) from AOCL in the next 12 months is $1,112.

c) Distribution Reinvestment Plan ("DRIP")

The terms of the Distribution Reinvestment Plan grant participants the right to receive an additional amount equal to 5% of their monthly distributions paid in the form of additional Units. The total consideration for Units issued represents the amount of cash distributions reinvested in additional Units.

d) Unit Option Plan

Under the terms of the Unit Option Plan, options are granted to Trustees, officers and employees based on a performance incentive for improved service and enhancing profitability and vest on the date of grant. There were no options granted during 2009 and 2008.

A summary of Unit option activity for the years ended December 31, 2009 and 2008 is presented as follows. All options are exercisable as at December 31, 2009 and 2008.

	2009 NUMBER OF UNITS	2009 WEIGHTED AVG. EXERCISE PRICE	2008 NUMBER OF UNITS	2008 WEIGHTED AVG. EXERCISE PRICE
Options outstanding, beginning of year	**387,200**	**$ 13.42**	419,600	$ 13.35
Options exercised	–	–	(27,400)	12.42
Options cancelled	–	–	(5,000)	13.25
Options outstanding, end of year	**387,200**	**$ 13.42**	387,200	$ 13.42

The following Unit Option Plan grants are outstanding:

EXERCISE PRICE	EXPIRY DATE	2009 NUMBER OF UNITS	2008 NUMBER OF UNITS
$ 11.85	December 17, 2010	**57,700**	57,700
$ 14.10	November 14, 2011	**151,000**	151,000
$ 13.73	April 4, 2012	**40,000**	40,000
$ 13.25	November 17, 2012	**138,500**	138,500
		387,200	387,200

e) Unit Purchase Plan

Under contracts with certain executives, in addition to base cash compensation, incentive compensation may be declared by the Compensation and Governance Committee of the Board of Trustees, subject to the attainment of specified performance objectives. The executive officers are eligible to participate in the Unit Purchase Plan and can elect to either receive incentive compensation in cash or alternatively, participate in the Unit Purchase Plan.

The Unit Purchase Plan provided executives the ability to purchase CAPREIT Units with the assistance of loans to the extent of three times the amount of incentive compensation earned. These loans were fully repaid in 2006. No new Units were issued and no new loans to purchase Units were granted to the executives since 2003.

423,725 Units were previously issued under the Unit Purchase Plan.

f) Employee Unit Purchase Plan

The Employee Unit Purchase Plan grants employees the right to receive an additional amount equal to 10% of the Units they acquired, paid in the form of additional Units. This additional amount is expensed as compensation upon issuance of the Units. The amount expensed for 2009 was $21 (2008 – $18).

g) Long-Term Incentive Plan (“LTIP”)

The Compensation and Governance Committee of the Board of Trustees may award LTIP Units, subject to the attainment of specified performance objectives to certain officers and key employees, collectively the “Participants”. The Participants can subscribe for Units of CAPREIT at a purchase price equal to the weighted average trading price of the Units for five trading days prior to issuance. The purchase price is payable in installments, with an initial installment of 5% paid when the Units are issued. The balance represented by Installment Receipts is due over a term not exceeding ten years. Participants are required to pay interest at a ten-year fixed rate based on the Trust’s fixed borrowing rate for long-term mortgage financing (4.48% for awards granted in 2009, 4.65% for awards granted in 2008) and are required to apply cash distributions received by them on these Units toward the payment of interest and the remaining installments. Participants may prepay any remaining installments at their discretion. The Installment Receipts are non-recourse to the Participants and are secured by the Units as well as the distributions on the Units. If a Participant fails to pay interest and/or principal, CAPREIT may elect to reacquire or sell the Units in satisfaction of the outstanding amounts.

The details of the Units issued under the LTIP are as shown below:

NUMBER OF UNITS	2009	2008
Balance, beginning of year	**1,164,744**	794,744
Issued during the year	**508,183**	380,000
Cancelled during the year	–	(10,000)
Balance, end of year	**1,672,927**	1,164,744
Value of LTIP Units granted during the year	**$ 6,578**	$ 6,118

The details of the LTIP Installment Receipts are as shown below:

INSTALLMENT RECEIPTS	2009	2008
Balance, beginning of year	**$ 17,458**	$ 12,245
Amounts granted, net of initial installment of $329 (2008 – $306)	**6,249**	5,812
Amounts cancelled	–	(197)
Principal repayments during the year	**(604)**	(402)
Balance, end of year	**$ 23,103**	$ 17,458

The Installment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During 2009, interest payments in the amount of $1,005 (2008 – $800), were credited to Unitholders' Equity in cumulative distributions.

On November 19, 2009, 100,683 Units were issued under the LTIP at $13.61. The fair value of the compensation costs for the Units granted on this day was estimated to be $173 using the Black-Scholes option pricing model. As the Units granted vest one-third on the date of grant and one-third on each anniversary of the date of grant for each of the next two years, compensation costs of $7 were expensed in the consolidated statement of income (loss) and comprehensive income (loss) during 2009, with a corresponding amount included in Unitholders' Equity in cumulative capital.

On March 10, 2009, 407,500 Units were issued under the LTIP at $12.78. The fair value of the compensation costs for the Units granted on this day was estimated to be $694 using the Black-Scholes option pricing model. As the Units granted vest one-third on the date of grant and one-third on each anniversary of the date of grant for each of the next two years, compensation costs of $231 were expensed in the consolidated statement of income (loss) and comprehensive income (loss) during 2009, with a corresponding amount included in Unitholders' Equity in cumulative capital.

On February 29, 2008, 380,000 Units were issued under the LTIP at $16.10. The fair value of the compensation costs for the Units granted on this day was estimated to be $960 using the Black-Scholes option pricing model. As the Units granted vest one-third on the date of grant and one-third on each anniversary of the date of grant for each of the next two years, compensation costs of $320 were expensed in the consolidated statement of income (loss) and comprehensive income (loss) during 2008, with a corresponding amount included in Unitholders' Equity in cumulative capital.

On February 1, 2008, 10,000 Units previously issued on March 2, 2007 were cancelled. Accordingly, compensation costs of $11 previously expensed in 2007 were adjusted for in 2008.

The weighted average assumptions for the grants awarded in the respective periods were as follows:

YEAR ENDED DECEMBER 31,		2009	2008
Grant Date	**November 2009**	**March 2009**	February 2008
Risk-free interest rate	**3.78%**	**2.99%**	3.70%
Expected lives (years)	**10**	**10**	10
Expected volatility	**19.00%**	**12.00%**	12.00%
Dividend yield	**7.94%**	**8.45%**	6.71%

h) Senior Executive Long-Term Incentive Plan ("SELTIP")

The Compensation and Governance Committee of the Board of Trustees may award SELTIP Units, subject to the attainment of specified performance objectives to the Chief Executive Officer and the Chief Financial Officer, collectively the "Participants." The Participants can subscribe for Units of CAPREIT at a purchase price equal to the weighted average trading price of the Units for five trading days prior to issuance. The purchase price is payable in installments, with an initial installment of 5% paid when the Units are issued. The balance represented by Installment Receipts is due over a term not exceeding 30 years. Participants are required to pay interest at a 30-year fixed rate based on the Trust's fixed borrowing rate for long-term mortgage financing (4.96% for awards granted to-date) and are required to apply cash distributions received by them on these Units toward the payment of interest and the remaining installments until the tenth anniversary of issuance. Following the tenth anniversary, cash distributions shall be applied to pay interest only and any excess shall be distributed to the Participants. Participants may prepay any remaining installments at their discretion. The Installment Receipts are non-recourse to the Participants and are secured by the Units as well as the distributions on the Units. If a Participant fails to pay interest and/or principal, CAPREIT may elect to reacquire or sell the Units in satisfaction of the outstanding amounts.

The details of the Units issued under the SELTIP are shown below:

NUMBER OF UNITS	**2009**	2008
Balance, beginning of year	**817,914**	817,914
Issued during the year	**–**	–
Balance, end of year	**817,914**	817,914

The details of the SELTIP Installment Receipts are shown below:

INSTALLMENT RECEIPTS	**2009**	2008
Balance, beginning of year	**$ 13,075**	$ 13,302
Principal repayments during the year	**(240)**	(227)
Balance, end of year	**$ 12,835**	$ 13,075

The Installment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During 2009, interest payments in the amount of $643 (2008 – $657), were credited to Unitholders' Equity in cumulative distributions.

i) Costs related to accelerated vesting of LTIP and SELTIP

Unitholders' Equity as at December 31, 2009 includes $122 of compensation costs expensed during the year (December 31, 2008 – $nil) related to the accelerated vesting of LTIP and SELTIP Units previously awarded to the former Chief Financial Officer (note 3).

j) Deferred Unit Plan ("DUP")

During 2008, CAPREIT implemented the DUP for the benefit of the non-executive Trustees as approved by the Unitholders on May 21, 2008. This plan gives the non-executive Trustees the right to receive a percentage of their annual retainer in the form of deferred units ("Deferred Units"). Each Trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the "Elected Percentage") of his annual retainer payable in respect of a calendar year (the "Elected Amount"), subject to an annual maximum Elected Percentage established by the Compensation and Governance Committee, in the form of Deferred Units, in lieu of cash. CAPREIT will match the Elected Amount in the form of Deferred Units having a value equal to the volume weighted average price of all Units traded on the TSX for the five trading days immediately preceding the date on which board compensation is payable. The maximum Elected Percentage in respect of 2009 is 50% of a Trustee's annual board compensation of $55.

The Deferred Units earn notional distributions based on the same distributions paid on the Units and such notional distributions are used to acquire additional Deferred Units. The Deferred Units and additional Deferred Units are credited to each Trustee's Deferred Unit account and are not issued to the Trustee until the Trustee elects to withdraw such Units. Each Trustee may elect to withdraw up to 20% of the Deferred Units credited to his Deferred Unit account only once in a five-year period. During 2009, total compensation costs of $436 (2008 – $476), were expensed in relation to awards under the DUP.

The details of the Units issued under the DUP are shown below:

	2009	2008
Outstanding, beginning of year		
Number of Units	**28,672**	–
Weighted Average Price	**$ 16.42**	$ –
Granted during the year		
Number of Units	**31,952**	28,672
Weighted Average Price	**$ 13.44**	$ 16.42
Outstanding, end of year		
Number of Units	**60,624**	28,672
Weighted Average Price	**$ 14.85**	$ 16.42

k) Units Cancelled

During 2009, 13,500 Units (2008 – 684,300), were acquired for cancellation pursuant to a normal course issuer bid, at market prices aggregating $169 (2008 – $10,070).

[NOTE 14] AMORTIZATION

	2009	2008
Amortization of other financing costs and CMHC premiums	**$ 2,169**	$ 1,334
Amortization of leasehold improvements	**84**	79
Amortization of tenant improvements	**294**	287
Amortization of intangible assets	**981**	1,282
	$ 3,528	$ 2,982

[NOTE 15] REORGANIZATION COSTS

These costs represent amounts incurred in 2008 to complete the reorganization of CAPREIT's capital structure and include legal, accounting and tax consulting costs to complete the following:

> Establish CAPLP and issue CAPLP Units exchangeable into Trust Units;

> Convert from a closed-end to an open-end trust structure, including effecting the necessary changes to the DOT; and

> Transfer beneficial interest in all the properties, mortgage debt and trust debt obligations from CAPREIT to CAPLP.

This reorganization provides CAPREIT with greater flexibility in its investing activities and operations and facilitates its compliance with tax legislation to be enacted as of 2011 (see note 10). In accordance with Canadian generally accepted accounting principles, CAPREIT expensed these reorganization costs as incurred.

[NOTE 16] REALIZED AND UNREALIZED GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

a) Contracts for which hedge accounting is no longer effective

During 2005, CAPREIT entered into interest rate forward contracts aggregating to $145,740 (the "Interest Rate Forward Contracts") to hedge its exposure to the potential rise in interest rates for refinancings of mortgages maturing in 2009.

During the last quarter of 2008, management terminated the hedging relationship in respect of the Interest Rate Forward Contracts as it was determined that the criteria for hedge accounting treatment was no longer satisfied and accordingly, ceased hedge accounting on a prospective basis effective September 30, 2008, the last date that hedge effectiveness testing was completed. As a result, the unrealized loss on the Interest Rate Forward Contracts of $9,908 included in AOCL at September 30, 2008, will be amortized to mortgage interest expense over the original terms of the hedged contracts (see note 13(b)). As hedge accounting is no longer applied to these contracts from October 1, 2008, any subsequent change in fair value of these contracts was recognized in the consolidated statement of income (loss) and comprehensive income (loss).

The position of realized and unrealized gains and losses on derivative financial instruments has been summarized as follows:

	2009	2008
Opening cumulative unrealized loss, beginning of the year	$ (27,535)	$ (4,972)
Unrealized loss included in OCI	–	(4,936)
Unrealized loss included in net income (loss)	–	(17,627)
Realized gain included in net income (loss)	4,063	–
Settlement of losses on derivative financial instruments	23,472	–
Closing cumulative unrealized loss, end of the year	$ –	$ (27,535)

During 2009, CAPREIT settled Interest Rate Forward Contracts with a notional value of $145,740, resulting in a realized net gain of $4,063 (2008 – unrealized loss of $17,627). These settlements also resulted in the realization of a previously accumulated unrealized loss of $27,535 as at December 31, 2008. As at December 31, 2009, all of the Interest Rate Forward Contracts have been settled, resulting in a cumulative realized loss and cash payment of $23,472 on these contracts. Such cumulative realized loss includes the cumulative loss of $9,908 at September 30, 2008, which is included in AOCL, net of accumulated amortization thereon (note 13(b)).

b) Contracts for which hedge accounting is being applied

As at December 31, 2009, CAPREIT has a $55,000 interest rate swap agreement fixing the interest rate at 5.706%, maturing in July 2012, for which hedge accounting is being applied. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a five-year term. For the year ended December 31, 2009, an unrealized gain of $1,622 (December 31, 2008 – unrealized loss of $5,583) has been included in OCI (note 13(b)). In addition, for the year ended December 31, 2009, an unrealized gain of $742 (December 31, 2008 – $nil) has been recognized in the consolidated statement of income (loss) and comprehensive income (loss) for the ineffective portion of the interest rate swap agreement. The mark-to-market cumulative unrealized loss of $4,850 and $7,214 is included in AOCL and has been set up in accounts payable and other liabilities as at December 31, 2009 and December 31, 2008, respectively.

The position of unrealized gains and losses on the interest rate swap agreement has been summarized as follows:

	2009	2008
Opening cumulative unrealized loss, beginning of the year	$ (7,214)	$ (1,631)
Unrealized gain (loss) included in OCI	1,622	(5,583)
Unrealized gain included in net income (loss)	742	–
Closing cumulative unrealized loss, end of the year	$ (4,850)	$ (7,214)

[NOTE 17] DISCONTINUED OPERATIONS

On January 18, 2008, CAPREIT sold ten non-core properties consisting of 558 suites in Ontario and 920 suites in Quebec for a total sale price of $121,250. The purchaser assumed $57,643 of existing mortgages.

In a separate transaction on January 21, 2008, CAPREIT also sold two Quebec City apartment properties containing 152 suites for a sales price of $6,350. Mortgages of $2,187 were repaid.

The net cash proceeds of $62,993 from these sales were used to repay bank indebtedness. A gain of approximately $17,046 was recognized in the year ended December 31, 2008.

The results of operations of these properties have been reclassified as discontinued operations:

	2009	2008
Operating revenues	$ –	$ 661
Operating expenses	–	402
Mortgage interest	–	138
Interest on bank indebtedness	–	12
Income from discontinued operations	–	109
Gain on sale of assets	–	17,046
Income from discontinued operations	$ –	$ 17,155

[NOTE 18] SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in non-cash operating assets and liabilities

	2009	2008
Prepaid CMHC premiums	$ (9,724)	$ (2,597)
Prepaid expenses	52	(1,258)
Tenant inducements	(328)	112
Other receivables	(30)	(353)
Other assets	(1,561)	(1,188)
Deposits on purchases	695	232
Deposits	(21)	349
Leasehold improvements	35	(146)
Accounts payable and other liabilities	1,244	7,976
Security deposits	(228)	595
	$ (9,866)	$ 3,722

b) Net cash distributions to Unitholders

	2009	2008
Distributions declared to Unitholders	$ (73,805)	$ (72,754)
Add: Distributions payable at beginning of year	(6,084)	(6,032)
Less: Distributions payable at end of year	6,191	6,084
Less: Distributions to Participants in the DRIP	8,583	12,661
	$ (65,115)	$ (60,041)

c) Mortgages and loans

	2009	2008
Interest paid	$ 78,301	$ 78,566

d) Capital investments

	2009	2008
Capital investments	$ (92,414)	$ (52,877)
Change in accounts payable and other liabilities	5,731	(2,638)
	$ (86,683)	$ (55,515)

e) Acquisition of income properties

	2009	2008
Acquired properties (note 4)	$ (1,389)	$ (119,811)
Assumed mortgages payable (note 4)	–	31,249
Net proceeds	$ (1,389)	$ (88,562)

f) Disposition of income properties

	2009	2008
Proceeds	$ –	$ 127,600
Closing costs	–	(4,777)
Mortgages assumed by purchasers and discharged	–	(59,830)
Net proceeds	$ –	$ 62,993

[NOTE 19] CO-OWNERSHIPS

CAPREIT's share of assets, liabilities, revenues, expenses and cash flows from co-ownership activities is summarized as follows:

	2009	2008
Assets	$ 84,484	$ 83,285
Liabilities	71,358	61,193
Revenues	13,744	10,288
Expenses	12,264	4,434
Net Income	1,480	5,854
Cash Provided By (Used In):		
Operating Activities	$ 3,576	$ 3,007
Financing Activities	$ (447)	$ (2,488)
Investing Activities	$ (1,195)	$ (370)

[NOTE 20] RELATED PARTY TRANSACTIONS

a) CAPREIT has entered into construction management agreements with a company that is owned by two trustees and officers of CAPREIT to provide construction management services (based on 4.5% of construction costs up to $20,000, 3% for the next $15,000 and 1% thereafter) to carry out the capital improvements for the properties. The total construction management fees for 2009 (excluding GST) amounted to $1,580 (2008 – $1,345) and have been capitalized to income properties. At December 31, 2009, there were construction management fees outstanding of $72 (December 31, 2008 – $44) in accounts payable and other liabilities.

b) CAPREIT has a lease for office space with a company in which one of the trustees and officers has an 18% beneficial interest. The rent paid for the office space (which is based on fair market rents at the date the lease was entered into) for 2009 was $653 (2008 – $636), including property operating costs and has been expensed as trust expenses. The lease expired on October 31, 2009. CAPREIT exercised its option to renew and the new agreement expires on October 31, 2014. Minimum annual rental payments are as follows:

YEAR	ANNUAL REPAYMENT
2010	$ 407
2011	$ 407
2012	$ 407
2013	$ 407
2014	$ 339

c) CAPREIT had a consulting agreement, which expired in May 2009, with a company owned by one of the trustees and officers. The total fees paid for 2009 (excluding GST) were $21 (2008 – $71) and have been expensed as trust expenses. At December 31, 2009, there were consulting fees outstanding of $nil (December 31, 2008 – $8) in accounts payable and other liabilities.

d) CAPREIT has entered into an agreement with a company to supply suite utility meters. This company is managed by a trustee and officer of CAPREIT. No amounts have been capitalized to income properties for 2009 (2008 – $487), (excluding GST) and $nil (December 31, 2008 – $16) is outstanding and included in accounts payable and other liabilities.

[**NOTE 21**]

FINANCIAL INSTRUMENTS

a) Fair value of financial instruments

The fair value of CAPREIT's financial assets and liabilities, except as noted below and elsewhere in the consolidated annual financial statements, approximates their carrying amount due to the short-term and variable rate nature of those instruments.

At December 31, 2009, the fair value of CAPREIT's mortgages payable is estimated to be $1,602,624 (December 31, 2008 – $1,550,427) due to changes in interest rates since the dates the individual mortgages were financed and the impact of the passage of time in light of the upward-sloping yield curve and the fixed rate nature of CAPREIT's mortgages. The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions.

As required by amendments to Section 3862 for financial instruments measured using fair value, CAPREIT has classified and disclosed the fair value for each class of financial instrument based on the hierarchy established in this section. The fair value hierarchy distinguishes between market value data obtained from independent sources and the company's own assumptions about market value. The hierarchy levels are defined below:

Level 1 – Inputs based on quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs based on factors other than quoted prices included in Level 1 and may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals; and

Level 3 – Inputs which are unobservable for the asset or liability and are typically based on the company's own assumptions, as there is little, if any, related market activity.

CAPREIT's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The table below presents CAPREIT's estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as of December 31, 2009, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts CAPREIT could ultimately realize.

	LEVEL 1 QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS AND LIABILITIES	LEVEL 2 SIGNIFICANT OTHER OBSERVABLE INPUTS	LEVEL 3 SIGNIFICANT UNOBSERVABLE	TOTAL
Assets				
Restricted Cash	$ 2,546 (1)	$ –	$ –	$ 2,546
Investments	$ 28,739 (2)	$ –	$ –	$ 28,739
Liabilities				
Derivative Financial Instruments	$ 47 (3)	$ 4,850 (4)	$ –	$ 4,897
Total	$ 31,332	$ 4,850	$ –	$ 36,182

(1) CAPREIT's restricted cash is accounted for as held-for-trading and is measured at fair value.

(2) CAPREIT's investments are accounted for as available-for-sale and are measured at fair value based on the quoted market price in an active market of the asset.

(3) CAPREIT has entered into fixed price supply contract derivatives for the physical delivery of natural gas and hydro, some of which are measured at fair value using quoted spot and forward market prices.

(4) CAPREIT uses certain derivative financial instruments to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivative. The fair values of interest rate swap agreements are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. CAPREIT also incorporates credit valuation adjustments to reflect both its risk and the counterparty's risk in the fair value measurements of its derivative financial instruments.

Although CAPREIT has determined the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by CAPREIT itself. As of December 31, 2009, CAPREIT has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined the credit valuation adjustment is not significant to the overall valuation of the derivative. As a result, CAPREIT has determined that the derivative valuations in their entirety should be classified in Level 2 of the fair value hierarchy.

b) Risk management

The main risks arising from CAPREIT's financial instruments are interest rate, liquidity and credit risks. CAPREIT's approach to managing these risks is summarized below.

INTEREST RATE RISK

CAPREIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced on terms as favourable as those of the existing indebtedness. In addition, interest on CAPREIT's bank indebtedness is subject to floating interest rates.

For the years ended December 31, 2009 and December 31, 2008, a 100 basis points change in interest rates would have the following effect:

	CHANGE IN INTEREST RATES (BASIS POINTS)	INCREASE (DECREASE) IN NET INCOME		INCREASE (DECREASE) IN OCI	
		2009	2008	**2009**	2008
Floating rate debt	+100	**$ (1,372)**	$ (691)	**$ –**	$ –
Floating rate debt	– 100	**$ 1,372**	$ 691	**$ –**	$ –
Derivative financial instruments	+100	**$ –**	$ 9,897	**$ –**	$ –
Derivative financial instruments	– 100	**$ –**	$ (10,281)	**$ –**	$ –
Interest rate swap agreements	+100	**$ –**	$ –	**$ 1,379**	$ 1,967
Interest rate swap agreements	– 100	**$ –**	$ –	**$ (253)**	$ (2,027)

CAPREIT's objective of managing interest rate risk is to minimize the volatility of earnings. As at December 31, 2009, interest rate risk has been minimized as all mortgages payable are financed at fixed interest rates, with maturities staggered over a number of years.

LIQUIDITY RISK

Liquidity risk is the risk that CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 96.2% of CAPREIT's mortgages are CMHC-insured (excluding a $55,000 mortgage on the portfolio of MHC land lease sites), which reduces the risk of mortgage refinancings. CAPREIT's overall risk for mortgage refinancings is further reduced as the unamortized mortgage insurance premiums are transferrable between approved lenders and is effective for the full amortization period of the underlying mortgages ranging between 25 to 35 years. To mitigate the risk associated with the refinancing of maturing debt, CAPREIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAPREIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments, distributions to Unitholders and provide future growth in its business. As at December 31, 2009, CAPREIT had undrawn lines of credit in the amount of $94,369 (December 31, 2008 – $94,484).

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at December 31, 2009 are as follows:

($ THOUSANDS)	2010	2011–2012	2013–2014	2015 ONWARD
Mortgages payable	$ 208,134	$ 485,540	$ 411,989	$ 444,489
Bank indebtedness	102,075	44,816	–	–
Mortgage interest payable	71,424	106,390	63,629	85,986
Bank indebtedness interest payable	3,579	2,516	–	–
Accounts payable and accrued liabilities	49,241	2,082	–	–
Security deposits	18,624	–	–	–
Distributions payable	6,191	–	–	–
	$ 459,268	$ 641,344	$ 475,618	$ 530,475

CREDIT RISK

Credit risk is the risk that: (i) counterparties to contractual financial obligations will default; and (ii) the possibility that CAPREIT's residents may experience financial difficulty and be unable to meet their rental obligations.

CAPREIT monitors its risk exposure regarding obligations with counterparties (Canadian chartered banks) through the regular assessment of counterparties' credit positions.

CAPREIT mitigates the risk of credit loss with respect to residents by evaluating the creditworthiness of new residents, obtaining security deposits wherever permitted by legislation, and geographically diversifying its portfolio.

CAPREIT monitors its collection experience on a monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. All residential accounts receivable balances exceeding 30 days are written off to bad debt expense and are recognized in the consolidated statement of income (loss) and comprehensive income (loss). Subsequent recoveries of amounts previously written off are credited in the consolidated statement of income (loss) and comprehensive income (loss). Accordingly, no allowance for doubtful accounts is established.

[NOTE 22] CAPITAL MANAGEMENT

CAPREIT defines capital as the aggregate of Unitholders' equity and debt. CAPREIT's objectives when managing capital are to safeguard its ability to continue to fund its distributions to Unitholders, to meet its repayment obligations under its mortgages and credit facilities, and to ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in CAPREIT's Declaration of Trust ("DOT") and Credit Facilities.

CAPREIT's Credit Facilities (note 9) require compliance with the financial covenants shown in the table below. In addition, borrowings must not exceed the borrowing base, calculated at a predefined percentage to the market value of the properties.

In the short term, CAPREIT utilizes the Acquisition and Operating Facility to finance its capital investments, which may include acquisitions. In the long term, equity issuances, mortgage financings and refinancings, including "top ups", are put in place to finance the cumulative investment in the property portfolio and ensure that the sources of financing better reflect the long-term useful lives of the underlying investments.

CAPREIT is in compliance with all its investment and debt restrictions and financial covenants contained in the DOT and in the Credit Facilities. The total capital managed by CAPREIT and the results of its compliance with the key covenants are summarized as follows:

($ THOUSANDS) AS AT DECEMBER 31,		**2009**	2008
Mortgages payable (note 8)		**$ 1,545,315**	$ 1,472,822
Bank indebtedness (note 9)		**146,891**	121,029
Unitholders' equity		**457,184**	485,933
Total capital		**$ 2,149,390**	$ 2,079,784
	THRESHOLD (1)		
Total debt to gross book value (2)	Maximum 70.00%	**62.75%**	61.82%
Tangible net worth (3)	Minimum $400,000	**$ 511,243**	$ 549,154
FOR THE YEAR ENDED DECEMBER 31,		**2009**	2008
Debt coverage ratio (times) (4)	Minimum 1.20	**1.28**	1.30
Interest coverage ratio (times) (5)	Minimum 1.50	**2.06**	2.06

(1) As at December 31, 2009.

(2) CAPREIT's DOT limits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAPREIT's total assets. GBV is defined as the historical book value of CAPREIT's assets plus accumulated depreciation and amortization and currently does not include any fair value adjustments to reflect any appreciation in value of the portfolio. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments.

(3) Tangible net worth is generally represented by Unitholders' Equity and is defined as the sum of: i) Units issued; ii) contributed surplus; and iii) retained earnings after adding back the provision for future income taxes payable to a maximum limit of $100,000.

(4) Debt coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes and other adjustments including non-cash compensation costs less income taxes paid divided by principal and interest payments.

(5) Interest coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes, and other adjustments including non-cash compensation costs less income taxes paid divided by interest expense.

[NOTE 23] COMMITMENTS

Natural gas and hydro

CAPREIT has entered into fixed price commitments in the aggregate amount of $18,371 for its natural gas and $644 for its hydro requirements. These commitments, which range from one to three years, fix the price of natural gas and hydro for a portion of CAPREIT's gas and hydro requirements. Certain of these contracts have been designated for CAPREIT's own use.

The following table provides the estimated percentage of CAPREIT's Daily Delivery Requirement, based on CAPREIT's current estimated annual natural gas consumption of 1.5 million gigajoules, that is subject to fixed rate purchase agreements through October 2012:

Natural Gas

YEARS	FIXED RATE COMMITMENT GIGAJOULES (000s)	ESTIMATED FIXED RATE RATE HEDGE (%)	AVERAGE FIXED RATE PER GJ
2010	1,045	69%	$ 7.61
2011	815	54%	$ 7.64
2012	153	10%	$ 6.76

During 2009, CAPREIT entered into hydro purchase agreements to fix future rates for its Alberta properties. Rates have been fixed for CAPREIT's Edmonton and Calgary properties for the periods covering May 1, 2011 to April 30, 2014 and March 1, 2011 to February 28, 2014, respectively. The new purchase agreements meet the requirement for hedge accounting as they set the minimum quantity requirement at 0% of expected usage and therefore, do not require "net settlement" of unused volume and are not included in the $644 referenced above.

Land leases – land leasehold interest

Three of the properties have ground leases with various expiry dates (subject to revisions at periodic intervals) between March 31, 2045 and March 31, 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. Total payments under these three leases were $2,029 during 2009 (2008 – $2,212).

In addition, CAPREIT has two leasehold interests, expiring on September 30, 2013 and May 31, 2014, in land parcels used in conjunction with two of its existing freehold properties. Total payments under these two leases were $23 during 2009 (2008 – $13).

Annual lease payments under these five leasehold interests are included in property operating costs. Minimum annual rent for the next five years under these five leases is as follows:

YEAR	ANNUAL RENT
2010	$ 740
2011	$ 740
2012	$ 740
2013	$ 736
2014	$ 724
Thereafter	$ 28,601

Normal course issuer bid ("NCIB")

On June 19, 2009, CAPREIT announced that the TSX had approved its notice of intention to acquire up to 6,344,344 Units at market prices over the 12-month period ending June 24, 2010. Under this NCIB, no Units were acquired up to December 31, 2009.

On June 20, 2008, CAPREIT announced that the TSX had approved its notice of intention to acquire up to 6,309,967 Units at market prices over the 12-month period ending June 24, 2009. Under this NCIB, 264,100 Units were acquired up to June 24, 2009 at market prices aggregating $3,908.

Property capital investments

Commitments primarily related to capital investments in income properties of $3,905 were outstanding as at December 31, 2009.

[NOTE 24] CONTINGENCIES

CAPREIT is contingently liable under guarantees provided to certain of CAPREIT's lenders in the event of default, and with respect to litigation and claims that arise in the ordinary course of business. Matters relating to litigation and claims are generally covered by insurance.

FIVE YEAR REVIEW

($ THOUSANDS, EXCEPT WHERE NOTED) FOR THE YEARS ENDED DECEMBER 31,	**2009**	2008	2007	2006	2005
Operating Revenues [1]	**$ 331,032**	$ 320,418	$ 293,978	$ 271,096	$ 258,666
Net Operating Income (NOI) [1]	**$ 178,924**	$ 172,933	$ 155,575	$ 141,160	$ 133,300
Net Operating Income Margin (%) [1]	**54.1**	54.0	52.9	52.1	51.5
Net Income (Loss) [2]	**$ 15,716**	$ (3,477)	$ (50,196)	$ 722	$ 12,809
Income from Discontinued Operations [3]	**$ –**	$ 17,155	$ 1,062	$ 143	$ 11,470
Distributable Income (DI)	**$ 84,973**	$ 82,481	$ 73,129	$ 66,160	$ 61,827
Normalized Funds From Operations (NFFO)	**$ 83,380**	$ 80,993	$ 72,295	$ 65,443	$ 61,360
Cash Distributions	**$ 73,805**	$ 72,754	$ 66,802	$ 62,228	$ 57,552
DI Payout Ratio (%)	**86.9**	88.2	91.3	94.1	93.1
Effective Non-taxable Distributions (%)	**99.9**	56.1	89.8	96.1	74.8
Net Income (Loss) Per Unit – Basic	**$ 0.238**	$ (0.053)	$ (0.831)	$ 0.013	$ 0.240
DI Per Unit	**$ 1.287**	$ 1.261	$ 1.211	$ 1.170	$ 1.161
NFFO Per Unit	**$ 1.263**	$ 1.238	$ 1.197	$ 1.157	$ 1.152
Cash Distributions Per Unit	**$ 1.080**	$ 1.080	$ 1.080	$ 1.080	$ 1.080
Weighted Average Number of Units (000s)	**66,016**	65,412	60,387	56,565	53,255
Number of Suites – Total	**28,916**	28,892	29,111	26,498	25,252
Number of Suites – CAPREIT's Share	**27,761**	27,737	28,348	25,735	24,489
Book Value of Income Properties [4]	**$ 2,207,806**	$ 2,192,945	$ 2,093,312	$ 1,877,144	$ 1,908,083
Unitholders' Equity	**$ 457,184**	$ 485,933	$ 584,281	$ 594,483	$ 588,356
Occupancy (%)	**98.0**	98.5	97.9	97.2	97.4
Mortgage Debt to Gross Book Value (%)	**57.3**	57.1	57.5	57.4	58.5
Interest Coverage (times)	**2.06**	2.06	1.94	1.96	1.94
Weighted Average Mortgage Interest Rate (%) [5] [6]	**5.07**	5.30	5.37	5.33	5.38
Weighted Average Mortgage Term (years) [6]	**5.1**	5.0	5.5	7.5	8.1
Net Income Return on Equity (%) [7]	**1.3**	1.1	0.3	0.1	2.2
DI Return on Equity (%)	**18.0**	15.4	12.4	11.2	10.6
Cumulative Compounded Return (%)	**294**	306	284	319	241
Unit Price at End of Year	**$ 14.06**	$ 15.74	$ 16.03	$ 18.58	$ 16.15

(1) 2006 has been restated for discontinued operations.

(2) 2009, 2008 and 2007 include a (recovery of) provision for future income taxes of ($9,568), $9,134 and $51,789 or per Unit equivalent to $0.145, ($0.140) and ($0.858), respectively.

(3) Includes gain on property dispositions of $17,046 in 2008 and $10,867 in 2005.

(4) 2006 has been restated to exclude assets held for sale.

(5) 2009, 2008 and 2007 including deferred financing costs and fair value adjustments.

(6) 2006 and 2005 including interest rate forward contracts.

(7) 2009, 2008 and 2007 net income return on equity exclude (recovery of) provision for future income taxes.

UNITHOLDER INFORMATION

BOARD OF TRUSTEES

Thomas Schwartz
President and Chief Executive Officer

Michael Stein
Chairman and Chief Executive Officer of MPI Group Inc.

Dino Chiesa [1]
Vice-Chair and Chair of the Board of Directors of Canada Mortgage and Housing Corporation

Robert D. Brown [2]
Business and Policy Consultant

Paul Harris [3]
Partner, Davies, Ward, Phillips & Vineberg LLP (a law firm)

Edwin F. Hawken [1] [3]
Corporate Director

Marvin A. Sadowski [1]
Executive Vice President, Sterling Silver Development Corporation (a real estate investment company)

Stanley Swartzman [1] [2]
Executive Vice President (retired), Loblaw Properties Limited (a real estate development company), Corporate Director and Lead Trustee

David Williams [2] [3]
Corporate Director

[1] Investment Committee
[2] Audit Committee
[3] Compensation and Governance Committee

OFFICERS

Thomas Schwartz
President and Chief Executive Officer

Michael Stein
Chairman

Dino Chiesa
Vice-Chair

Richard J. Smith
Chief Financial Officer

Mark Kenney
Chief Operating Officer

Maria Amaral
Senior Vice President, Finance

Philip Lefko
General Counsel and Corporate Secretary

HEAD OFFICE

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Analysts, Unitholders and others seeking financial data should visit CAPREIT's website at www.capreit.net or contact:

Richard J. Smith
Chief Financial Officer
Tel: 416.861.5771
E-mail: ir@capreit.net

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Tel: 1.800.663.9097
E-mail:
caregistry@computershare.com

AUDITORS

PricewaterhouseCoopers LLP

LEGAL COUNSEL

Stikeman Elliott LLP

STOCK EXCHANGE LISTING

Units of CAPREIT are listed on the Toronto Stock Exchange under the trading symbol "CAR.UN".

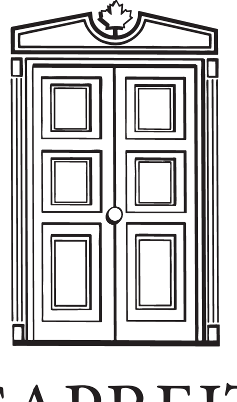
MONTHLY DISTRIBUTION PER UNIT

January 2009 – December 2009:
$0.09

ANNUAL MEETING OF UNITHOLDERS

The Annual Meeting of Unitholders will be held at 4:30 p.m. EDT on Wednesday, May 19, 2010 at
1 King West Hotel
1 King Street West
Toronto, Ontario M5H 1A1

www.capreit.net



CAPREIT