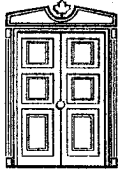




**CANADIAN APARTMENT PROPERTIES  
REAL ESTATE INVESTMENT TRUST**

**REPORT FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2009**



# CAPREIT

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November 13, 2009

## Report to Unitholders

Our properties continued to perform well in the majority of our markets through the third quarter and first nine months of 2009. Operating revenues in the third quarter and first nine months of 2009 increased 2.8% and 4.0%, respectively, primarily due to stable occupancies and increased average monthly rents, which rose to \$943 at September 30, 2009 from \$929 last year. Overall portfolio occupancy at September 30, 2009 was 98.3%, stable with the same period last year, despite continued weakness in the Alberta market.

Net operating income ("NOI") for the quarter increased to \$47.7 million or 57.5% of revenues compared to \$46.4 million or 57.4% last year. For the first nine months of 2009, NOI increased to \$134.1 million or 54.2% of revenues compared to \$129.4 million or 54.4% of revenues last year. Operating expenses as a percentage of operating revenues decreased nominally in the quarter primarily due to lower realty taxes and utility costs as a percentage of revenues, partially offset by higher repair and maintenance expenses arising from the impact of the garbage levy in the Greater Toronto Area, which are being mitigated through improved resident education and the implementation of waste recycling programs. We were pleased to have generated our fifteenth consecutive quarter of stable or increasing NOI on a stabilized portfolio basis.

Normalized Funds From Operations ("NFFO"), which excludes the effect of the changes in the fair value of hedging instruments and certain other non-recurring expenses, rose to \$23.6 million in the quarter while NFFO per Unit was stable at \$0.357 per Unit, resulting in an NFFO payout ratio of 78.4% compared to 77.6% last year. For the nine months ended September 30, 2009, NFFO increased to \$63.2 million or \$0.959 per Unit from \$61.8 million or \$0.945 per Unit last year, resulting in an NFFO payout ratio of 87.4% in the current year compared to 88.2% last year. The effective payout ratio, which compares NFFO to net distributions paid to Unitholders, increased to 69.3% and 78.0% in the third quarter and first nine months of 2009, respectively, compared to 64.6% and 72.5% in the prior year. The changes were due to the reduction in reinvestments under the DRIP in 2009.

The defensive strengths of our portfolio, combined with our capital investments and proven property management programs, continue to deliver solid performance despite the slow Canadian economy. As economic conditions improve, we expect to generate further growth in revenues and cash flow.

Our balance sheet and financial position remained strong at quarter end. The ratio of total debt to gross book value was 62.97% at September 30, 2009, with an interest coverage ratio of 2.06 times and a debt coverage ratio of 1.27 times. We are making solid progress with our mortgage renewal and refinancing programs, and we expect to complete the remaining \$29.9 million of maturing mortgages through the balance of the year at significantly lower interest rates. Our ability to capitalize on the current low interest rate environment will generate significant interest cost savings in the coming years.

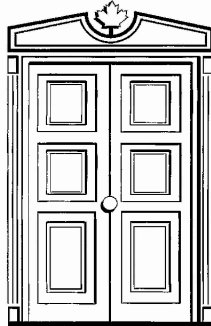
In addition, with \$105.9 million of completed or committed financings, we have already exceeded our goal of raising \$100 million in CMHC-insured top-up financing this year. These top-up programs, combined with retained earnings and DRIP contributions, continue to provide sufficient capital to fund our capital investment programs. Our decision to accelerate our investments in building improvements this year has enabled us to enhance the value, productive capacity and long-term cash flow potential of our portfolio.

(signed)

\_\_\_\_\_  
Thomas Schwartz  
President and Chief Executive Officer

(signed)

\_\_\_\_\_  
Michael Stein  
Chairman



**CANADIAN APARTMENT PROPERTIES  
REAL ESTATE INVESTMENT TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF RESULTS OF  
OPERATIONS AND FINANCIAL CONDITION**

**THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009**

**NOVEMBER 13, 2009**

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## SECTION I

### FORWARD-LOOKING DISCLAIMER

The following management's discussion and analysis ("MD&A") of the results of operations and financial condition for the three and nine months ended September 30, 2009 and 2008 should be read in conjunction with Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") interim consolidated financial statements for the period as well as the audited consolidated financial statements and MD&A for the year ended December 31, 2008, contained in CAPREIT's 2008 Annual Report.

*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 expenditures, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding future results, performance, achievements, prospects or opportunities for CAPREIT or the real estate industry 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. These statements are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. Although the forward-looking statements contained in this MD&A are based upon assumptions that management believes are reasonable as at the date hereof, there can be no assurance that actual results will be consistent with these forward-looking statements. 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: liquidity and price fluctuation, real property ownership, leasehold interests, income-producing properties, competition for real property investments, competition for tenants, interest rates, general economic conditions, general uninsured losses, availability of distributable income, government regulation, environmental matters, Unitholder liability, dependence on key personnel, potential conflicts of interest, tax related risks, dilution, restrictions on potential growth and reliance on credit facilities, financing and the nature of CAPREIT Units. There can be no assurance that the expectations of management of CAPREIT will prove to be correct. These risks and uncertainties are more fully described in regulatory filings, including CAPREIT's Annual Information Form, which can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com), under CAPREIT's profile, as well as Section VII of this document. The information in this MD&A is based on information available to management as of November 13, 2009. 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 annual audited consolidated financial statements prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In this MD&A and 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 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 amended and restated on May 20, 2009. CAPREIT owns interests in multi-unit residential rental properties, including apartments, townhouses and land lease communities located in and near major urban centres across Canada. At September 30, 2009, CAPREIT had ownership interests in a portfolio that included 27,614 residential suites (CAPREIT's share – 26,459 suites), and two Ontario land lease communities comprising 1,302 sites, diversified by geographic location and asset types. At September 30, 2009, CAPREIT had 821 employees (820 employees at December 31, 2008).

On August 14, 2009, CAPREIT Limited Partnership ("CAPLP"), a subsidiary of CAPREIT, acquired 14 land lease sites (11 sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of \$0.9 million, which were funded from the Land Lease Facility (note 9(b) to the consolidated financial statements).

## OBJECTIVES

CAPREIT's objectives are:

- To provide Unitholders with long-term, stable and predictable monthly cash distributions.
- To grow Distributable Income, distributions and Unit value through the active management of its properties, accretive acquisitions and strong financial management.
- To continue the realization and reinvestment of capital within the property portfolio in order to 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, frequent and consistent 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 cost 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 expenditures 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 environmentally 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 that capital expenditures 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 Net Operating Income. As a component of this growth strategy, CAPREIT will monitor its portfolio and, from time to time, identify certain non-core properties for divestures. The funds from these divestures 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 (“KPI”) 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, NFFO and AFFO* – CAPREIT is focused on achieving steady increases in these metrics. Management believes these measures are indicative of CAPREIT’s operating performance and capability of maintaining sustainable distributions on a per Unit basis in the future.

*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. 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, subject to market conditions and available financing, which meet its strategic objectives and serve to accretively increase distributable income.

*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 that 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 three and nine months ended September 30, 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 this period, monthly cash distributions declared to its Unitholders remained steady at \$0.09 per Unit.

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
<b>Portfolio Performance</b>				
Overall Portfolio Occupancy <sup>(1)</sup>			98.3%	98.3%
Overall Portfolio Average Monthly Rents <sup>(1)</sup>			\$ 943	\$ 929
Operating Revenues (000s)	\$ 82,990	\$ 80,721	\$ 247,205	\$ 237,802
NOI (000s)	\$ 47,726	\$ 46,364	\$ 134,098	\$ 129,366
NOI Margin	57.5%	57.4%	54.2%	54.4%
<b>Operating Performance</b>				
DI Per Unit – Basic	\$ 0.362	\$ 0.362	\$ 0.978	\$ 0.963
FFO Per Unit – Basic	\$ 0.319	\$ 0.358	\$ 0.991	\$ 0.945
NFFO Per Unit – Basic	\$ 0.357	\$ 0.358	\$ 0.959	\$ 0.945
AFFO Per Unit – Basic	\$ 0.318	\$ 0.318	\$ 0.844	\$ 0.831
Cash Distributions Per Unit	\$ 0.270	\$ 0.270	\$ 0.810	\$ 0.810
DI Payout Ratio	77.3%	76.8%	85.7%	86.6%
FFO Payout Ratio	87.8%	77.6%	84.6%	88.2%
NFFO Payout Ratio	78.4%	77.6%	87.4%	88.2%
AFFO Payout Ratio	88.1%	87.3%	99.3%	100.4%
<b>Liquidity and leverage</b>				
Total Debt to Gross Book Value Ratio <sup>(1)</sup>			62.97%	61.64%
Weighted Average Mortgage Interest Rate <sup>(1)</sup>			5.09%	5.33%
Weighted Average Mortgage Term (years) <sup>(1)</sup>			5.1	5.2
Debt Coverage (times) <sup>(2)</sup>			1.27	1.31
Interest Coverage (times) <sup>(2)</sup>			2.06	2.04
Available Liquidity - Acquisition and Operating Facility (000s)			\$ 89,347 <sup>(1)</sup>	\$ 94,484 <sup>(3)</sup>
<b>Other</b>				
Number of Suites and Sites Acquired <sup>(4)</sup>	14	540	24	866
Closing Price of CAPREIT Units <sup>(1)</sup>			\$ 14.75	\$ 15.90
Market Capitalization (\$ millions) <sup>(5)</sup>			\$ 1,011	\$ 1,074

(1) As at September 30.

(2) For the four quarters ended September 30.

(3) As at December 31, 2008.

(4) CAPREIT's share only.

(5) 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

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*

<b>As at September 30,</b>	<b>2009</b>	<b>%</b>	<b>2008</b>	<b>%</b>
Affordable	3,638	12.6	3,638	12.7
Mid-tier	14,711	50.9	14,711	51.2
Luxury	9,265	32.0	9,112	31.7
Total Residential Suites	27,614	95.5	27,461	95.6
Land Lease Sites	1,302	4.5	1,278	4.4
Total Residential Suites and Land Lease Sites	28,916	100.0	28,739	100.0

### *Portfolio by Geography*

<b>As at September 30,</b>	<b>2009</b>	<b>%</b>	<b>2008</b>	<b>%</b>
Ontario				
Greater Toronto Area	14,178	49.0	14,178	49.3
Ottawa	1,527	5.3	1,527	5.3
London/Kitchener/Waterloo	1,482	5.1	1,482	5.2
Other Ontario	1,470	5.1	1,470	5.1
Ontario Residential Suites	18,657	64.5	18,657	64.9
Land Lease Sites	1,302	4.5	1,278	4.4
Ontario Residential Suites and Land Lease Sites	19,959	69.0	19,935	69.3
Quebec				
Montreal	2,545	8.8	2,545	8.9
Quebec City	1,909	6.6	1,756	6.1
	4,454	15.4	4,301	15.0
Nova Scotia				
Halifax	1,083	3.7	1,083	3.8
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	27,461	95.6
Total Residential Suites and Land Lease Sites	28,916	100.0	28,739	100.0

Through accretive acquisitions and non-core property dispositions, CAPREIT expects to further enhance the geographic diversification of its residential suites portfolio. In the first nine months of 2009, CAPREIT acquired 24 additional land lease sites at its Bowmanville and Grand Bend land lease communities for total

acquisition costs of \$1.5 million. CAPREIT had previously disclosed its objective of acquiring between 1,500 and 2,000 suites on an annual basis. There has been reduced level of acquisition activity during the first nine months of 2009, due largely to a lack of acquisition opportunities. As a result, management does not expect to achieve the portfolio growth objective for 2009.

During the nine months ended September 30, 2008, CAPREIT acquired 1,238 residential suites (CAPREIT's share – 846 suites) and 20 land lease sites for total acquisition costs of approximately \$102.0 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. In the last quarter of 2008, CAPREIT acquired 153 suites for total acquisition costs of \$17.8 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 land lease 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 continues to be 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 due to current economic conditions.

### **Portfolio Average Monthly Rents and Occupancy By Sector**

As at September 30,	Total Portfolio				Properties Owned Prior to September 30, 2008				Properties Acquired Since September 30, 2008	
	2009		2008		2009		2008		2009	
	Avg. Mthly Rents	Occ. %	Avg. Mthly Rents	Occ. %	Avg. Mthly Rents	Occ. %	Avg. Mthly Rents	Occ. %	Avg. Mthly Rents	Occ. %
Affordable	\$ 846	97.7	\$ 830	97.2	\$ 846	97.7	\$ 830	97.2	\$ –	–
Mid-tier	\$ 909	98.0	\$ 896	98.1	\$ 909	98.0	\$ 896	98.1	\$ –	–
Luxury	\$ 1,080	98.8	\$ 1,065	98.9	\$ 1,080	99.0	\$ 1,065	98.9	\$ 1,062	90.8
Average Residential Suites	\$ 960	98.3	\$ 945	98.3	\$ 959	98.3	\$ 945	98.3	\$ 1,062	90.8
Average Land Lease Sites	\$ 605	100.0	\$ 588	99.8	\$ 605	100.0	\$ 588	99.8	\$ –	–
Overall Portfolio Average	\$ 943	98.3	\$ 929	98.3	\$ 942	98.4	\$ 929	98.3	\$ 1,062	90.8

Average monthly rents 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.

Average monthly rents increased in all sectors of the portfolio resulting in a 1.5% increase in overall average monthly rents as at September 30, 2009 to \$943, compared to \$929 last year. Average monthly rents for the properties owned prior to September 30, 2008 also increased at September 30, 2009 to \$942 from \$929 at September 30, 2008, with gains of up to 2.9% in all sectors of the portfolio. The occupancy at September 30, 2009 for the residential suite portfolio remained strong at 98.3%, the same level in the prior year.

For the land lease portfolio, average monthly rents rose to \$605 from \$588 and occupancy improved slightly over 2008 to full occupancy as at September 30, 2009.

### **Suite Turnovers and Lease Renewals**

	<b>2009</b>			<b>2008</b>		
	<b>Change in AMR<sup>(1)</sup></b>		<b>% Turnovers<sup>(2)</sup> &amp; Renewals<sup>(2)</sup></b>	<b>Change in AMR<sup>(1)</sup></b>		<b>% Turnovers<sup>(2)</sup> &amp; Renewals<sup>(2)</sup></b>
	<b>\$</b>	<b>%</b>		<b>\$</b>	<b>%</b>	
<b>For Three Months Ended September 30</b>						
Suite Turnovers	(10.4)	(1.1)	12.6	25.2	2.6	11.8
Lease Renewals	19.4	2.1	28.3	19.7	2.1	28.7
Weighted Average of Turnovers & Renewals	10.2	1.1		21.3	2.3	
<b>For Nine Months Ended September 30</b>						
Suite Turnovers	(6.6)	(0.7)	27.1	21.0	2.2	25.3
Lease Renewals	21.0	2.2	59.9	21.2	2.3	56.9
Weighted Average of Turnovers & Renewals	12.4	1.3		21.1	2.3	

(1) Average Monthly Rent ("AMR").

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

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

Suite turnovers in the residential suite portfolio (excluding co-ownerships) during the three months ended September 30, 2009 resulted in average monthly rent reductions of approximately \$10.4 or 1.1% per suite compared to an increase of \$25.2 or 2.6% in the prior year. For the first nine months of 2009, suite turnovers resulted in a \$6.6 or 0.7% reduction in average monthly rents compared to increases of \$21.0 or 2.2% in the prior year. The reduction was primarily due to the effect of aggressive rent discounting of approximately 9.9% or \$113 per suite (11.0% or \$123 per suite during the third quarter) in the Alberta market.

Pursuant to management's focus on increasing overall portfolio rents, average monthly rents on lease renewals increased by approximately \$19.4 or 2.1% for the quarter ended September 30, 2009 compared to \$19.7 or 2.1% for the same period last year. For the nine months ended September 30, 2009, average monthly rents increased by \$21.0 or 2.2%, relatively unchanged from the same period last year. Management believes that as occupancies in the portfolio stabilize 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 September 30,	2009		2008	
	Average Monthly Rents	Occ. %	Average Monthly Rents	Occ. %
Ontario				
Greater Toronto Area	\$ 1,066	98.6	\$ 1,050	98.2
Ottawa	846	99.9	820	99.9
London/Kitchener - Waterloo	817	98.0	810	98.0
Other Ontario	934	98.7	919	98.1
	\$ 1,024	98.6	\$ 1,009	98.3
Quebec				
Montreal	\$ 643	95.1	\$ 642	96.9
Quebec City	787	98.7	743	99.3
	\$ 705	96.7	\$ 683	97.9
Nova Scotia				
Halifax	\$ 1,012	99.2	\$ 974	98.2
Alberta				
Edmonton	\$ 1,068	99.4	\$ 1,052	99.4
Calgary	1,029	97.6	1,081	97.5
	\$ 1,037	98.0	\$ 1,074	97.9
Saskatchewan				
Saskatoon	\$ 718	92.5	\$ 698	97.7
Regina	851	100.0	815	100.0
	\$ 778	95.9	\$ 750	98.8
British Columbia				
Greater Vancouver Region	\$ 941	98.5	\$ 916	99.5
Victoria	773	98.0	734	97.0
	\$ 893	98.4	\$ 865	98.8
Total Residential Suites	\$ 960	98.3	\$ 945	98.3
Land Lease Sites	\$ 605	100.0	\$ 588	99.8
Total Residential Suites and Land Lease Sites	\$ 943	98.3	\$ 929	98.3

Overall average occupancy remained strong at 98.3% 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 Calgary, Alberta, despite a slight increase in vacancies in certain regions.
- Ontario, which represents 69% of the total portfolio, experienced an increase of 1.5% in average monthly rents as well as a slight increase in occupancy levels.
- Very weak general market conditions in Calgary, Alberta, combined with aggressive rent discounting by competitors, resulted in a 3.4% drop in average monthly rents on a year-over-year basis, though occupancies remained stable. Management believes that occupancies have stabilized in the short term but that average monthly rents will likely continue to trend down moderately over the near term due to continued rent pressures in the market.
- Improved conditions in the Halifax rental market resulted in lower vacancies and higher overall average monthly rents compared to last year.

Overall average monthly rents for the residential suite portfolio as at September 30, 2009, increased by approximately 1.5% as compared to September 30, 2008. Management believes that 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 revenue going forward.

Management also believes the defensive characteristics of its national 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.

## SECTION II

### RESULTS OF OPERATIONS

(\$ Thousands)	Three Months Ended September 30				Nine Months Ended September 30			
	2009	% <sup>(1)</sup>	2008	% <sup>(1)</sup>	2009	% <sup>(1)</sup>	2008	% <sup>(1)</sup>
Operating Revenues	\$ 82,990		\$ 80,721		\$ 247,205		\$ 237,802	
Operating Expenses								
Realty Taxes	10,800	13.0	10,590	13.1	32,233	13.0	31,394	13.2
Utilities	7,458	9.0	7,253	9.0	31,149	12.6	30,699	12.9
Other	17,006	20.5	16,514	20.5	49,725	20.2	46,343	19.5
Total Operating Expenses	35,264	42.5	34,357	42.6	113,107	45.8	108,436	45.6
Net Operating Income	\$ 47,726	57.5	\$ 46,364	57.4	\$ 134,098	54.2	\$ 129,366	54.4

(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 three and nine months ended September 30, 2009, total operating revenues increased by 2.8% and 4.0%, respectively, compared to the same periods last year primarily due 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 \$960 at September 30, 2009 compared to \$945 at September 30, 2008 while occupancy remained steady at 98.3% compared to the same period 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 vacancies, as a percentage of operating revenues, rose to 2.2% and 2.6% for the three and nine months ended September 30, 2009, respectively, compared to 1.7% and 1.7% for the same periods in the prior year. The increase is due to challenging economic conditions and certain operational issues in specific geographic markets.

Bad debt and tenant inducements remained relatively steady as compared to the previous year.

#### Operating Expenses

Operating expenses for the three and nine months ended September 30, 2009 rose in comparison to the same periods last year due to the increase in the size of the property portfolio resulting from acquisitions completed during 2008 and increased costs. Total operating expenses as a percentage of operating revenues improved slightly for the three months ended September 30, 2009 but increased slightly in comparison for the nine months ended September 30, 2009, despite slight reductions in utility costs and realty taxes, expressed as a percentage of operating revenues, primarily due to the following factors:

- For the three and nine months ended September 30, 2009, realty taxes as a percentage of revenues decreased slightly from the prior year periods due to the enhanced diversification of the portfolio into regions with lower taxation rates.
- Utility costs as a percentage of revenues remained unchanged at 9.0% for the three months ended September 30, 2009. Year to date, the costs decreased from 12.9% to 12.6% due to CAPREIT's energy management strategies, which include various energy savings programs combined with lower gas and hydro prices resulting from CAPREIT's proactive strategy of locking in future prices where possible.
- Other operating expenses as a percentage of revenues remained stable at 20.5% for the third quarter compared to last year but increased to 20.2% from 19.5% in the nine months ended September 30, 2009 compared to the same period last year. Other operating expenses include repairs and maintenance ("R&M"), wages and benefits, insurance and advertising. For the third quarter, R&M costs include \$0.1 million relating to a new garbage levy introduced in the City of Toronto in late 2008 and \$0.7 million for the nine months ended September 30, 2009. Management is making 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 are highly seasonal with significant increases in costs during the winter months as additional resources are consumed to heat our properties. Natural gas is a key input to CAPREIT's heating costs. CAPREIT's income properties consume an estimated 1.6 million Gigajoules ("GJ") 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 our 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.

The table below provides the estimated percentage of CAPREIT's Daily Delivery Requirement that is subject to fixed rate purchase agreements through October 2012.

***Utility Costs – Natural Gas***

	<b>Estimated Fixed Rate Hedge %</b>	<b>Average Fixed Rate per GJ</b>
Q4 2009	87%	\$ 7.42
2010	69%	\$ 7.61
2011	54%	\$ 7.64
2012	10%	\$ 6.76

## NET OPERATING INCOME

### By Province For Three Months Ended September 30

		2009			2008			
(\$ Thousands)								
		NOI	NOI Margin (%)	% of Total NOI		NOI	NOI Margin (%)	% of Total NOI
Ontario	\$	32,753	55.9	68.6	\$	32,081	55.9	69.2
Quebec		5,683	57.9	11.9		5,450	59.8	11.8
Alberta		3,236	61.0	6.8		3,341	62.0	7.2
British Columbia		3,382	63.6	7.1		3,148	62.4	6.8
Nova Scotia		2,334	68.4	4.9		2,043	63.7	4.4
Saskatchewan		338	60.2	0.7		301	56.0	0.6
	\$	47,726	57.5	100.0	\$	46,364	57.4	100.0

### By Province For Nine Months Ended September 30

		2009			2008			
(\$ Thousands)								
		NOI	NOI Margin (%)	% of Total NOI		NOI	NOI Margin (%)	% of Total NOI
Ontario	\$	92,442	52.9	68.9	\$	90,137	53.2	69.7
Quebec		15,520	53.2	11.6		14,430	53.6	11.2
Alberta		9,154	58.4	6.8		9,566	60.4	7.4
British Columbia		9,494	60.3	7.1		8,593	60.4	6.6
Nova Scotia		6,554	64.6	4.9		5,860	60.7	4.5
Saskatchewan		934	55.3	0.7		780	50.4	0.6
	\$	134,098	54.2	100.0	\$	129,366	54.4	100.0

Overall NOI improved in the third quarter by \$1.4 million or 2.9% while the NOI margin improved marginally to 57.5% as compared to 57.4% in the prior year. For the first nine months of 2009, the increase in overall NOI was \$4.7 million or 3.7% while the NOI margin remained relatively stable at 54.2% as compared to the prior year. While CAPREIT increased NOI 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 Ontario portfolio represented 68.9% of total NOI for the first nine months of 2009 compared to 69.7% in the prior year (68.6% and 69.2%, respectively, for the third quarter). Despite this decrease, the NOI contribution from the Ontario portfolio increased 2.1% and 2.6%, respectively, during the three and nine months ended September 30 compared to the same periods in the prior year primarily due to acquisitions completed in 2008. The NOI margin remained unchanged in the third quarter though it declined slightly for the nine months ended September 30, 2009, due to higher R&M expenditures related to the garbage levy in the City of Toronto and the roll-out of recycling initiatives as outlined above. Management believes the Ontario portfolio will remain stable and generate steady returns in the medium term as operating expense control measures for garbage recycling and energy improvement programs are implemented.

#### Quebec:

During the three and nine months ended September 30, 2009, the NOI margin decreased to 57.9% and 53.2%, respectively, primarily due to some non-recurring operating expenses combined with lower occupancy levels. CAPREIT believes the Quebec rental market will remain stable and generate steady returns in the medium term.

#### Alberta:

The Alberta market has deteriorated significantly in the first nine months of 2009 resulting in lower average monthly rents. As a result, in the third quarter, the NOI margin decreased to 61.0% from 62.0% last year and to 58.4% from 60.4% for first nine months of 2009 compared to last year. Management believes that the Alberta market will continue to be weak but will stabilize over the near term; however, the overall exposure to CAPREIT will be minimal as only 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 the Vancouver market and despite reductions in occupancies, the NOI margin increased to 63.6% in the third quarter and declined modestly to 60.3% for the nine months ended September 30, 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 that with the ongoing stabilization of occupancies, this portfolio will continue to generate improved returns in the medium term.

#### Nova Scotia:

Improved occupancies combined with increased average monthly rents resulted in the NOI margin improving to 68.4% in the third quarter and to 64.6% for the nine months ended September 30, 2009 compared to the prior comparable periods. Management believes its presence primarily in downtown locations will serve to maintain stable occupancies 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 60.2% and 55.3%, respectively, for the three and nine months ended September 30, 2009 from 56.0% and 50.4% last year. The province's economy remains stable, 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.

### STABILIZED PORTFOLIO PERFORMANCE

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Stabilized Suites	26,748	26,748	26,748	26,748
Operating Revenues (\$ millions)	\$ 79.8	\$ 78.7	\$ 237.6	\$ 234.8
Net Operating Income (\$ millions)	\$ 45.8	\$ 45.4	\$ 128.9	\$ 127.9
Net Operating Income Margin (%)	57.5	57.7	54.3	54.5
Change in Operating Revenues (%)	1.3		1.2	
Change in Operating Costs (%)	(1.7)		(1.6)	
Change in NOI (%)	1.0		0.8	

Stabilized properties for the three and nine months ended September 30, 2009 are defined as all properties owned by CAPREIT as at December 31, 2007 and, therefore, do not take into account the impact on performance of acquisitions completed during 2009 and 2008.

As of September 30, 2009, CAPREIT has generated 15 consecutive quarters of stable or improved NOI growth for stabilized properties. For the three and nine months ended September 30, 2009, operating revenues increased 1.3% and 1.2%, respectively, and operating costs increased 1.7% and 1.6%, respectively. As a result, stabilized NOI increased marginally by 1.0% and 0.8%, respectively, for the three and nine months ended September 30, 2009. As noted earlier (see Results of Operations), a garbage levy was introduced in late 2008 in the City of Toronto which negatively impacted results. The new levy resulted in lower stabilized NOI margin for the three and nine months ended September 30, 2009 compared to same periods last year.



Excluding the garbage levy costs, operating costs would have increased by 1.2%, NOI would have been 1.4% higher and NOI margin would have been 57.7% for the three months ended September 30, 2009 compared to the same period last year. For the first nine months of 2009, operating costs would have increased by 0.9%, NOI would have been 1.4% higher and NOI margin would have been 54.6% compared to the same period last year.

For properties acquired since December 31, 2007, the NOI margin was 60.7% and 58.0%, respectively, for the three and nine months ended September 30, 2009 as compared to 61.1% and 60.7%, respectively, last year.

## NET INCOME

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(\$ Thousands, except per Unit amounts)	2009	2008	2009	2008
Net Operating Income	\$ 47,726	\$ 46,364	\$ 134,098	\$ 129,366
Less: Trust Expenses	5,568	2,717	13,170	8,975
Mortgage Interest	19,145	18,987	56,970	55,765
Interest on Bank Indebtedness	958	1,133	2,403	2,935
Other Income	(464)	(469)	(1,391)	(1,409)
Subtotal	\$ 22,519	\$ 23,996	\$ 62,946	\$ 63,100
Less: Depreciation	19,918	18,170	58,268	53,424
Amortization	1,008	750	2,611	2,245
Income From Continuing Operations Before Other Costs and Income Taxes	1,593	5,076	2,067	7,431
Reorganization Costs	–	(49)	–	(1,599)
Realized (Loss) Gain on Derivative Financial Instruments	(699)	–	4,063	–
Recovery of (Provision for) Future Income Taxes	56	(33)	(606)	(243)
Income From Continuing Operations	950	4,994	5,524	5,589
Income From Discontinued Operations	–	–	–	17,155
Net Income	\$ 950	\$ 4,994	\$ 5,524	\$ 22,744
Basic Net Income Per Unit				
Continuing Operations	\$ 0.014	\$ 0.076	\$ 0.084	\$ 0.086
Discontinued Operations	\$ –	\$ –	\$ –	\$ 0.262
Basic Net Income Per Unit	\$ 0.014	\$ 0.076	\$ 0.084	\$ 0.348
Diluted Net Income Per Unit				
Continuing Operations	\$ 0.014	\$ 0.076	\$ 0.084	\$ 0.086
Discontinued Operations	\$ –	\$ –	\$ –	\$ 0.261
Diluted Net Income Per Unit	\$ 0.014	\$ 0.076	\$ 0.084	\$ 0.347
Weighted Average Number of Units (000s) – Basic	66,086	65,496	65,933	65,358
Weighted Average Number of Units (000s) – Diluted	66,208	65,795	66,023	65,609

## 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 three and nine months ended September 30, 2009 due to new acquisitions completed during 2008 as well as capital expenditures incurred for the property portfolio.

Amortization expense in the three and nine months ended September 30, 2009 increased to \$1.0 million from \$0.8 million and to \$2.6 million from \$2.2 million, respectively, mainly due to Canada Mortgage and Housing Corporation (“CMHC”) premiums incurred with respect to new financings since September 30, 2008.

## 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 \$2.9 million to \$5.6 million and by \$4.2 million to \$13.2 million, respectively, for the three and nine months ended September 30, 2009. As a percentage of revenues, trust expenses increased compared to the same periods last year mainly due to costs related to the retirement of CAPREIT's Chief Financial Officer announced on September 29, 2009 and higher legal costs.

## Interest on Mortgages and Bank Indebtedness

Mortgage interest expense increased in the three and nine months ended September 30, 2009 to \$19.1 million and \$57.0 million, respectively, from \$19.0 million and \$55.8 million in the prior comparable periods 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. Mortgage interest expense as a percentage of operating revenues decreased to 23.1% and 23.0%, respectively, compared to 23.5% for the three and nine months ended September 30, 2008 primarily due to management's initiatives to capitalize 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 its Credit Facilities (see Bank Indebtedness and Credit Facilities). The interest cost for the three and nine months ended September 30, 2009 decreased to \$1.0 million and \$2.4 million, respectively, from the same periods in the prior year primarily due to lower interest rates. The weighted average interest rate for the amounts drawn under the Acquisition and Operating Facility was 3.39% at September 30, 2009 compared to 4.69% for the same period in 2008. At September 30, 2009, the weighted average interest rate for the amounts drawn under the Land Lease Facility was 3.45% as compared to 4.18% for the same period last year.

The interest coverage ratio (defined as earnings, for the last four quarters, before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by interest expense) improved to 2.06 times for the four quarters ended September 30, 2009 compared to 2.04 times for the same period in the prior year.

## Other Income

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

## Reorganization Costs

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

- Setting up of CAPLP and the issuance of CAPLP Units exchangeable into CAPREIT Units.
- Conversion from closed-end to an open-end trust structure including changes to the Declaration of Trust.
- Transfer of beneficial interest in all the properties, mortgage debt and trust debt obligations from CAPREIT to CAPLP.

In accordance with Canadian generally accepted accounting principles, CAPREIT expensed these reorganization costs. 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 to \$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. The unrealized loss on these contracts to which hedge accounting treatment was applied (see note 2(h) to the consolidated financial statements), aggregating to \$5.6 million as at January 1, 2007, the effective date of implementation of Canadian Institute of Chartered Accountants

("CICA") Handbook Section 3865, was recorded in Accumulated Other Comprehensive Loss ("AOCL") and cumulative changes resulting from mark-to-market valuations during the period covering January 2, 2007 to September 30, 2008, the date hedge accounting was terminated, aggregating to \$4.3 million were reflected in OCL.

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 \$9.9 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 consolidated 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 statement of income and comprehensive income.

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

(\$ Thousands)	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Unrealized (Loss) Gain	Realized (Loss) Gain	Unrealized (Loss) Gain	Realized (Loss) Gain
Opening cumulative loss	\$ (7,857)	\$ (14,916)	\$ (27,535)	\$ -
Contracts settled during the period	-	(699)	-	4,063
Realization of previously unrealized gain (loss)	7,857	(7,857)	27,535	(27,535)
Closing cumulative loss	\$ -	\$ (23,472)	\$ -	\$ (23,472)

During the three months ended September 30, 2009, CAPREIT settled Interest Rate Forward Contracts with a notional value of \$61.3 million, resulting in a realized loss of \$0.7 million. During the nine months ended September 30, 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 resulted in the realization of previously unrealized losses of \$7.9 million and \$27.5 million for the three and nine month periods ending September 30, 2009, respectively. As at September 30, 2009, all of the Interest Rate Forward Contracts have been settled, resulting in a cumulative realized loss of \$23.5 million on these contracts. Such cumulative realized loss includes the cumulative loss of \$9.9 million at September 30, 2008 (the date hedge accounting on the Interest Rate Forward Contracts ceased), which is included in AOCL, net of accumulated amortization thereon (see note 13(b) to the consolidated financial statements). As of September 30, 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 0.07% (see discussion on effective portfolio weighted average rate in the Mortgages Payable section).

- ii) *Contracts for which hedge accounting is being applied:* As at September 30, 2009, CAPREIT has a \$55 million interest rate swap agreement at 5.706% maturing in July 2012 to which hedge accounting is being applied. The agreement effectively converts borrowings on a bankers acceptance-based ("BA") floating rate credit facility to a fixed rate facility for a five-year term. For the three and nine month periods ended September 30, 2009, an unrealized gain of \$0.4 million and \$1.8 million has been included in OCI (see note 13(b) to the consolidated financial statements). The mark-to-market cumulative unrealized loss of \$5.4 million is included in AOCL and in accounts payable and other liabilities as at September 30, 2009. 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.

### Future Income Taxes

CAPREIT uses the liability method of accounting for future income taxes. The future income tax balance of \$64.4 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 three and nine months ended September 30, 2009, the change in the future income tax liability has been recorded as a recovery of \$0.1 million and a provision of \$0.6 million, respectively, to the consolidated statement of income and comprehensive income compared to \$0.2 million for the first nine months ended of 2008. The increase in the provision under Other Comprehensive Income for \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2009, (2008 – \$nil) 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. (Also see Taxation of Income Trusts and note 10 to the consolidated 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 sales of 12 non-core properties. Included in the 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 divestures through the nine months ended September 30, 2009.

### **OTHER COMPREHENSIVE INCOME**

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

- i) *Realized and unrealized 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 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 corresponding three-month BA rate is adjusted to interest expense every quarter. Accordingly, the cumulative mark-to-market loss will 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 consolidated financial statements).

## **SECTION III**

### **NON-GAAP FINANCIAL MEASURES**

#### **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 Trustees rely upon 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 ("IFRS"), are expected to amplify these concerns. Consequently, 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 consolidated financial statements to DI.

(\$ Thousands, except per Unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Cash Provided By Operating Activities	\$ 16,741	\$ 22,038	\$ 47,167	\$ 56,375
Adjustments:				
Changes in Non-Cash Operating Assets and Liabilities	6,471	2,152	17,600	6,058
Fair Value Adjustment of Utility Contracts	(62)	(125)	(228)	(44)
Reorganization Costs <sup>(1)</sup>	–	49	–	1,599
Retiring Allowance <sup>(2)</sup>	1,520	–	1,520	–
Amortization of Other Financing Costs	(723)	(363)	(1,515)	(1,001)
Amortization of Leasehold Improvements	(21)	(21)	(63)	(58)
DI <sup>(3)</sup>	23,926	23,730	64,481	62,929
Retention of DI	(5,443)	(5,511)	(9,223)	(8,413)
Distributions Declared to Unitholders	\$ 18,483	\$ 18,219	\$ 55,258	\$ 54,516
DI Per Unit – Basic <sup>(3)</sup>	\$ 0.362	\$ 0.362	\$ 0.978	\$ 0.963
Retention of DI Per Unit	0.092	0.092	(0.168)	(0.153)
Distributions Declared to Unitholders Per Unit	\$ 0.270	\$ 0.270	\$ 0.810	\$ 0.810
DI Per Unit – Diluted <sup>(3)</sup>	\$ 0.361	\$ 0.361	\$ 0.977	\$ 0.959

(1) See Reorganization Costs on page 14.

(2) Trust Expenses relating to the retirement of CAPREIT's former Chief Financial Officer (see Trust Expenses on page 14). Amount excludes \$122 of non-cash compensation costs related to the accelerated vesting of LTIP and SELTIP Units previously awarded, which has been adjusted for in Cash Provided by Operating Activities.

(3) Nine months ended September 30, 2008 exclude 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. For the three months ended September 30, 2009, DI increased by 0.8% and DI per Unit remained stable, over the same period in 2008, primarily due to acquisitions, stable occupancies and higher average monthly rents, partially offset by a marginal increase in operating costs. For the first nine months of 2009, DI and DI per Unit increased by 2.5% and 1.6%, respectively, over the same period in 2008, due to acquisitions completed during 2008 and stable and higher average monthly rents resulting from management's sales and marketing programs.

### Distributions to Unitholders and Payout Ratio

(\$ Thousands, except where noted)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Distributions Declared	\$ 18,483	\$ 18,219	\$ 55,258	\$ 54,516
Distributions Declared Per Unit	\$ 0.270	\$ 0.270	\$ 0.810	\$ 0.810
DI	\$ 23,926	\$ 23,730	\$ 64,481	\$ 62,929
Payout Ratio <sup>(1)</sup>	77.3%	76.8%	85.7%	86.6%

(1) Distributions declared over DI.

The payout ratio of DI to distributions declared for the three and nine months ended September 30, 2009 were 77.3% and 85.7%, respectively, compared to 76.8% and 86.6% for the same periods in the previous year.

## DRIP Investment and Effective Payout Ratio

(\$ Thousands, except where noted)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Distributions Declared	\$ 18,483	\$ 18,219	\$ 55,258	\$ 54,516
Less: Distributions Reinvested <sup>(1)</sup>	\$ 2,147	\$ 3,060	\$ 5,974	\$ 9,711
Net Distributions Paid <sup>(2)</sup>	\$ 16,336	\$ 15,159	\$ 49,284	\$ 44,805
% Reinvested	11.6%	16.8%	10.8%	17.8%
Effective Payout Ratio <sup>(3)</sup>	68.3%	63.9%	76.4%	71.2%

(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 three-month and nine-month periods ending September 30, 2009 to 11.6% and 10.8%, respectively, as compared to 16.8% and 17.8% 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 which 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 three and nine months ended September 30, 2009 increased to 68.3% and 76.4%, respectively, primarily due to the reduction of reinvestments of distributions under the DRIP to \$2.1 and \$6.0 million, respectively.

### 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)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
Net Income	\$ 950	\$ 4,994	\$ 5,524	\$ 22,744
Add:				
(Recovery of) Provision for Future Income Taxes	(56)	33	606	243
Reorganization Costs <sup>(1)</sup>	–	49	–	1,599
Depreciation	19,918	18,170	58,268	53,424
Amortization of Tenant Improvements	75	74	225	213
Amortization of Intangibles	189	292	808	973
Less:				
Amortization of Above and Below Market Leases	(17)	(143)	(119)	(357)
Gain on Sale of Assets	–	–	–	(17,046)
<b>FFO</b>	<b>\$ 21,059</b>	<b>\$ 23,469</b>	<b>\$ 65,312</b>	<b>\$ 61,793</b>
FFO – Continuing Operations	\$ 21,059	\$ 23,469	\$ 65,312	\$ 61,684
FFO – Discontinued Operations	\$ –	\$ –	\$ –	\$ 109
FFO Per Unit – Basic	\$ 0.319	\$ 0.358	\$ 0.991	\$ 0.945
FFO Per Unit – Diluted	\$ 0.318	\$ 0.357	\$ 0.989	\$ 0.942
Distributions Declared	\$ 18,483	\$ 18,219	\$ 55,258	\$ 54,516
FFO Payout Ratio	87.8%	77.6%	84.6%	88.2%
Net Distributions Paid <sup>(2)</sup>	\$ 16,336	\$ 15,159	\$ 49,284	\$ 44,805
Excess FFO over Net Distributions Paid	\$ 4,723	\$ 8,310	\$ 16,028	\$ 16,988
FFO Effective Payout Ratio	77.6%	64.6%	75.5%	72.5%

(1) See Reorganization Costs on page 14.

(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 consolidated 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 prior year. Management considers NFFO to be an important measure of CAPREIT's operating performance.

A reconciliation of FFO to NFFO is as follows:

(\$ Thousands, except per Unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
FFO	\$ 21,059	\$ 23,469	\$ 65,312	\$ 61,793
Adjustments:				
Realized Loss (Gain) on Derivative Financial Instruments	699	–	(4,063)	–
Retiring Allowance <sup>(1)</sup>	1,642	–	1,642	–
Amortization of Loss on Derivative Financial Instruments included in Mortgage Interest	181	–	311	–
NFFO	\$ 23,581	\$ 23,469	\$ 63,202	\$ 61,793
NFFO – Continuing Operations	\$ 23,581	\$ 23,469	\$ 63,202	\$ 61,684
NFFO – Discontinued Operations	\$ –	\$ –	\$ –	\$ 109
NFFO per Unit – Basic	\$ 0.357	\$ 0.358	\$ 0.959	\$ 0.945
NFFO per Unit – Diluted	\$ 0.356	\$ 0.357	\$ 0.957	\$ 0.942
Distributions Declared	\$ 18,483	\$ 18,219	\$ 55,258	\$ 54,516
NFFO Payout Ratio	78.4%	77.6%	87.4%	88.2%
Net Distributions Paid <sup>(2)</sup>	\$ 16,336	\$ 15,159	\$ 49,284	\$ 44,805
Excess NFFO over Net Distributions Paid	\$ 7,245	\$ 8,310	\$ 13,918	\$ 16,988
Effective NFFO Payout Ratio	69.3%	64.6%	78.0%	72.5%

(1) Trust Expenses relating to the retirement of CAPREIT's former Chief Financial Officer (see Trust Expenses on page 14). Amount includes \$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 three and nine months ended September 30, 2009 increased by 0.5% and 2.3%, respectively, compared to the same periods 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 was flat during the three months ended September 30, 2009 compared to the prior year period and increased 1.5% during the nine months ended September 30, 2009 compared to the prior year period.

Comparing distributions declared to NFFO, the NFFO payout ratios for the three and nine months ended September 30, 2009 were 78.4% and 87.4%, respectively, compared to 77.6% and 88.2% for the same periods last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid to Unitholders, increased to 69.3% from 64.6%, and to 78.0% from 72.5%, respectively, for the three and nine months ended September 30, 2009, primarily due to the reduction of reinvestments of distributions under the DRIP.

### Adjusted Funds From Operations

Management believes that AFFO is an effective supplemental measure of cash generated from operations that is widely used in the real estate industry and a useful financial measure to determine the sustainability of future distributions paid to Unitholders after provision for maintenance capital expenditures.

CAPREIT calculates AFFO by deducting from NFFO the provision for maintenance capital expenditure (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 effective AFFO payout ratio, CAPREIT compares AFFO to net cash distributions paid to Unitholders.



A reconciliation of NFFO to AFFO is as follows:

(\$ Thousands, except where noted)	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	2009	2008
NFFO	\$ 23,581	\$ 23,469	\$ 63,202	\$ 61,793
Adjustments:				
Maintenance Capital Expenditure Provision	(2,977)	(2,912)	(8,930)	(8,735)
Non-Cash Compensation for LTIP, SELTIP and DUP	383	303	1,370	1,236
AFFO	\$ 20,987	\$ 20,860	\$ 55,642	\$ 54,294
AFFO per Unit – Basic	\$ 0.318	\$ 0.318	\$ 0.844	\$ 0.831
AFFO per Unit – Diluted	\$ 0.317	\$ 0.317	\$ 0.843	\$ 0.828
Distributions Declared	\$ 18,483	\$ 18,219	\$ 55,258	\$ 54,516
AFFO Payout Ratio	88.1%	87.3%	99.3%	100.4%
Net Distributions Paid <sup>(1)</sup>	\$ 16,336	\$ 15,159	\$ 49,284	\$ 44,805
Excess AFFO over Net Distributions Paid	\$ 4,651	\$ 5,701	\$ 6,358	\$ 9,489
Effective AFFO Payout Ratio	77.8%	72.7%	88.6%	82.5%

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

The effective AFFO payout ratios for the three and nine months ended September 30, 2009, have been negatively impacted primarily due to the reduction of reinvestments of distributions under the DRIP during 2009. Management believes that, on an annualized basis, AFFO will be sufficient to fund its distributions and maintenance capital expenditures.

## SECTION IV

### PROPERTY CAPITAL INVESTMENTS

CAPREIT capitalizes all capital expenditures related to the acquisition and improvement of its properties. Property capital investments include the acquisition of income properties to increase NOI and diversify CAPREIT's existing property portfolio. On February 10, 2009, CAPLP acquired ten additional land lease sites (eight sites near Bowmanville, Ontario and two sites in Grand Bend, Ontario) and on August 14, 2009, CAPLP acquired 14 additional land lease sites (11 sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of \$1.5 million, which were funded from the Land Lease Facility (see note 9(b) to the consolidated financial statements).

The second 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 capital expenditures in order to sustain and grow the portfolio's future rental income generating potential over its useful life.

Based on these objectives, and considering the soft economic conditions and the availability of competitive pricing from construction trades, CAPREIT has embarked on a multi-year capital investment plan, which accelerates spending on building improvement programs, including upgrading parking garages, balconies and other structural improvements. Management believes that these expenditures will increase the productive capacity, the useful economic life and operating capabilities of CAPREIT's properties and enhance future cash flow generating potential. Management also believes that these building improvement programs, combined with existing suite improvement, common area and environment-friendly and energy-savings 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 that strategic investments taken at this time will position the portfolio for improved operating performance as the economy strengthens.

During the first nine months of 2009, CAPREIT incurred capital expenditures of \$61.3 million as compared to \$34.7 million for 2008. Capital expenditures were higher compared to the same period last year due to the acceleration of building improvement programs and higher suite improvement costs. In addition, CAPREIT continues to invest capital on environmentally friendly and energy savings initiatives, including high-efficiency heating boilers, energy-efficient lighting systems, water savings and garbage recycling programs, which have permitted CAPREIT to mitigate potentially higher increases in utility costs and have improved overall portfolio NOI.

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

**Property Capital Investments by Category**

Nine Months Ended September 30, (\$ Thousands)	2009	%	2008	%
Building Improvements	\$ 37,715	61.5	\$ 13,724	39.6
Suite Improvements	12,136	19.8	8,521	24.6
Common Area	3,622	5.9	3,724	10.7
Energy Savings Initiatives	1,403	2.3	3,143	9.1
Equipment	3,917	6.4	2,409	6.9
Boiler and Elevators	874	1.4	2,246	6.5
Appliances	808	1.3	755	2.2
Other	862	1.4	156	0.4
	\$ 61,337	100.0	\$ 34,678	100.0

Excludes head office assets, assets held-for-sale, land lease sites, tenant improvements and signage.

As at September 30, 2009, CAPREIT had incurred approximately \$61.3 million of property capital investments. In addition, CAPREIT had outstanding purchase commitments of approximately \$18.9 million, of property capital investments which, subject to the impact of weather or other unforeseen conditions, CAPREIT expects to complete through the last quarter of 2009. The level of activity as at September 30, 2009, coupled with contracts already entered into during the fourth quarter, lead management to believe that CAPREIT is on schedule to complete property capital investments of approximately \$85 to \$90 million during 2009.

Set out in the table below is management's current estimate of CAPREIT's investments in building improvements for the period covering 2009 through 2014. Building improvements represent the most significant category of capital investment during the nine months ended September 30, 2009 but are expected to decline significantly in the coming years. These estimates exclude the impact of changes in future capital spending related to future acquisitions and dispositions of properties.

**Future Investments in Building Improvements<sup>(1)</sup>**

Year Ended December 31 (\$ Thousands)	Estimated Range
2009	\$ 55,000 – \$ 58,000
2010	\$ 55,000 – \$ 60,000
2011	\$ 43,000 – \$ 49,000
2012	\$ 30,000 – \$ 34,000
2013	\$ 29,000 – \$ 33,500
2014	\$ 10,000 – \$ 12,500

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

## PRODUCTIVE CAPACITY

CAPREIT incurs two types of capital expenditures: *maintenance capital expenditures* and *stabilizing and value-enhancing capital expenditures*. The primary focus of the following discussion is to differentiate between those costs incurred to maintain the existing cash flows from the properties versus costs incurred to achieve CAPREIT's longer term goals to produce enhanced cash flows and Unit distributions.

*Maintenance capital expenditures* vary with market conditions and are partially related to suite turnover. These expenditures are funded from operating cash flows and, as such, are deducted from FFO in order to estimate a sustainable amount of AFFO that can be distributed to Unitholders. Based on historical experience, CAPREIT estimates its annual overall maintenance capital expenditures are in the range of approximately \$400 to \$500 per residential suite, which maintain the earning capacity of its portfolio. These maintenance capital expenditures are in addition to normal repairs and maintenance expenditures which are in the range of \$700 to \$800 per residential suite and which are expensed to NOI.

*Stabilizing and value-enhancing capital expenditures* are focused on increasing the productivity of the property portfolio. These expenditures are estimated at the time of acquisition, and are included in the acquisition analysis to ensure the overall transaction is accretive to the Trust. These expenditures enhance operating effectiveness and profitability and reduce costs to improve NOI. In addition, they improve the economic life and value of the properties, and are mainly long-term in nature. The timing of these expenditures varies and are funded over a period of several years from its credit facilities, mortgage advances or refinancing, and equity.

The breakdown of capital expenditures by category based on management's classification is as follows:

Nine Months Ended September 30, (\$ Thousands, except per suite amounts)	2009		2008	
	Total	Per Suite <sup>(1)</sup>	Total	Per Suite <sup>(1)</sup>
Maintenance capital expenditures	\$ 8,930	\$ 338	\$ 8,735	\$ 338
Stabilizing and value-enhancing capital expenditures	52,407	1,981	25,943	1,002
Total Property Capital Investments <sup>(2)</sup>	\$ 61,337	\$ 2,319	\$ 34,678	\$ 1,340

(1) Based on the weighted average number of suites owned during the period.

(2) Excludes capital expenditures for head office assets, land lease sites, tenant improvements and signage.

Management believes its increased emphasis on targeted 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 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.

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 our compliance with the key covenants are summarized below:

As at		September 30, 2009	December 31, 2008
(\$ Thousands)			
Mortgages payable		\$ 1,525,626	\$ 1,472,822
Bank indebtedness		153,252	121,029
Unitholders' equity		456,080	485,933
Total capital		\$ 2,134,958	\$ 2,079,784
<b>Threshold<sup>(1)</sup></b>			
Total debt to gross book value <sup>(2)</sup>	Maximum 70.00%	62.97%	61.82%
Tangible net worth <sup>(3)</sup>	Minimum \$400,000	\$ 520,483	\$ 549,154
<b>For the four quarters ended</b>			
		September 30, 2009	December 31, 2008
Debt coverage ratio (times) <sup>(4)</sup>	Minimum 1.20	1.27	1.30
Interest coverage ratio (times) <sup>(5)</sup>	Minimum 1.50	2.06	2.06

(1) As at September 30, 2009.

(2) CAPREIT's DOT permits 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 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 Unitholder's 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, other and non-cash compensation costs divided by principal and interest payments.

(5) Interest coverage is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs 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 capital expenditure commitments, distributions to Unitholders and provide for future growth in our 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 our 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 that 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 capital expenditures. For the nine months ended September 30, 2009, CAPREIT's effective payout ratios for NFFO and AFFO to net distributions paid (see discussion in Non-GAAP Financial Measures) were 78.0% and 88.6%, respectively, compared to 72.5% and 82.5% 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 2009. Management does not anticipate any material difficulties in renewing approximately \$29.9 million of maturing mortgages through the remainder of 2009, which have an effective interest rate of approximately 4.74%, with new fixed rate mortgages at lower interest rates. In addition, Management has made significant progress towards achieving its target refinancing plan to raise additional CMHC-insured financing in the range of \$100 million in 2009 by topping up its existing mortgages.

- iii) Management has also successfully renewed its Acquisition and Operating Facility aggregating to \$250 million which matured on June 30, 2009. The renewed credit facility has been 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 September 30, 2009 is \$89.3 million (\$94.5 million as at December 31, 2008). The available borrowing capacity under CAPREIT's Land Lease Facility at September 30, 2009, is \$7.2 million (\$5.8 million as at December 31, 2008.)

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at September 30, 2009 are as follows:

(\$ Thousands)	2009	2010 – 2011	2012 – 2013	2014 onward
Mortgages payable	\$ 41,694	\$ 447,327	\$ 401,257	\$ 640,150
Bank indebtedness	–	102,744	50,508	–
Mortgage interest payable	24,310	124,936	79,575	99,776
Bank indebtedness interest payable	1,448	5,699	942	–
Accounts payable and accrued liabilities	40,595	4,807	507	–
Security deposits	18,777	–	–	–
Distributions payable	6,166	–	–	–
	\$ 132,990	\$ 685,513	\$ 532,789	\$ 739,926

### 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 on the table below:

As at September 30,	2009	2008
Mortgage Debt to Gross Book Value	57.22%	57.33%
Total Debt to Gross Book Value	62.97%	61.64%
Total Debt to Total Capitalization	62.41%	59.44%
Debt Coverage Ratio (times) <sup>(1)</sup>	1.27	1.31
Interest Coverage Ratio (times) <sup>(1)</sup>	2.06	2.04
Weighted Average Mortgage Interest Rate <sup>(2)</sup>	5.09%	5.33%
Weighted Average Mortgage Term to Maturity (years)	5.1	5.2

(1) For the four quarters ended September 30.

(2) Effective weighted average interest rate including deferred financing costs and fair value adjustments but excludes CMHC premiums. Additionally, including the amortization of the realized component of the loss on settlement included in AOCL, the effective portfolio weighted average interest rate at September 30, 2009 would be 5.16%.

At September 30, 2009, the overall leverage represented by the ratio of total debt to gross book value increased to 62.97% as compared to 61.64% at September 30, 2008. The maximum ratio allowable under CAPREIT's Declaration of Trust is 70%. However, due to the general decline in REIT Unit prices and in overall market capitalization, as at September 30, 2009, CAPREIT's total debt rose to approximately 62.41% of total market capitalization compared to 59.44% last year. In addition, CAPREIT's coverage ratios, represented by debt and interest coverage tests, have remained stable during the first nine months of 2009 compared to the same period 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 5.33% as at September 30, 2008 to 5.09% as at September 30, 2009, which will result in significant savings in interest expense 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 that the portfolio weighted average term to maturity remains steady in the five-year range and will gradually extend the term as credit conditions improve.

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

- CAPREIT obtains lower interest rate spreads for mortgage financing.
- 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 September 30, 2009, 96.1% (September 30, 2008 – 95.1%) of CAPREIT's mortgage portfolio is CMHC-insured (excluding the land lease portfolio).

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

<b>As at September 30,</b> (\$ Thousands)	<b>2009</b>	<b>2008</b>
Balance, Beginning of Period	\$ 1,472,822	\$ 1,455,181
Add: New Borrowings	–	42,389
Assumed	–	20,777
Refinanced	244,884	74,962
Less: Mortgage Repayments	(37,314)	(33,981)
Mortgages Repaid on Disposals	–	(59,830)
Mortgages Matured	(153,926)	(35,455)
Deferred Financing Costs and Fair Value Adjustments, net	(840)	(111)
Balance, End of Period	\$ 1,525,626	\$ 1,463,932

During the first nine months of 2009, total refinancings of \$244.9 million, including renewal of existing mortgages aggregating to \$153.9 million and additional top-up financing of \$91.0 million, were completed at a weighted average interest rate of 3.84%, significantly below the weighted average interest rate of mortgages maturing in 2009 of 5.27%.

Despite tight credit markets, management has made significant progress in implementing its total mortgage renewal and refinancing plan for 2009 of \$300 million (\$200 million for renewals and \$100 million for additional refinancings), of which \$284.8 million (\$178.9 million for renewals and \$105.9 million for additional refinancings), has been closed or committed up to November 13, 2009.

The breakdown of future principal repayments, including mortgage maturities and weighted average interest rates as at September 30, 2009 is as follows:

(\$ Thousands, except where noted)

Year	Principal Repayments	Mortgage Maturities	Total Debt	% of Total Debt	Weighted Average Interest Rate (%) <sup>(1)</sup>
2009	\$ 11,779	\$ 29,915	\$ 41,694	2.7	4.74
2010	45,376	160,204	205,580	13.4	4.96
2011	38,850	202,897	241,747	15.8	5.28
2012	34,520	206,038	240,558	15.7	5.29
2013	30,260	130,439	160,699	10.5	5.21
2014	23,651	223,232	246,883	16.1	4.28
2015	19,779	25,946	45,725	3.0	5.02
2016	17,364	22,026	39,390	2.6	6.35
2017	14,088	80,867	94,955	6.2	4.88
2018	13,406	52,234	65,640	4.3	4.67
2019 – 2023	39,074	85,922	124,996	8.2	5.67
2024 onwards	8,307	14,254	22,561	1.5	5.67
	\$ 296,454	\$ 1,233,974	\$ 1,530,428	100.0	5.09 <sup>(2)</sup>
Deferred financing costs and fair value adjustments			(4,802)		
			\$ 1,525,626		

(1) Rates for maturing mortgages only.

(2) Effective weighted average interest rate including deferred financing costs and fair value adjustments but excludes CMHC premiums. Additionally, including the amortization of the realized component of the loss on settlement included in AOCL, the effective portfolio weighted average interest rate at September 30, 2009 would be 5.16%.

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 the remainder of 2009 and the 12 months of 2010, total debt repayments (including maturing mortgages) will be approximately 2.7% and 13.4%, respectively, 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.

### 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 consolidated financial statements. Bank indebtedness includes borrowings on the Acquisition and Operating Facility and the Land Lease Facility. As at September 30, 2009, \$150.5 million (September 30, 2008 – \$105.8 million) was outstanding on the Acquisition and Operating Facility. The excess borrowing capacity on the Acquisition and Operating Facility as at September 30, 2009 was \$89.3 million. During the first quarter of 2008, \$63.0 million was repaid on the Acquisition Facility from non-core property dispositions.

The Land Lease Facility of \$10 million, which was established to fund operating, development and acquisition costs for the Bowmanville and Grand Bend land lease communities, matured on June 30, 2009 and was renewed for one year as explained in note 9 to the consolidated financial statements. As at September 30, 2009, \$2.7 million (September 30, 2008 – \$4.2 million) was outstanding on this Facility.

### Unitholders' Equity

During 2008, CAPREIT implemented the Deferred Unit Plan ("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 (i) to the consolidated financial statements). For the first nine months of 2009, total compensation costs of \$0.3 million (2008 – \$0.4 million) were expensed in relation to awards under the DUP.

Since its Initial Public Offering in May 1997, the total market value of CAPREIT's equity as at September 30, 2009 has risen to \$1,011 million. The total Units outstanding of CAPREIT as at September 30, 2009 were 68,567,602 (including 52,654 units relating to the DUP and 411,311 exchangeable limited partnership units ("CAPLP Units")), of which trustees, officers and executives owned approximately 5.4%. As of September 30, 2009, 387,200 options were outstanding and exercisable into CAPREIT Units.

### **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 September 30, 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 first nine months of 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. No Units were acquired under the NCIB during the three months ended September 30, 2009.



## SECTION V

### SELECTED CONSOLIDATED QUARTERLY INFORMATION

	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07 <sup>(1)</sup>
(Thousands except, per Unit amounts)								
Operating Revenues	\$ 82,990	\$ 82,017	\$ 82,198	\$ 82,616	\$ 80,721	\$ 78,977	\$ 78,104	\$ 77,900
NOI	\$ 47,726	\$ 46,644	\$ 39,728	\$ 43,567	\$ 46,364	\$ 44,581	\$ 38,421	\$ 40,989
Income (Loss) from Continuing Operations	\$ 950	\$ 9,073	\$ (4,499)	\$ (26,221)	\$ 4,994	\$ 3,446	\$ (2,851)	\$ 8,205
Net Income (Loss)	\$ 950	\$ 9,073	\$ (4,499)	\$ (26,221)	\$ 4,994	\$ 3,387	\$ 14,363	\$ 9,130
DI	\$ 23,926	\$ 23,523	\$ 17,032	\$ 19,552	\$ 23,730	\$ 22,582	\$ 16,617	\$ 18,972
FFO	\$ 21,059	\$ 28,630	\$ 15,623	\$ 1,573	\$ 23,469	\$ 22,164	\$ 16,160	\$ 18,990
NFFO	\$ 23,581	\$ 23,153	\$ 16,468	\$ 19,200	\$ 23,469	\$ 22,164	\$ 16,160	\$ 18,990
AFFO	\$ 20,987	\$ 20,556	\$ 14,099	\$ 16,591	\$ 20,860	\$ 19,707	\$ 13,780	\$ 16,215
Income (Loss) from Continuing Operations Per Unit								
- Basic	\$ 0.014	\$ 0.138	\$ (0.068)	\$ (0.400)	\$ 0.076	\$ 0.053	\$ (0.044)	\$ 0.130
- Diluted	\$ 0.014	\$ 0.137	\$ (0.068)	\$ (0.400)	\$ 0.076	\$ 0.053	\$ (0.044)	\$ 0.129
Net Income (Loss) Per Unit								
- Basic	\$ 0.014	\$ 0.138	\$ (0.068)	\$ (0.400)	\$ 0.076	\$ 0.052	\$ 0.220	\$ 0.145
- Diluted	\$ 0.014	\$ 0.137	\$ (0.068)	\$ (0.400)	\$ 0.076	\$ 0.052	\$ 0.220	\$ 0.144
DI Per Unit	\$ 0.362	\$ 0.357	\$ 0.259	\$ 0.298	\$ 0.362	\$ 0.346	\$ 0.255	\$ 0.300
FFO Per Unit	\$ 0.319	\$ 0.434	\$ 0.238	\$ 0.024	\$ 0.358	\$ 0.339	\$ 0.248	\$ 0.301
NFFO Per Unit	\$ 0.357	\$ 0.351	\$ 0.250	\$ 0.293	\$ 0.358	\$ 0.339	\$ 0.248	\$ 0.301
AFFO Per Unit	\$ 0.318	\$ 0.312	\$ 0.214	\$ 0.253	\$ 0.318	\$ 0.302	\$ 0.211	\$ 0.257
Weighted Avg. Units								
- Basic	66,086	65,938	65,770	65,572	65,496	65,334	65,243	63,174
- Diluted	66,208	66,002	65,854	65,643	65,795	65,648	65,381	63,461

(1) Reclassified for discontinued operations.

FFO for the fourth quarter of 2008 was negatively impacted due to the unrealized loss of \$17,627 on mark-to-market valuations of interest rate forward contracts. Results in the fourth quarter of 2008 were also impacted by an increase in Trust expenses resulting from non-recurring legal and consulting costs of approximately \$0.5 million or \$0.01 per Unit and higher compensation costs related to CAPREIT's Incentive Plans of approximately \$0.7 million (\$0.01 per Unit) from the fourth quarter of the previous year. Results in the first two quarters of 2009 were impacted by reduced performance in certain geographic markets, as well as higher R&M expenses as outlined earlier.

Per Unit amounts in 2008 were affected by an increase in the weighted average number of Units due to an equity offering completed on November 7, 2007.

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.

## **SECTION VI**

### **ACCOUNTING POLICIES**

#### **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 financial results.

In January 2009, the CICA issued EIC-173, Credit Risk and 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 EIC did not have any significant impact on the valuation of CAPREIT’s financial assets or liabilities.

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 fair value of shares exchanged at their market price at the date of exchange. Furthermore, virtually all acquisition costs will be expensed which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and 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 and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. All three sections come into effect for financial periods beginning January 1, 2011 with prospective application.

#### **Critical Accounting Estimates**

Certain accounting policies require management to make estimates or assumptions that in some cases relate to matters that are inherently uncertain. The more significant estimates relate to future income taxes where management is required to estimate future tax assets and liabilities. The provision for future income taxes represents management’s estimate of the future income tax implications of the transactions and events during the period. 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 and management’s assumptions regarding the expected timing of the reversal of such temporary differences.

#### **INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)**

In February 2008, the Canadian Accounting Standards Board 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 International Financial Reporting Standards ahead of the mandatory conversion date for Canadian public companies.

It is anticipated that certain changes under IFRS, relative to Canadian 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, for purposes of the quarter ended September 30, 2009, CAPREIT is required to discuss the status of the key elements and timing of its changeover plan.

CAPREIT has initiated its changeover plan from Canadian 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.

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 Canadian 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 which 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 is to take place during this phase of the changeover plan. These assessments will result in recommendations on the implementation of the standards, taking into account implications to various segments of our business, including an assessment of the impact of changeover to the Key Performance Indicators of CAPREIT.

CAPREIT initiated this phase in the fourth quarter of 2008. 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, being assigned responsibilities associated with:

- Research and analysis of the standards
- Training
- Information technology systems
- 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 will monitor 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 towards an effective and efficient transition to IFRS by the changeover date.

As CAPREIT progresses through its changeover plan, the implementation of the plan may change due to changes to IFRS and changes from more detailed analysis during the assessment/design phase, relative to the scope/diagnostic phase.

## 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 properties, 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. Subsequent to September 30, 2009, CAPREIT's Board of Trustees approved a resolution to adopt the fair value model to account for its income properties as investment properties; thus CAPREIT expects to use the fair value model when preparing its financial statements under IFRS.

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, a significant portion of CAPREIT's intangible assets and liabilities under Canadian GAAP will no longer be separately recognized. 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. The quantum of tax impact described above will depend upon CAPREIT's ability to satisfy the REIT exemption to be excluded from the definition of a specified investment flow-through trusts or partnerships ("SIFTs") and thus not subject to the SIFT rules.

The Trust currently expects that the impact of all of these differences on its January 1, 2010 opening balance sheet under IFRS compared to its December 31, 2009 balance sheet under Canadian GAAP will result in an increase in common equity; however, management cannot quantify the impact of this at the present time. In accordance with applicable securities laws and regulations, this information will be disclosed in the MD&A for 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 Canadian 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 properties is not recorded nor is amortization of the historic intangible balances established under Canadian GAAP in respect of business combinations, a significant portion 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 towards 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 credit facilities and mortgage and other agreements.

ii) IAS 32, Financial Instruments: Presentation:

A financial instrument is defined in IAS 32 as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. CAPREIT's trust units and/or CAPLP units, which are currently categorized under GAAP as equity, may be considered a liability under IFRS. Accordingly, CAPREIT's Board of Trustees proposed certain amendments to its Declaration of Trust which Unitholders approved at the Annual General Meeting held on May 20, 2009 (see Other Considerations below). These changes were made to address certain issues related to the accounting and presentation of units under IFRS. However, the ultimate determination of the accounting and presentation of units is not determined at this time. Management is still in the process of finalizing the accounting analysis and policy choices for all Financial Instruments including the unit classification.

iii) IFRS 1 First-Time Adoption of IFRS:

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 which arise on the convergence of IFRS from GAAP should be recognized in opening retained earnings.

### **Other Considerations**

CAPREIT continues to assess the business implications as a result of IFRS changeover. It has commenced certain key modifications to borrowing agreements, and finalized certain changes to its Declaration of Trust 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 Board discretion to make changes to the Declaration of Trust due to changes in accounting standards;
- Removal of 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.

CAPREIT has formulated a strategic training plan which establishes training at all levels and departments of the organization, including its Board of Directors. On the training of finance and accounting 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 IFRS changeover. At this time, the changeover plan prescribes usage of both internal and external resources. CAPREIT's changeover plan does not entail early adoption of IFRS.

CAPREIT also continues to assess the information technology system and design implications as a result of 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 Canadian GAAP and IFRS in 2010.

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

CAPREIT is not able to reasonably quantify the effects of IFRS to its consolidated financial statements at this time.

## **CONTROLS AND PROCEDURES**

CAPREIT maintains appropriate information systems, procedures and controls to provide reasonable assurance that information disclosed externally is complete, reliable and timely. Pursuant to the requirements of National Instrument 52-109 of the Canadian Securities Administrators, the Chief Executive Officer and the Chief Financial Officer have satisfied themselves that as at September 30, 2009, the design of disclosure controls and procedures and the design of internal controls over financial reporting are appropriate.

CAPREIT did not make any changes to the design of internal controls over financial reporting during the first nine months of 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 upon 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 VII**

### **RISKS AND UNCERTAINTIES**

CAPREIT has been structured and operates in adherence to the stringent investment restrictions and operating policies as set out in its Declaration of Trust. 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. For a full discussion on risks and uncertainties, please refer to CAPREIT's regulatory filings, including its Annual Information Form, which can be obtained on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Real Property Ownership**

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.

For prudent management of its property portfolio, CAPREIT is required to make significant capital investments throughout the period of ownership of its properties, in order to implement the above mandates i.e. upgrade and maintain building structure, balconies, parking garages, electrical and mechanical improvements, etc., requiring continuous monitoring of its properties to ensure appropriate and timely capital repairs and replacements are carried out in accordance with its capital expenditure programs. In addition, CAPREIT is subject to financing risk as sufficient capital may not be available to carry out its planned capital expenditures 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.

All real property investments owned and operated by CAPREIT entail an inherent risk of liability. Management expects that from time to time, CAPREIT will be subject to such 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, e.g. fire, flood, rental loss, environmental insurance, etc., with policy specification limits and deductibles as deemed appropriate based on the nature of the risk of business, historical experience and industry standards. There can be no assurance that claims in excess of the insurance coverage or claims not covered by insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms.

On November 26, 2008, a tragic accident occurred at CAPREIT's property located at 135 Deguire Boulevard, 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.

### **Operating Risk**

The major operating risk affecting financial performance arises from CAPREIT's ability to maintain stable or increasing average monthly rental rates combined with acceptable occupancy levels and minimal bad debt exposure. Management has developed a focused program to build its brand as Landlord of Choice in its markets to increase resident loyalty for CAPREIT's properties. As a result, management believes it is increasingly recognized as the preferred landlord in its core markets.

Also, CAPREIT's diversification by geographic location and by asset type minimizes exposure to any particular region or demographic sector.

### **Financing**

CAPREIT is subject to risk 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. CAPREIT currently has access to the government-backed mortgage insurance program through the *National Housing Act*, administered by the CMHC, and seeks to minimize 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. In addition, CAPREIT's Credit Facilities are at floating interest rates and, accordingly, changes in short-term borrowing rates will affect CAPREIT's costs of borrowings.

In addition, the general deterioration in the global economic conditions has resulted in a liquidity and a credit crisis which may inhibit CAPREIT's access to long-term equity financing in the Canadian capital market. As a result of the recent credit crunch, it is possible that financing which CAPREIT may require in order to grow and expand its operations, upon the expiry of the term of financing, or refinancing any particular property owned by CAPREIT or otherwise, may not be available or, if it is available, may not be available on favourable terms. To protect Unitholders against these risks, management is focused on ensuring that sufficient mortgage debt capacity and credit facilities are available to carry on its business (see Liquidity and Capital Resources).

### **Government Regulations**

Multi-family rental properties are subject to rent control legislation in most provinces in Canada. The legislation in various degrees provides restrictions upon 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 in the future incur capital expenditures which will not be fully recoverable from the residents. Applicable legislation may be further amended in a manner which 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.

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.

### **Taxation of Income Trusts**

Prior to June 12, 2007, no provision for income taxes was recorded in the consolidated financial statements. On June 12, 2007, amendments to the *Income Tax Act* (Canada) ("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 and 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. In common with a number of other REITs, CAPREIT did not meet the technical REIT Exception as at October 31, 2006, June 12, 2007 or at September 30, 2009, and accordingly, future income taxes in the amount of \$64.4 million (December 31, 2008 - \$63.2 million) have been recorded as at September 30, 2009 based on the temporary differences that are expected to reverse on or after January 1, 2011. For the three and nine months ended September 30, 2009, the change in the future income tax liability has been recorded as a recovery of \$0.1 million and a provision of \$0.6 million, respectively, to the consolidated statement of income and comprehensive income compared to \$0.2 million for the first nine months ended of 2008. The increase in the provision under Other Comprehensive Income for \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2009, (2008 – \$nil) relates to the realized and unrealized losses 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 and comprehensive income at that time. Management is of the opinion that the nature of the items, which causes CAPREIT not to be able to fully comply with some of the technical provisions as currently drafted, is subject to differing interpretations, which may be clarified in future amendments or may involve some restructuring of certain CAPREIT assets or activities, so as to ensure that CAPREIT qualifies for the REIT Exception by 2011. CAPREIT is not currently taxable and accordingly, no current income taxes have been recorded as at September 30, 2009. (See also Future Income Taxes and note 10 to the consolidated financial statements.)

CAPREIT is working closely with its advisors to monitor developments with respect to the SIFT Rules and implement any required restructuring.

### **Harmonization of Good and Services Tax ("GST") and Provincial Sales Tax ("PST")**

Both Ontario and British Columbia have enacted legislation to harmonize the PST with the Federal GST into one Harmonized Sales Tax ("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 i.e. gas, electricity, maintenance services, etc., means landlords will have to absorb the additional tax costs on business inputs. The Federation of Rental Housing Providers of Ontario has estimated the impact of harmonization on residential rents will be in the range of 2.5% to 3%.

CAPREIT is currently assessing the impact of this new legislation and is in the process of determining an appropriate strategy to mitigate its impact.



## **Environmental matters**

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. 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. Notwithstanding the above, 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.

## **RELATED PARTY TRANSACTIONS**

For the three and nine months ended September 30, 2009, CAPREIT paid construction management fees of \$0.4 and \$1.4 million, respectively, (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 improvement 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 three and nine months ended September 30, 2009 was \$0.2 and \$0.5 million, respectively, including property operating costs and has been expensed as trust expenses. The lease expired on October 31, 2009. CAPREIT has exercised its option to renew the lease agreement and the new agreement expires on October 31, 2014.

For the nine months ended September 30, 2009, CAPREIT paid consulting fees of \$0.02 million to a company controlled by a trustee and officer. The agreement expired in May 2009.

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 first nine months of 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 22 to the consolidated 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.

## SECTION VIII

### FUTURE OUTLOOK

Despite tight global credit markets and a slow Canadian economy, management believes the Canadian multi-unit residential rental business will remain relatively stable over the next two years 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 Canadian 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 10 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 Canadian economy being experienced in certain regions. 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 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 those Provinces which cannot immediately be passed through to residents in rental rate increases. CAPREIT is working to identify and implement measures to mitigate such risks.

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 improvement 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 environmentally friendly energy saving initiatives including energy efficient heating boilers and lighting systems, and 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 expenditures. These expenditures 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.

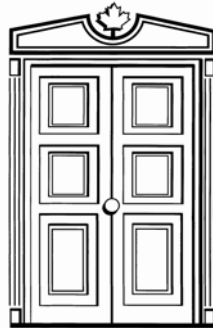
Fourth, CAPREIT will continue to prudently focus on accretive acquisitions that meet its strategic criteria and enhance CAPREIT's geographic diversification. From time to time, CAPREIT will also identify certain non-core assets for sale that do not meet with its current portfolio composition or operating 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. Notwithstanding the recent rise in mortgage financing and corporate bond interest rate

spreads in Canada, and increased times to complete financings and refinancings, management believes that because of the continuing availability of lower cost financing insured by CMHC, 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.





**CANADIAN APARTMENT PROPERTIES  
REAL ESTATE INVESTMENT TRUST**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED  
SEPTEMBER 30, 2009  
(Unaudited)**

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Consolidated Balance Sheets (Unaudited - \$ Thousands)

	September 30, 2009	December 31, 2008
<b>Assets</b>		
Income properties (note 5)		
Cost	\$ 2,569,969	\$ 2,505,498
Less: accumulated depreciation	(371,046)	(312,553)
Net book value	2,198,923	2,192,945
Sundry assets (note 6)	70,818	48,854
Intangible assets (note 7)	669	1,495
	<b>\$ 2,270,410</b>	<b>\$ 2,243,294</b>
<b>Liabilities and Unitholders' Equity</b>		
<b>Liabilities</b>		
Mortgages payable (note 8)	\$ 1,525,626	\$ 1,472,822
Bank indebtedness (note 9)	153,252	121,029
Accounts payable and other liabilities (note 16(b))	45,909	75,019
Security deposits	18,777	18,852
Distributions payable	6,166	6,084
Intangible liabilities (note 7)	197	334
Future income taxes (note 10)	64,403	63,221
	1,814,330	1,757,361
<b>Unitholders' Equity</b>	<b>456,080</b>	<b>485,933</b>
	<b>\$ 2,270,410</b>	<b>\$ 2,243,294</b>

See accompanying notes to consolidated financial statements.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Consolidated Statements of Income and Comprehensive Income (Unaudited - \$ Thousands, except per Unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Operating Revenues</b>				
Revenue from income properties	\$ 82,990	\$ 80,721	\$ 247,205	\$ 237,802
<b>Operating Expenses</b>				
Realty taxes	10,800	10,590	32,233	31,394
Property operating costs	24,464	23,767	80,874	77,042
Total expenses	35,264	34,357	113,107	108,436
<b>Income Before the Undernoted</b>	<b>47,726</b>	<b>46,364</b>	<b>134,098</b>	<b>129,366</b>
Depreciation	19,918	18,170	58,268	53,424
Amortization (note 14)	1,008	750	2,611	2,245
Trust expenses (note 3)	5,568	2,717	13,170	8,975
	26,494	21,637	74,049	64,644
<b>Income Before Interest Expense</b>	<b>21,232</b>	<b>24,727</b>	<b>60,049</b>	<b>64,722</b>
Mortgage interest	19,145	18,987	56,970	55,765
Interest on bank indebtedness	958	1,133	2,403	2,935
Other income	(464)	(469)	(1,391)	(1,409)
	19,639	19,651	57,982	57,291
<b>Income From Continuing Operations Before Other Costs and Income Taxes</b>	<b>1,593</b>	<b>5,076</b>	<b>2,067</b>	<b>7,431</b>
Reorganization Costs (note 15)	–	(49)	–	(1,599)
Realized (Loss) Gain on Derivative Financial Instruments (note 16)	(699)	–	4,063	–
Recovery of (Provision for) Future Income Taxes (note 10)	56	(33)	(606)	(243)
<b>Income From Continuing Operations</b>	<b>950</b>	<b>4,994</b>	<b>5,524</b>	<b>5,589</b>
<b>Income From Discontinued Operations (note 17)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>17,155</b>
<b>Net Income</b>	<b>\$ 950</b>	<b>\$ 4,994</b>	<b>\$ 5,524</b>	<b>\$ 22,744</b>
<b>Other Comprehensive Income (Loss) (note 13(b))</b>	<b>\$ 3,497</b>	<b>\$ (7,602)</b>	<b>\$ 9,903</b>	<b>\$ (17,694)</b>
<b>Comprehensive Income (Loss)</b>	<b>\$ 4,447</b>	<b>\$ (2,608)</b>	<b>\$ 15,427</b>	<b>\$ 5,050</b>
<b>Basic Net Income Per Unit</b>				
Continuing operations	\$ 0.014	\$ 0.076	\$ 0.084	\$ 0.086
Discontinued operations	\$ –	\$ –	\$ –	\$ 0.262
<b>Basic Net Income Per Unit</b>	<b>\$ 0.014</b>	<b>\$ 0.076</b>	<b>\$ 0.084</b>	<b>\$ 0.348</b>
<b>Diluted Net Income Per Unit</b>				
Continuing operations	\$ 0.014	\$ 0.076	\$ 0.084	\$ 0.086
Discontinued operations	\$ –	\$ –	\$ –	\$ 0.261
<b>Diluted Net Income Per Unit</b>	<b>\$ 0.014</b>	<b>\$ 0.076</b>	<b>\$ 0.084</b>	<b>\$ 0.347</b>

See accompanying notes to consolidated financial statements.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Consolidated Statements of Unitholders' Equity For the Nine Months Ended September 30, 2009 and 2008 (Unaudited - \$ Thousands)

		Cumulative	Cumulative	Cumulative	Accumulative Other Comprehensive	Total
	Note	Capital	Net Income	Distributions	Loss	
<b>Unitholders' Equity, January 1, 2009</b>		\$ 877,590	\$ 82,153	\$ (435,410)	\$ (38,400)	\$ 485,933
Net Income		–	5,524	–	–	5,524
Distributions declared and paid		–	–	(49,092)	–	(49,092)
Distributions payable		–	–	(6,166)	–	(6,166)
Distribution Reinvestment Plan	13 (c)	6,393	–	–	–	6,393
Employee Unit Purchase Plan	13 (f)	171	–	–	–	171
Long-Term Incentive Plan ("LTIP")	13 (g)	1,389	–	739	–	2,128
Senior Executive Long-Term Incentive Plan ("SELTIP")	13 (h)	527	–	482	–	1,009
Costs related to accelerated vesting of LTIP and SELTIP	13 (i)	122	–	–	–	122
Deferred Unit Plan	13 (j)	324	–	–	–	324
Units cancelled	13 (k)	(169)	–	–	–	(169)
Other comprehensive income	13 (b)	–	–	–	9,903	9,903
<b>Unitholders' Equity, September 30, 2009</b>		\$ 886,347	\$ 87,677	\$ (489,447)	\$ (28,497)	\$ 456,080

		Cumulative	Cumulative	Cumulative	Accumulative Other Comprehensive	Total
	Note	Capital	Net Income	Distributions	Loss	
<b>Unitholders' Equity, January 1, 2008</b>		\$ 872,118	\$ 85,630	\$ (364,113)	\$ (9,354)	\$ 584,281
Net Income		–	22,744	–	–	22,744
Distributions declared and paid		–	–	(48,439)	–	(48,439)
Distributions payable		–	–	(6,077)	–	(6,077)
New Units issued	13 (a)	(128)	–	–	–	(128)
Distribution Reinvestment Plan	13 (c)	10,170	–	–	–	10,170
Unit Option Plan	13 (d)	241	–	–	–	241
Employee Unit Purchase Plan	13 (f)	146	–	–	–	146
Long-Term Incentive Plan ("LTIP")	13 (g)	1,125	–	590	–	1,715
Senior Executive Long-Term Incentive Plan ("SELTIP")	13 (h)	517	–	493	–	1,010
Deferred Unit Plan	13 (j)	352	–	–	–	352
Units cancelled	13 (k)	(8,500)	–	–	–	(8,500)
Other comprehensive income	13 (b)	–	–	–	(17,694)	(17,694)
<b>Unitholders' Equity, September 30, 2008</b>		\$ 876,041	\$ 108,374	\$ (417,546)	\$ (27,048)	\$ 539,821

See accompanying notes to consolidated financial statements.



# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Consolidated Statements of Cash Flows (Unaudited - \$ Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Cash Provided By (Used In):</b>				
<b>Operating Activities</b>				
Net income	\$ 950	\$ 4,994	\$ 5,524	\$ 22,744
Items not affecting cash:				
Gain on sale of assets (note 17)	–	–	–	(17,046)
Realized loss (gain) on derivative financial instruments (note 16)	699	–	(4,063)	–
(Recovery of) Provision for future income taxes	(56)	33	606	243
Depreciation	19,918	18,170	58,268	53,424
Amortization (note 14)	1,008	750	2,611	2,245
Amortization of above and below market leases	(17)	(143)	(119)	(357)
Amortization of loss on derivative financial instruments in AOCL	181	–	311	–
Fair value adjustment of utility contracts (note 2(g))	62	125	228	44
Straight-line rent adjustment	(38)	(42)	(91)	(100)
Costs related to accelerated vesting of LTIP and SELTIP (note 13(i))	122	–	122	–
Compensation component of LTIP, SELTIP and DUP awards granted	383	303	1,370	1,236
	23,212	24,190	64,767	62,433
Changes in non-cash operating assets and liabilities (note 18(a))	(6,471)	(2,152)	(17,600)	(6,058)
<b>Cash Provided By Operating Activities</b>	<b>16,741</b>	<b>22,038</b>	<b>47,167</b>	<b>56,375</b>
<b>Financing Activities</b>				
Mortgage financings	89,347	77,364	244,884	117,351
Mortgage principal repayments	(12,449)	(11,538)	(37,314)	(33,981)
Mortgages repaid on maturity	(52,839)	(15,104)	(153,926)	(35,455)
Mortgage financing costs	(595)	(792)	(1,586)	(1,032)
Settlement of derivative financial instruments (note 16)	(8,556)	–	(23,472)	–
Bank indebtedness, net	12,820	11,811	32,223	6,965
Proceeds on issuance of Units	63	151	171	259
Net cash distributions to Unitholders (note 18(b))	(16,529)	(14,976)	(48,783)	(44,301)
Cancellation of Units	–	(2,169)	(169)	(8,500)
Amounts received under the LTIP and SELTIP	645	535	2,091	1,841
<b>Cash Provided By Financing Activities</b>	<b>11,907</b>	<b>45,282</b>	<b>14,119</b>	<b>3,147</b>
<b>Investing Activities</b>				
Acquisition of income properties (note 18(e))	(909)	(47,903)	(1,457)	(81,230)
Capital improvements (note 18(d))	(27,763)	(19,194)	(60,010)	(40,364)
Disposition of income properties (note 18(f))	–	–	–	62,993
Investments	–	–	–	(378)
Change in restricted cash	24	(223)	181	(543)
<b>Cash Used In Investing Activities</b>	<b>(28,648)</b>	<b>(67,320)</b>	<b>(61,286)</b>	<b>(59,522)</b>
<b>Changes in Cash and Cash Equivalents During the Period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Cash and Cash Equivalents, Beginning of Period</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>

See accompanying notes to consolidated financial statements.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

September 30, 2009

(Unaudited - \$ Thousands, except Unit and per Unit amounts)

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### 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. 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. All of CAPREIT's assets are in, and the revenues derived from, the Canadian real estate industry.

### 2. Significant Accounting Policies

#### a) *Basis of presentation*

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") consistent with those disclosed in CAPREIT's consolidated financial statements for the year ended December 31, 2008, except as described in note 2(s).

CAPREIT's results for the nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in utility costs and other factors. CAPREIT has historically experienced higher utility expenses in the first and last quarters as a result of the winter months, which create variations in the quarterly results.

#### b) *Principles of consolidation*

The consolidated 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 are recorded at cost less accumulated depreciation, net of any impairment loss. 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 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 leasehold interest - buildings and improvements is recorded on a straight-line basis over the term of the leases ranging from 29 to 40 years.

Leasehold interest - options to purchase, are evaluated for impairment annually or more frequently when events have occurred that would suggest impairment. Impairment would be recognized when the estimated fair value of the option is lower than the carrying value. 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) *Prepaid CMHC premiums*

Fees paid to Canada Mortgage and Housing Corporation ("CMHC") for mortgage insurance premiums are amortized over the shorter of the original or remaining amortization period of the underlying mortgage loans (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.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

September 30, 2009

(Unaudited - \$ Thousands, except Unit and per Unit amounts)

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**e) *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.

**f) *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. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance will be expensed at that time.

**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.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

September 30, 2009

(Unaudited - \$ Thousands, except Unit and per Unit amounts)

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### 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, which were previously classified as deferred assets and amortized on a straight-line basis over the term of the related debt, are now 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 and comprehensive income in property operating costs, except for those contracts that are designated for its own use. At September 30, 2009, the change in fair value for those contracts not designated for its own use was an unrealized loss of \$228 (September 30, 2008 – \$44).

### 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 and comprehensive income.

CAPREIT selected January 1, 2003, as the transition date for embedded derivatives and as such, only contracts or financial instruments entered into or modified on that transition date were examined for embedded derivatives. As at September 30, 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 and comprehensive income.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

September 30, 2009

(Unaudited - \$ Thousands, except Unit and per Unit amounts)

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**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 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.

**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 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 Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

**q) Cash flow statements**

Cash and cash equivalents consist of cash on hand and 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.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

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### r) *Income taxes*

CAPREIT is taxed as a Mutual Fund Trust for income tax purposes. Pursuant to its Declaration of Trust, CAPREIT is required to distribute its income for income tax purposes each year to its Unitholders to such an extent that it will 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 did not have any significant impact on the valuation of CAPREIT's financial assets or liabilities.

### 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.

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public entities will have to adopt International Financial Reporting Standards ("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 has begun to develop its convergence plan in order to transition its 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.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

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### 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 was accrued and included in the Trust expenses for the three and nine months ended September 30, 2009, including compensation costs related to the accelerated vesting of the LTIP and SELTIP Units previously awarded (note 13(i)).

### 4. Recent Property Acquisitions

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

For the nine months ended September 30, 2009:

- On August 14, 2009, CAPREIT Limited Partnership ("CAPLP") acquired 14 land lease sites (11 sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of \$909, all of which were funded from the Land Lease Facility (note 9(b)).
- On February 10, 2009, CAPLP acquired ten 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 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 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)).

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

	September 30, 2009	December 31, 2008
The consideration paid consists of:		
– New mortgages payable	\$ –	\$ 44,557
– Assumed mortgages payable	–	31,249
– Bank indebtedness	1,457	44,005
	<b>\$ 1,457</b>	<b>\$ 119,811</b>
The allocation of consideration paid is as follows:		
Income properties:		
– Land	\$ 1,059	\$ 33,149
– Buildings and improvements	398	85,565
– Equipment	–	330
	<b>1,457</b>	<b>119,044</b>
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)
	<b>\$ 1,457</b>	<b>\$ 119,811</b>

## 5. Income Properties

	September 30, 2009	December 31, 2008
<b>Freehold</b>		
– Land	\$ 362,160	\$ 361,081
– Buildings and improvements		
Cost	1,676,019	1,628,393
Accumulated Depreciation	(270,417)	(228,088)
Net Book Value – Buildings and improvements	1,405,602	1,400,305
Net Book Value – Freehold	<b>1,767,762</b>	<b>1,761,386</b>
<b>Leasehold interest</b>		
– Buildings and improvements		
Cost	472,339	462,036
Accumulated Depreciation	(85,919)	(72,829)
Net Book Value – Buildings and improvements	386,420	389,207
– Options to purchase	10,830	10,830
Net Book Value – Leasehold interest	<b>397,250</b>	<b>400,037</b>
<b>Equipment</b>		
Cost	48,621	43,158
Accumulated Depreciation	(14,710)	(11,636)
Net Book Value – Equipment	<b>33,911</b>	<b>31,522</b>
Total Cost	<b>2,569,969</b>	<b>2,505,498</b>
Total Accumulated Depreciation	<b>(371,046)</b>	<b>(312,553)</b>
<b>Net Book Value – Income Properties</b>	<b>\$ 2,198,923</b>	<b>\$ 2,192,945</b>

*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.



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*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. Options are exercisable by CAPREIT after the expiration of the 25th year of the respective leasehold term ranging from 2023 to 2027.

### 6. Sundry Assets

	September 30, 2009	December 31, 2008
Prepaid CMHC premiums – net of amortization of \$5,670 (2008 – \$4,864)	\$ 26,591	\$ 19,712
Prepaid expenses	7,735	2,836
Tenant inducements	635	212
Other receivables	5,468	4,951
Restricted cash	2,744	2,925
Deposits on purchases (a)	824	1,519
Deposits	1,319	612
Investments	22,859	14,270
Leasehold improvements – net of amortization of \$509 (2008 – \$446)	681	782
Other assets – net of amortization of \$1,202 (2008 – \$692)	1,962	1,035
<b>Total</b>	<b>\$ 70,818</b>	<b>\$ 48,854</b>

- a) Under the terms of the development agreements entered into concurrently with the acquisition of 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 land lease sites are acquired by CAPLP. The Agreements are for a ten-year term and can be extended for an additional ten years.

### 7. Intangible Assets and Liabilities

	September 30, 2009	December 31, 2008
<b>Intangible assets</b>		
Value of tenant in-place leases		
Cost	\$ 15,084	\$ 15,084
Accumulated amortization	(14,511)	(13,853)
<b>Net Book Value</b>	<b>573</b>	<b>1,231</b>
Value of tenant relationships		
Cost	1,571	1,571
Accumulated amortization	(1,487)	(1,337)
<b>Net Book Value</b>	<b>84</b>	<b>234</b>
Value of above market leases		
Cost	1,243	1,243
Accumulated amortization	(1,231)	(1,213)
<b>Net Book Value</b>	<b>12</b>	<b>30</b>
<b>Total Cost</b>	<b>17,898</b>	<b>17,898</b>
<b>Total Accumulated amortization</b>	<b>(17,229)</b>	<b>(16,403)</b>
<b>Net Book Value – Intangible assets</b>	<b>\$ 669</b>	<b>\$ 1,495</b>
<b>Intangible liabilities</b>		
Value of below market leases		
Cost	\$ 1,908	\$ 1,908
Accumulated amortization	(1,711)	(1,574)
<b>Net Book Value – Intangible liabilities</b>	<b>\$ 197</b>	<b>\$ 334</b>

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

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### 8. Mortgages Payable

Mortgages payable bear interest at a weighted average effective rate of 5.16% (December 31, 2008 – 5.30%), and mature between 2009 and 2027. The effective interest rate as at September 30, 2009 includes 0.07% (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
Three months remaining in 2009	\$ 41,694	2.7
2010	205,580	13.4
2011	241,747	15.8
2012	240,558	15.7
2013	160,699	10.5
Subsequent to 2013	640,150	41.9
	1,530,428	100.0
Deferred financing costs and fair value adjustments	(4,802)	
	\$ 1,525,626	

As at September 30, 2009, fair value adjustments of \$752 and (\$5,554) of unamortized deferred financing costs are netted in mortgages payable.

### 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 of 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 September 30, 2009, the weighted average floating interest rate for amounts drawn under this credit facility is 3.39% (December 31, 2008 – 3.38%). At September 30, 2009, the borrowings outstanding for this facility were \$150,508 (December 31, 2008 – \$116,911). In addition, at September 30, 2009, letters of credit in the amount of \$4,705 (December 31, 2008 – \$3,856) were outstanding, which affect 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 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 land lease properties have been provided as security. At September 30, 2009, the borrowings outstanding for this facility were \$2,744 (December 31, 2008 – \$4,118). In addition, letters of credit in the amount of \$104 (December 31, 2008 – \$130) were outstanding, which affect the maximum available under the facility. At September 30, 2009, the weighted average floating interest rate for amounts drawn under this facility is 3.45% (December 31, 2008 – 2.89%).

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

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### 10. Future Income Taxes

Prior to June 12, 2007, no provision for income taxes was recorded in the consolidated financial statements. On June 12, 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 12, 2007 or as at September 30, 2009, a future income tax liability in the amount of \$64,403 has been recorded at September 30, 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 provision to the consolidated statement of income and comprehensive income in the amount of \$606 for the nine months ended September 30, 2009 (September 30, 2008 – \$243) and to other comprehensive income (loss) for \$576 (September 30, 2008 – \$nil) relating to 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 and comprehensive income at that time. CAPREIT is not currently taxable and accordingly, no current income taxes have been recorded as at September 30, 2009. CAPREIT has not exceeded the Normal Growth Guidelines.

A reconciliation of income tax expense for the period is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Current income taxes at Canadian statutory tax rate	\$ –	\$ –	\$ –	\$ –
Provision for future income taxes relating to OCI ( <i>note 13(b)</i> )	62	–	539	–
Provision for future income taxes for changes in substantively enacted tax rates for OCI	–	–	37	–
(Recovery of) provision for future income taxes	(56)	33	(196)	243
Provision for future income taxes for changes in substantively enacted tax rates	–	–	802	–
Future income taxes	\$ 6	\$ 33	\$ 1,182	\$ 243

The future income tax liability is as follows:

	September 30, 2009	December 31, 2008
Future income tax liability, beginning of the period	\$ 63,221	\$ 51,789
Future income taxes relating to OCI ( <i>note 13(b)</i> )	576	2,298
Future income taxes	606	9,134
Future income tax liability, end of the period	\$ 64,403	\$ 63,221

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

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### 11. Distributions

CAPREIT pays out distributions to its Unitholders in accordance with its Declaration of Trust. Distributions declared by its Board of Trustees are paid out monthly, on or about the 15<sup>th</sup> day of each month.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Distributions declared ( <i>note 18(b)</i> )	\$ 18,483	\$ 18,219	\$ 55,258	\$ 54,516
Distributions Per Unit	\$ 0.270	\$ 0.270	\$ 0.810	\$ 0.810

### 12. Per Unit Calculations

Basic per Unit calculations are based on the weighted average number of Units and CAPLP Units (collectively "Units") outstanding for the period, including deferred Units (*note 13(i)*) allocated under the Deferred Unit Plan (52,654 Units (September 30, 2008 – 20,795 Units)), but excluding Units issued under the LTIP (1,572,244 Units (September 30, 2008 – 1,164,744 Units)) and SELTIP (817,914 Units (September 30, 2008 – 817,914 Units)). 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 Units and the number of diluted Units:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Weighted average number of Units	66,086,215	65,496,178	65,932,614	65,358,179
Effect of dilutive Unit options, LTIP and SELTIP Units	121,604	298,706	90,103	250,448
Weighted average number of diluted Units	66,207,819	65,794,884	66,022,717	65,608,627

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

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### 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	504,377	–	504,377
Employee Unit Purchase Plan	12,841	–	12,841
Long-Term Incentive Plan ("LTIP")	407,500	–	407,500
Deferred Unit Plan ("DUP")	23,982	–	23,982
Units cancelled	(13,500)	–	(13,500)
<b>Units outstanding, September 30, 2009</b>	<b>68,156,291</b>	<b>411,311</b>	<b>68,567,602</b>

	Trust Units	CAPLP Units	Total
Units outstanding, January 1, 2008	66,606,085	411,311	67,017,396
Issued during the year:			
Distribution Reinvestment Plan	666,586	–	666,586
Unit Option Plan	19,000	–	19,000
Employee Unit Purchase Plan	8,895	–	8,895
LTIP	370,000	–	370,000
DUP	20,795	–	20,795
Units cancelled	(566,200)	–	(566,200)
<b>Units outstanding, September 30, 2008</b>	<b>67,125,161</b>	<b>411,311</b>	<b>67,536,472</b>

The outstanding 411,311 exchangeable limited partnership units ("CAPLP Units") are entitled to distributions equivalent to distributions on CAPREIT Units, must be exchanged solely for CAPREIT Units on a one-for-one basis, and are exchangeable at any time at the option of the holder.

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 September 30, 2009 is 966,273 Units (December 31, 2008 – 1,410,596 Units).

#### **a) New Units Issued**

On November 7, 2007, CAPREIT issued 5,350,000 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.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>AOCL balance, beginning of period</b>	\$ (31,994)	\$ (19,446)	\$ (38,400)	\$ (9,354)
<b>Other comprehensive income (loss):</b>				
Loss on derivative financial instruments <sup>(1)</sup>	–	(1,881)	–	(4,936)
Amortization of AOCL to mortgage interest <sup>(1)</sup>	181	–	311	–
Gain (loss) on interest rate swap agreements	368	(808)	1,774	(1,812)
Provision for future income taxes (note 10)	(62)	–	(576)	–
Loss on amounts designated as cash flow hedges settled in prior years and transferred to mortgage interest expense	(62)	(91)	(195)	(220)
Change in fair value of investments	3,072	(4,822)	8,589	(10,726)
<b>Other comprehensive income (loss)</b>	<b>3,497</b>	<b>(7,602)</b>	<b>9,903</b>	<b>(17,694)</b>
<b>AOCL balance, end of period</b>	<b>\$ (28,497)</b>	<b>\$ (27,048)</b>	<b>\$ (28,497)</b>	<b>\$ (27,048)</b>

	September 30,	
	2009	2008
<b>AOCL comprised of:</b>		
Loss on derivative financial instruments <sup>(1)</sup>		
Cumulative realized loss	\$ (9,908)	\$ (9,908)
Amortization to mortgage interest	311	–
Loss on interest rate swap agreements	(5,440)	(3,443)
Provision for future income taxes (note 10)	(2,874)	–
Unamortized balance of loss on amounts designated as cash flow hedges settled in prior years	67	325
Change in fair value of investments	(10,653)	(14,022)
<b>AOCL balance, end of period</b>	<b>\$ (28,497)</b>	<b>\$ (27,048)</b>

(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 and comprehensive income 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 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, Units are granted to Trustees, officers and employees based on a performance incentive for improved service and enhancing profitability and vest on grant. There were no options granted in the nine months ended September 30, 2009 and 2008.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

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A summary of Unit option activity for the nine months ended September 30, 2009 and 2008 is presented as follows. All options are exercisable as at September 30, 2009.

	September 30, 2009		September 30, 2008	
	Number of Units	Weighted Avg. Exercise Price	Number of Units	Weighted Avg. Exercise Price
Options outstanding, beginning of period	387,200	\$ 13.42	419,600	\$ 13.35
Options exercised	–	–	(19,000)	12.68
Options outstanding, end of period	387,200	\$ 13.42	400,600	\$ 13.39

The following Unit Option Plan grants are outstanding:

Exercise Price	Expiry Date	September 30, 2009	September 30, 2008
		Number of Units	Number of Units
\$ 11.85	December 17, 2010	57,700	66,100
\$ 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	143,500
		387,200	400,600

### 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. No new Units were issued and no new loans to purchase Units were granted to the executives in the three and nine months ended September 30, 2009 and 2008.

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 the three and nine months ended September 30, 2009 was \$6 and \$16, respectively (September 30, 2008 – \$4 and \$13, respectively).

### 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 pre-pay 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.

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

Number of Units	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Balance, beginning of period	1,572,244	1,164,744	1,164,744	794,744
Issued during the period	–	–	407,500	380,000
Cancelled during the period	–	–	–	(10,000)
Balance, end of period	1,572,244	1,164,744	1,572,244	1,164,744
Value of LTIP Units granted during the period	\$ –	\$ –	\$ 5,208	\$ 6,118

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

Installment Receipts	Three Months Ended September 30,	
	2009	2008
Balance, beginning of period	\$ 22,137	\$ 17,667
Principal repayments during the period	(163)	(103)
Balance, end of period	\$ 21,974	\$ 17,564

Installment Receipts	Nine Months Ended September 30,		Year Ended December 31,
	2009	2008	2008
Balance, beginning of period	\$ 17,458	\$ 12,245	\$ 12,245
Amounts granted, net of initial installment of \$261 (2008 – \$306)	4,947	5,812	5,812
Amounts cancelled	–	(197)	(197)
Principal repayments during the period	(431)	(296)	(402)
Balance, end of period	\$ 21,974	\$ 17,564	\$ 17,458

The Installment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the three and nine months ended September 30, 2009, interest payments in the amount of \$261 and \$739, respectively (September 30, 2008 – \$212 and \$590, respectively), were credited to Unitholders' Equity in cumulative distributions.

On March 10, 2009, 407,500 Units were issued at \$12.78. The fair value of the compensation costs for the Units granted on this day under the LTIP using the Black-Scholes option pricing model was estimated to be \$694. 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 \$nil and \$231 were expensed in the consolidated statement of income and comprehensive income during the three and nine months ended September 30, 2009, respectively, with a corresponding amount included in Unitholders' Equity in cumulative capital.

On February 29, 2008, 380,000 Units were issued at \$16.10. The fair value of the compensation costs for the Units granted on this day under the LTIP using the Black-Scholes option pricing model was estimated to be \$960. 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 \$nil and \$320 were expensed in the consolidated statement of operations and comprehensive loss during the three and nine months ended September 30, 2008, respectively, 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 \$nil and \$11 previously expensed in 2007 were adjusted for in the three and nine months ended September 30, 2008, respectively.



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

	September 30, 2009	September 30, 2008
Risk-free interest rate	2.99%	3.70%
Expected lives (years)	10	10
Expected volatility	12.00%	12.00%
Dividend yield	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 pre-pay 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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Balance, beginning of period	817,914	817,914	817,914	817,914
Issued during the period	-	-	-	-
Balance, end of period	817,914	817,914	817,914	817,914

The details of the SELTIP Installment Receipts are shown below:

Installment Receipts	Three Months Ended September 30,	
	2009	2008
Balance, beginning of period	\$ 12,956	\$ 13,190
Principal repayments during the period	(59)	(56)
Balance, end of period	\$ 12,897	\$ 13,134

Installment Receipts	Nine Months Ended September 30,		Year Ended December 31,
	2009	2008	2008
Balance, beginning of period	\$ 13,075	\$ 13,302	\$ 13,302
Principal repayments during the period	(178)	(168)	(227)
Balance, end of period	\$ 12,897	\$ 13,134	\$ 13,075

The Installment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the three and nine months ended September 30, 2009, interest payments in the amount of \$162 and \$482, respectively (September 30, 2008 - \$164 and \$493, respectively), were credited to Unitholders' Equity in cumulative distributions.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

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### i) *Costs related to accelerated vesting of LTIP and SELTIP*

Unitholders' Equity as at September 30, 2009 includes \$122 (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. For the three and nine month periods ended September 30, 2009, total compensation costs of \$112 and \$324, respectively (September 30, 2008 – \$111 and \$352, respectively), were expensed in relation to awards under the DUP.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Outstanding, beginning of period				
Number of Units	45,074	13,791	28,672	–
Weighted Average Price	\$ 15.11	\$ 17.50	\$ 16.42	\$ –
Granted during the period				
Number of Units	7,580	7,004	23,982	20,795
Weighted Average Price	\$ 14.31	\$ 16.24	\$ 13.30	\$ 17.08
Outstanding, end of period				
Number of Units	52,654	20,795	52,654	20,795
Weighted Average Price	\$ 15.00	\$ 17.08	\$ 15.00	\$ 17.08

### k) *Units Cancelled*

During the three and nine months ended September 30, 2009, nil and 13,500 Units, respectively (September 30, 2008 – 132,500 and 566,200, respectively), were acquired for cancellation pursuant to a normal course issuer bid, at market prices aggregating \$nil and \$169, respectively (September 30, 2008 – \$2,169 and \$8,500, respectively).

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## Notes to Consolidated Financial Statements

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### 14. Amortization

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Amortization of other financing costs and CMHC premiums	\$ 723	\$ 363	\$ 1,515	\$ 1,001
Amortization of leasehold improvements	21	21	63	58
Amortization of tenant improvements	75	74	225	213
Amortization of intangible assets	189	292	808	973
	\$ 1,008	\$ 750	\$ 2,611	\$ 2,245

### 15. Reorganization Costs

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

- Setting up of CAPLP and the issuance of CAPLP Units exchangeable into CAPREIT Units.
- Conversion from closed-end to an open-end trust structure including changes to the Declaration of Trust.
- Transfer of beneficial interest in all the properties, mortgage debt and trust debt obligations from CAPREIT to CAPLP.

### 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. The unrealized loss on these contracts to which hedge accounting treatment was applied (see note 2(h)), aggregating to \$5,638 as at January 1, 2007, the effective date of implementation of CICA Handbook Section 3865, was recorded in AOCL and cumulative changes resulting from mark-to-market valuations during the period January 2, 2007 to September 30, 2008, the date hedge accounting was terminated, aggregating to \$4,270 were reflected in OCL (\$9,908 cumulative in AOCL at September 30, 2008).

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 and comprehensive income.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

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(Unaudited - \$ Thousands, except Unit and per Unit amounts)

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

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Unrealized (Loss) Gain	Realized (Loss) Gain	Unrealized (Loss) Gain	Realized (Loss) Gain
Opening cumulative loss	\$ (7,857)	\$ (14,916)	\$ (27,535)	\$ –
Contracts settled during the period	–	(699)	–	4,063
Realization of previously unrealized gain (loss)	7,857	(7,857)	27,535	(27,535)
Closing cumulative loss	\$ –	\$ (23,472)	\$ –	\$ (23,472)

During the three months ended September 30, 2009, CAPREIT settled Interest Rate Forward Contracts with a notional value of \$61,324, resulting in a realized loss of \$699. During the nine months ended September 30, 2009, CAPREIT settled Interest Rate Forward Contracts with a notional value of \$145,740, resulting in a realized net gain of \$4,063. These settlements resulted in the realization of previously unrealized losses of \$7,857 and \$27,535, respectively, for the three and nine month periods ending September 30, 2009. As at September 30, 2009, all of the Interest Rate Forward Contracts have been settled, resulting in a cumulative realized loss of \$23,472 on these contracts. Such cumulative realized loss includes the cumulative loss of \$9,908 at September 30, 2008 (the date hedge accounting on the Interest Rate Forward Contracts ceased), which is included in AOCL, net of accumulated amortization thereon (note 13(b)).

### b) Contracts for which hedge accounting is being applied.

As at September 30, 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 three and nine month periods ended September 30, 2009, an unrealized gain of \$368 and \$1,774, respectively (September 30, 2008 – unrealized loss of \$808 and \$1,812, respectively) has been included in OCI (note 13(b)). The mark-to-market cumulative unrealized loss of \$5,440 and \$7,214 is included in AOCL and has been set up in accounts payable and other liabilities as at September 30, 2009 and December 31, 2008, respectively.

## 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 first nine months of 2008.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	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

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### 18. Supplemental Cash Flow Information

#### a) Changes in non-cash operating assets and liabilities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Prepaid CMHC premiums	\$ (3,500)	\$ (1,393)	\$ (7,884)	\$ (1,897)
Prepaid expenses	(582)	(686)	(4,899)	(5,438)
Tenant inducements	(275)	(57)	(423)	71
Other receivables	375	(106)	(654)	(136)
Other assets	(247)	(403)	(1,437)	(1,133)
Deposits on purchases	368	323	695	232
Deposits	(575)	1,085	(707)	258
Leasehold improvements	–	(19)	38	(116)
Accounts payable and other liabilities	(2,073)	(1,323)	(2,254)	1,239
Security deposits	38	427	(75)	862
	\$ (6,471)	\$ (2,152)	\$ (17,600)	\$ (6,058)

#### b) Net cash distributions to Unitholders

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Distributions declared to Unitholders	\$ (18,483)	\$ (18,219)	\$ (55,258)	\$ (54,516)
Add: Distributions payable at beginning of period	(6,152)	(6,069)	(6,084)	(6,032)
Less: Distributions payable at end of period	6,166	6,077	6,166	6,077
Less: Distributions to Participants in the Distribution Reinvestment Plan	1,940	3,235	6,393	10,170
	\$ (16,529)	\$ (14,976)	\$ (48,783)	\$ (44,301)

#### c) Mortgages and loans

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Interest paid	\$ 19,482	\$ 19,949	\$ 58,131	\$ 58,570

#### d) Capital improvements

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Capital improvements	\$ (26,987)	\$ (17,374)	\$ (63,014)	\$ (37,166)
Change in accounts payable and other liabilities	(776)	(1,820)	3,004	(3,198)
	\$ (27,763)	\$ (19,194)	\$ (60,010)	\$ (40,364)

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### e) Acquisition of income properties

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Acquired properties (note 4)	\$ (909)	\$ (62,913)	\$ (1,457)	\$ (102,007)
Assumed debt (note 4)	–	15,010	–	20,777
Net proceeds	\$ (909)	\$ (47,903)	\$ (1,457)	\$ (81,230)

### f) Disposition of income properties

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Proceeds	\$ –	\$ –	\$ –	\$ 127,600
Closing costs	–	–	–	(4,777)
Mortgages assumed by purchasers and discharged	–	–	–	(59,830)
Net proceeds	\$ –	\$ –	\$ –	\$ 62,993

## 19. 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 the three and nine month periods ended September 30, 2009 (excluding GST) amounted to \$419 and \$1,391, respectively (September 30, 2008 – \$485 and \$1,072, respectively), and have been capitalized to income properties. At September 30, 2009, there were construction management fees outstanding of \$56 (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 the three and nine month periods ended September 30, 2009 was \$161 and \$482, respectively (September 30, 2008 – \$159 and \$477, respectively), including property operating costs and has been expensed as trust expenses. The lease expires on October 31, 2009. CAPREIT has exercised its option to renew and the new agreement expires on October 31, 2014. Minimum annual rental payments are as follows:
- |      |        |
|------|--------|
| 2009 | \$ 92  |
| 2010 | \$ 383 |
| 2011 | \$ 383 |
| 2012 | \$ 383 |
| 2013 | \$ 383 |
| 2014 | \$ 319 |
- 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 the three and nine month periods ended September 30, 2009 (excluding GST) were \$nil and \$21, respectively (September 30, 2008 – \$12 and \$58, respectively) and have been expensed as trust expenses. At September 30, 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 the three and nine months ended September 30, 2009 (September 30, 2008 – \$111 and \$487, respectively), (excluding GST) and \$nil (December 31, 2008 – \$16) is outstanding and included in accounts payable and other liabilities.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

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### 20. 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 financial statements, approximates their carrying amount due to the short-term nature of those instruments.

At September 30, 2009, the fair value of CAPREIT's mortgages payable is estimated to be \$1,601,184 (December 31, 2008 – \$1,550,427) due to changes in interest rates since the dates the individual mortgages were financed. The fair value of the mortgages payable has been estimated based on current market rates for mortgages with similar terms and conditions.

#### 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 nine-month periods ended September 30, 2009 and September 30, 2008, a one percentage change in interest rates would have the following effect:

	Change in interest rates	Nine Months Ended September 30,		Nine Months Ended September 30,	
		2009	2008	2009	2008
	%	Increase (decrease) in net income		Increase (decrease) in OCI	
Floating rate debt	+1.00	\$ (999)	\$ (536)	\$ –	\$ –
Floating rate debt	-1.00	\$ 999	\$ 536	\$ –	\$ –
Derivative financial instruments	+1.00	\$ –	\$ –	\$ –	\$ 10,917
Derivative financial instruments	-1.00	\$ –	\$ –	\$ –	\$ (9,837)
Interest rate swap agreements	+1.00	\$ –	\$ –	\$ 1,659	\$ 2,690
Interest rate swap agreements	-1.00	\$ –	\$ –	\$ (1,426)	\$ (1,166)

CAPREIT's objective of managing interest rate risk is to minimize the volatility of earnings. As at September 30, 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 96.1% of CAPREIT's mortgages are CMHC-insured (excluding a \$55,000 mortgage on the land lease portfolio), which reduces the risk of mortgage refinancings. CAPREIT's overall risk for mortgage refinancings is further reduced as the 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 September 30, 2009, CAPREIT had undrawn lines of credit available in the amount of \$89,347.

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

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The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at September 30, 2009 are as follows:

(\$ Thousands)	2009	2010 - 2011	2012 - 2013	2014 onward
Mortgages payable	\$ 41,694	\$ 447,327	\$ 401,257	\$ 640,150
Bank indebtedness	–	102,744	50,508	–
Mortgage interest payable	24,310	124,936	79,575	99,776
Bank indebtedness interest payable	1,448	5,699	942	–
Accounts payable and accrued liabilities	40,595	4,807	507	–
Security deposits	18,777	–	–	–
Distributions payable	6,166	–	–	–
	<b>\$ 132,990</b>	<b>\$ 685,513</b>	<b>\$ 532,789</b>	<b>\$ 739,926</b>

### **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, limiting its exposure to any one tenant 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 recognized in the consolidated statement of income and comprehensive income. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of income and comprehensive income. Accordingly, no allowance for doubtful accounts is established.

## **21. 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, meet its repayment obligations under its mortgages and credit facilities and, ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in the Declaration of Trust and debt covenants in the Credit Facilities.

CAPREIT's Declaration of Trust permits the maximum amount of total debt to 70% of the gross book value of CAPREIT's total assets. Gross book value is defined as the book value of the assets of CAPREIT plus accumulated depreciation and amortization.

CAPREIT's Credit Facilities have covenants that provide for: (i) tangible net worth of not less than \$400,000; (ii) the maintenance of an interest coverage ratio of 1.50 times; and (iii) a debt coverage ratio of 1.20 times, both ratios calculated on a rolling four quarter basis. Tangible net worth is generally represented as Unitholders' Equity and 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. Interest coverage is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by interest expense. Debt coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by principal and interest payments.



# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

September 30, 2009

(Unaudited - \$ Thousands, except Unit and per Unit amounts)

The total capital managed by CAPREIT is summarized as follows:

	September 30, 2009	December 31, 2008
Mortgages payable (note 8)	\$ 1,525,626	\$ 1,472,822
Bank indebtedness (note 9)	153,252	121,029
Unitholders' equity	456,080	485,933
Total capital	\$ 2,134,958	\$ 2,079,784
Total debt to gross book value (%)	62.97	61.82
Tangible net worth	\$ 520,483	\$ 549,154
	September 30, 2009	December 31, 2008
<b>For the four quarters ended,</b>		
Interest coverage ratio (times)	2.06	2.06
Debt coverage ratio (times)	1.27	1.30

The Declaration of Trust also requires CAPREIT to distribute to its Unitholders each year an amount calculated to ensure CAPREIT will not be subject to tax pursuant to Part I of the *Income Tax Act* (Canada).

## 22. Commitments

### **Natural gas and hydro**

CAPREIT has entered into fixed price commitments in the aggregate amount of \$21,306 for its natural gas and \$780 for its hydro requirements. These commitments, which range from one to four 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.

During the quarter, 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.

### **Land leases**

Several of the properties have land leases with various expiry dates (subject to revisions at periodic intervals) between September 30, 2013 and March 31, 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. Minimum annual rent for the next five years under these leases is as follows:

Three months remaining in 2009	\$ 185
2010	\$ 740
2011	\$ 740
2012	\$ 740
2013	\$ 736
Thereafter	\$ 29,325

# CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

## Notes to Consolidated Financial Statements

September 30, 2009

(Unaudited - \$ Thousands, except Unit and per Unit amounts)

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### ***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 September 30, 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.

### ***Capital Expenditures***

Commitments primarily related to capital expenditure investments in income properties of \$19,202 were outstanding as at September 30, 2009.

## **23. 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.

## ***Unitholder Information***

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### **INVESTOR INFORMATION**

Analysts, Unitholders and others seeking financial data should visit CAPREIT's website at [www.capreit.net](http://www.capreit.net) or contact:

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### **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

### **REGISTRAR AND TRANSFER AGENT**

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### **AUDITORS**

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### **LEGAL COUNSEL**

Stikeman Elliott LLP

### **STOCK EXCHANGE LISTING**

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