CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

FINANCIAL REVIEW
FOR THE THREE MONTHS ENDED
MARCH 31, 2010

CAPREIT

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May 11, 2010

Report to Unitholders

Canadian Apartment Properties Real Estate Investment Trust ("CAPREIT") is among Canada's largest landlords of multi-unit residential rental properties. At May 11, 2010, CAPREIT has ownership interests in a portfolio that included 27,776 residential suites diversified by geographic location, type and sector and two manufactured home communities comprising 1,316 land lease sites. We are pleased to present you with CAPREIT's Management's Discussion and Analysis and consolidated financial statements for the three months ended March 31, 2010.

Our message to investors has always been that CAPREIT represents a sound, defensive investment in any economic climate and our performance in 2009 and the first quarter of 2010 proves that this continues to be the case. The strengths of our diversified portfolio, combined with an exceptional property management team, have again delivered outstanding performance in today's economic climate.

Our properties continued to perform exceptionally well in the majority of our markets through the three months ended March 31, 2010. Operating revenues increased by 1.6% over last year, primarily due to higher average monthly rents and occupancy levels of close to 98%.

Our net operating income ("NOI") for the quarter improved by almost 10% to approximately $44 million or 52.2% of operating revenues compared to $40 million or 48.3% of operating revenues last year. Operating expenses as a percentage of operating revenues were down primarily due to the significant decrease in utility and repairs and maintenance costs, primarily a result of our energy savings initiatives combined with the success of our waste recycling programs. These initiatives helped us generate our seventeenth consecutive quarter of stable or increasing year-over-year NOI on a stabilized portfolio basis.

We are pleased to announce that our Normalized Funds From Operations ("NFFO"), which excludes from Funds From Operations the effect of changes in the fair value of derivative financial instruments and certain other non-recurring expenses, rose approximately 22% to $20 million in the quarter, for a first quarter CAPREIT record of $0.301 per Unit, resulting in a significantly improved NFFO payout ratio of 93.3% compared to 111.3% last year.

In 2009, we invested a record $90 million in improving and upgrading our properties, which has the long-term benefit of enhancing property values and maintaining high occupancy levels while improving operating performance. Our investments in energy savings initiatives and water saving and waste recycling programs have already demonstrated their benefits by mitigating potentially higher increases in utility costs and contributed to overall portfolio NOI significantly. We plan to maintain this level of investment in 2010 and have completed over $8 million in capital investments as of March 31, 2010.

Our balance sheet and financial position remain strong at quarter end. The ratio of total debt to gross book value remains at a conservative 63%, well below the maximum of 70% permitted under our Declaration of Trust. We are making solid progress with our mortgage renewal and refinancing programs for 2010, of which we have completed or committed of over $29 million to date. Our continued ability to capitalize on the availability of CMHC-insured financing and the current low interest rate environment will generate significant interest rate savings in the coming years.

2009 was the only period in our history when we did not achieve our longstanding annual target of acquiring between 1,500 and 2,000 suites; however, we are on track to meet our target in 2010. Subsequent to March 31, 2010, we completed the acquisition of a property located in Vancouver, British Columbia, while further portfolio positioning and growth is evident through CAPREIT's recent announcement to purchase a luxury property in Mississauga, Ontario and an agreement to dispose of one of our affordable properties in London, Ontario. These transactions are consistent with our stated strategy of increasing the geographic and demographic diversification of our portfolio.

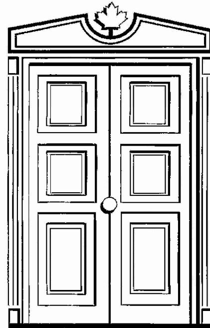
As we progress into 2010, we will continue to work hard to keep each and every one of our residents satisfied by improving their experience as our tenant. We will continue to strengthen our team and strive to be one of the best managed companies and employers in Canada. We will maintain our commitment to being a good neighbour and the Landlord of Choice.

We remain grateful for the commitment and hard work of the dedicated men and women at CAPREIT, each and every one of whom has our respect and appreciation. We also feel a special gratitude to our fellow trustees for their perspective, counsel and friendship.

We look forward to seeing you in Toronto at our annual general meeting on May 19th.

(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 MONTHS ENDED MARCH 31, 2010

MAY 11, 2010

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SECTION I

FORWARD-LOOKING DISCLAIMER

The following Management's Discussion and Analysis ("MD&A") of Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") results of operations and financial condition for the three months ended March 31, 2010 and 2009 should be read in conjunction with CAPREIT's consolidated financial statements for the periods as well as the audited consolidated annual financial statements for the year ended December 31, 2009, contained in CAPREIT's 2009 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 investments, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to capital investments, acquisition and capital investment strategy and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including: that the Canadian economy will generally experience growth, however, with specific geographic areas of weakness including Alberta and parts of Ontario; that inflation will remain at historically low rates; that interest rates will rise in 2010; that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates; that conditions within the real estate market, including competition for acquisitions, will become more favourable; that the Canadian capital markets will continue to provide CAPREIT with access to equity and/or debt at reasonable rates; that vacancy rates for CAPREIT properties will be consistent with historical norms; that rental rates will grow at levels similar to the rate of inflation on renewal; that rental rates on turnovers will remain stable; that CAPREIT will effectively manage price pressures relating to its energy usage; and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions Management believes are reasonable as of the date hereof, there can be no assurance actual results will be consistent with these forward-looking statements; they may prove to be incorrect. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond CAPREIT's control, that may cause CAPREIT or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: real property ownership, leasehold interests, co-ownerships, investment restrictions, operating risk, energy costs, environmental matters, insurance, capital investments, indebtedness, interest rate hedging, taxation, harmonization of federal goods and services tax and provincial sales tax, government regulations, controls over financial accounting, International Financial Accounting Standards, legal and regulatory concerns, the nature of units of CAPREIT ("Trust Units") and of CAPREIT's subsidiary, CAPREIT Limited Partnership ("CAPLP Units") (collectively, the "Units"), unitholder liability, liquidity and price fluctuation of Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, continued growth and risks related to acquisitions. There can be no assurance that the expectations of CAPREIT's Management will prove to be correct. For detailed discussion of risk factors, refer to the Risks and Uncertainties discussion under Section IIV and in CAPREIT's Annual Information Form. 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 interim consolidated financial statements and audited consolidated annual financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). In this MD&A, and in 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 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 Section III, under Non-GAAP Financial Measures. Since NOI, FFO, NFFO and AFFO are not measures determined under GAAP, they may not be comparable to similarly titled measures reported by other issuers. CAPREIT has presented such non-GAAP measures because Management believes these non-GAAP measures are relevant measures of the ability of CAPREIT to earn and distribute cash returns to investors in Units ("Unitholders") and to evaluate CAPREIT's performance. A reconciliation of non-GAAP measures is provided in Section III, under Non-GAAP Financial Measures in 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 indicators of CAPREIT's performance.

OVERVIEW

CAPREIT is an unincorporated open-ended real estate investment trust created by a declaration of trust (the "Declaration of Trust") dated February 3, 1997 under the laws of the Province of Ontario, as most recently amended and restated on November 13, 2009. CAPREIT owns interests in multi-unit residential rental properties, including apartments, townhouses and manufactured home communities located in and near major urban centres across Canada. At March 31, 2010, CAPREIT had ownership interests in a portfolio that included 27,614 residential suites (CAPREIT's share – 26,459 suites), diversified by geographic location and asset type, and two Ontario manufactured home communities comprising 1,316 land lease sites. At March 31, 2010, CAPREIT had 771 employees (783 employees at December 31, 2009).

On February 22, 2010, CAPREIT Limited Partnership ("CAPLP"), a subsidiary of CAPREIT, acquired 14 land lease sites (13 sites near Bowmanville, Ontario and one site in Grand Bend, Ontario) for total acquisition costs of $0.9 million, all of which were funded from the Land Lease Facility (note 8(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 Normalized Funds From Operations, sustainable distributions and Unit value through the active management of its properties, accretive acquisitions and strong financial management; and
- To reinvest capital within the property portfolio in order to ensure life safety of residents and maximize earnings and cash flow potential.

BUSINESS STRATEGY

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

Customer Service – CAPREIT recognizes that it is in a "people business" and strives to be recognized as the Landlord of Choice in all its chosen markets by providing its residents with safe, secure and comfortable homes. It takes a hands-on approach to managing its properties, stressing open and frequent communications to ensure residents' needs are met efficiently and effectively and thereby maintain a high occupancy level. Numerous initiatives such as newsletters, special events, resident committees and other initiatives help to build a true sense of community at its properties. CAPREIT's strong sales and marketing team continues to execute innovative and highly effective strategies to help attract and retain residents and adapt to changing conditions in specific markets. In addition, CAPREIT's 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 residents both efficiently and cost effectively. CAPREIT is also striving to capture potential economies of scale and cost synergies arising from past growth. CAPREIT's enterprise-wide procurement system has streamlined and centralized purchasing controls and procedures and is generating reduced costs through national master sourcing contracts, improved pricing and enhanced operating efficiencies.

Capital Investments – CAPREIT strives to acquire properties at prices significantly below their current replacement costs, and is committed to improving its operating performance by incurring appropriate capital investments in order to maintain the productive capacity of its property portfolio and to sustain the portfolio's rental income-generating potential over its useful life. CAPREIT continues to invest in environment-friendly and energy saving initiatives that improve overall net operating income. In 2009, CAPREIT completed a capital review of its portfolio and developed a five-year investment plan that will continue to be monitored and re-examined. This plan will allow Management to ensure capital investments extend the useful economic life of CAPREIT's properties, enhance life safety and improve the long-term cash flow potential of its portfolio.

Portfolio Growth – CAPREIT will grow its portfolio over the long term through accretive acquisitions that meet its strategic criteria and, where possible, enhance geographic diversification while capturing economies of scale and cost synergies, thereby increasing NOI. As a component of this growth strategy, CAPREIT will monitor its portfolio and, from time to time, identify certain non-core properties for divestitures. The funds from these divestitures will be used to acquire additional strategic assets better suited to CAPREIT's portfolio composition and property management objectives or to pay down existing debt. Management believes the continued realization and reinvestment of capital is a fundamental component of its growth strategy and demonstrates the success of CAPREIT's 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 achieve a balance in its overall capital resources requirements between debt and equity.

KEY PERFORMANCE INDICATORS

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

Occupancy – Management strives, through a 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, the 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.

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

Payout Ratio – To help ensure it retains sufficient cash to meet its capital investment objectives, CAPREIT targets an annual payout ratio of between 85% and 90% of NFFO.

Portfolio Growth – Management's objective is to pursue strategic acquisitions of between 1,500 and 2,000 suites on an annual basis, subject to market conditions and available financing, which meet its strategic objectives, serve to accretively increase NFFO and continue to further diversify the portfolio by geography and by sector.

Financing – CAPREIT takes a very proactive approach with its mortgage portfolio, striving to manage interest expense volatility risk by achieving the lowest possible average interest rates while mitigating refinancing risk by

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

PERFORMANCE MEASURES

The following table presents an overview of certain key GAAP and non-GAAP financial measures and operational results of CAPREIT for the periods ended March 31, 2010 and 2009. Management believes that these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. During the period, monthly cash distributions declared to its Unitholders remained constant at $0.09 per Unit.

Three Months Ended March 31,		**2010**		**2009**
Portfolio Performance				
Overall Portfolio Occupancy (1)		**97.8%**		97.3%
Overall Portfolio Average Monthly Rents (1)	**$**	**943**	$	926
Operating Revenues (000s)	**$**	**83,515**	$	82,198
NOI (000s) (2)	**$**	**43,632**	$	39,728
NOI Margin		**52.2%**		48.3%
Operating Performance (2)				
FFO Per Unit – Basic	**$**	**0.227**	$	0.238
NFFO Per Unit – Basic	**$**	**0.301**	$	0.250
Cash Distributions Per Unit	**$**	**0.270**	$	0.270
FFO Payout Ratio		**124.1%**		117.3%
NFFO Payout Ratio		**93.3%**		111.3%
Liquidity and Leverage				
Total Debt to Gross Book Value Ratio (1)		**63.22%**		61.84%
Weighted Average Mortgage Interest Rate (1)		**5.06%**		5.27%
Weighted Average Mortgage Term (years) (1)		**4.8**		4.9
Debt Coverage (times)(3)		**1.30**		1.29
Interest Coverage (times)(3)		**2.08**		2.07
Available Liquidity – Acquisition and Operating Facility (000s) (1)	**$**	**63,509**	$	86,747
Other				
Number of Suites and Sites Acquired		**14**		10
Closing Price of Trust Units (1)	**$**	**14.35**	$	12.50
Market Capitalization ($ millions) (4)	**$**	**991**	$	853

(1) As at March 31.
(2) NOI, FFO and NFFO are not defined by GAAP, do not have standard meanings and may not be comparable with other industries or companies (see Non-GAAP Financial Measures).
(3) For the four quarters ended March 31.
(4) Defined as the closing price of the Units on the last trading date of the period times the number of Units outstanding on that date (see discussion of Unitholders' Equity, under the Liquidity and Financial Condition section).

PROPERTY PORTFOLIO

Types of Property Interests

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

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

Operating Leasehold Interests – CAPREIT owns leasehold interests in 15 properties located in the Greater Toronto Area ("GTA"). The leases mature between 2033 and 2037. While separate lease arrangements exist for each property, the general structure is common across all leases: each lease is for a 35-year term and the rent for the entire lease term was fully paid at the time the leasehold interest was acquired. Each lease also provides CAPREIT with a purchase option exercisable between the 26th and 35th year of the lease term (see Portfolio of Operating Leasehold Interests in CAPREIT's Annual Report for the year ended December 31, 2009 for additional information).

Land Leasehold Interests – CAPREIT owns leasehold interests in two land parcels in Alberta and one land parcel in British Columbia. CAPREIT acquired a residential building on each of the three land parcels and pays ground rent on an annual basis for its use of the land. These land leases mature in 2045, 2068 and 2070. CAPREIT does not have the unilateral right to acquire the land or extend the lease term at the maturity of the respective leases (see Portfolio of Land Leasehold Interests in CAPREIT's Annual Report for the year ended December 31, 2009 for additional information).

Fee Simple Interests – Manufactured Home Community ("MHC") Land Lease Sites – CAPREIT has fee simple interests in two MHCs whereby CAPREIT owns sites, which it rents to residents under long-term leases of approximately 20 years.

Portfolio by Type of Property Interest

As at March 31,	2010	%	2009	%
Fee Simple Interests – Apartments and Townhomes	**22,900**	**79.2**	22,900	79.3
Operating Leasehold Interests	**3,815**	**13.2**	3,815	13.2
Land Leasehold Interests	**899**	**3.1**	899	3.1
Total Residential Suites	**27,614**	**95.5**	27,614	95.6
Fee Simple Interests – MHC Land Lease Sites	**1,316**	**4.5**	1,288	4.4
Total Residential Suites and MHC Land Lease Sites	**28,930**	**100.0**	28,902	100.0

Portfolio Diversification

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

Portfolio by Sector

As at March 31,	2010	%	2009	%
Affordable	**3,638**	**12.6**	3,638	12.6
Mid-tier	**14,711**	**50.9**	14,711	50.9
Luxury	**9,265**	**32.0**	9,265	32.1
Total Residential Suites	**27,614**	**95.5**	27,614	95.6
MHC Land Lease Sites	**1,316**	**4.5**	1,288	4.4
Total Residential Suites and MHC Land Lease Sites	**28,930**	**100.0**	28,902	100.0

Portfolio by Geography

As at March 31,	**2010**	%	**2009**	%
Ontario				
Greater Toronto Area	**14,178**	**49.0**	14,178	49.1
Ottawa	**1,527**	**5.3**	1,527	5.3
London/Kitchener/Waterloo	**1,482**	**5.1**	1,482	5.1
Other Ontario	**1,470**	**5.1**	1,470	5.1
Ontario Residential Suites	**18,657**	**64.5**	18,657	64.6
MHC Land Lease Sites	**1,316**	**4.5**	1,288	4.4
Ontario Residential Suites and Land Lease Sites	**19,973**	**69.0**	19,945	69.0
Québec				
Montréal	**2,545**	**8.8**	2,545	8.8
Québec City	**1,909**	**6.6**	1,909	6.6
	4,454	**15.4**	4,454	15.4
Nova Scotia				
Halifax	**1,083**	**3.7**	1,083	3.7
Alberta				
Edmonton	**310**	**1.1**	310	1.1
Calgary	**1,070**	**3.7**	1,070	3.7
	1,380	**4.8**	1,380	4.8
Saskatchewan				
Saskatoon	**133**	**0.4**	133	0.4
Regina	**108**	**0.4**	108	0.4
	241	**0.8**	241	0.8
British Columbia				
Greater Vancouver Region	**1,291**	**4.5**	1,291	4.5
Victoria	**508**	**1.8**	508	1.8
	1,799	**6.3**	1,799	6.3
Total Residential Suites	**27,614**	**95.5**	27,614	95.6
Total Residential Suites and MHC Land Lease Sites	**28,930**	**100.0**	28,902	100.0

Through accretive acquisitions and non-core or strategic property dispositions, CAPREIT expects to further enhance the geographic diversification of its residential suites portfolio. During the first quarter of 2010, CAPREIT acquired 14 additional land lease sites at its Bowmanville and Grand Bend manufactured home communities for total acquisition costs of $0.9 million. CAPREIT continues to maintain its objective of acquiring between 1,500 and 2,000 suites on an annual basis and Management expects to meet its growth objectives in 2010. During fiscal 2009, CAPREIT acquired 24 additional land lease sites at its Bowmanville and Grand Bend manufactured home communities, including ten acquired in the first quarter of 2009, for total acquisition costs of $1.4 million.

Subsequent to March 31, 2010, CAPREIT completed the acquisition of a property comprising 162 suites located in Vancouver, British Columbia and also entered into a binding agreement to buy a property comprising 199 suites located in Mississauga, Ontario (see discussion under Subsequent Events).

As well, CAPREIT has entered into a binding agreement to sell a property comprising 146 suites located in London, Ontario. The transaction is expected to close in the second quarter of 2010 (see discussion under Subsequent Events).

Over the past four years, CAPREIT has focused on diversifying its geographic portfolio by increasing its presence in markets with higher growth potential and has also acquired two manufactured home communities while maintaining its strong presence in the Ontario residential suite market. Strategic acquisitions continue to target growth in markets outside Ontario; however, Management also continues to believe accretive investments in Ontario will benefit Unitholders as the province's residential market remains stable. CAPREIT continues to look for investment opportunities that meet its investment criteria and that, where possible, will further its diversification strategy. The geographic diversification of its

portfolio also enables CAPREIT to mitigate the risks arising from downturns in specific markets caused by ongoing economic conditions.

SECTION II

AVERAGE MONTHLY RENTS AND OCCUPANCY

Portfolio Average Monthly Rents ("AMR") and Occupancy By Sector

	Total Portfolio					
As at March 31,	**2010**			**2009**		
		AMR	**Occ. %**		**AMR**	**Occ. %**
Affordable	**$**	**851**	**97.4**	$	838	97.6
Mid-tier	**$**	**913**	**98.0**	$	892	96.8
Luxury	**$**	**1,073**	**97.5**	$	1,057	97.5
Average Residential Suites	**$**	**960**	**97.7**	$	942	97.1
Average MHC Land Lease Sites	**$**	**610**	**99.8**	$	598	99.8
Overall Portfolio Average	**$**	**943**	**97.8**	$	926	97.3

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

As there were no significant property acquisitions during 2009 and in the first quarter of 2010, average monthly rents and occupancy levels are comparable between properties owned at January 1, 2009 and the total portfolio as at January 1, 2010. Average monthly rents increased in all sectors of the portfolio, resulting in a 1.8% increase in overall average monthly rent as at March 31, 2010 to $943, compared to $926 last year. The occupancy at March 31, 2010 for the residential suite portfolio increased to 97.7%, slightly ahead of prior year levels.

For the MHC land lease portfolio, average monthly rents rose to $610 as at March 31, 2010, compared to $598 as at March 31, 2009, while occupancy remained at virtually full levels.

Suite Turnovers and Lease Renewals

For Three Months Ended March 31,	**2010**			**2009**		
	Change in AMR		**% Turnovers**	**Change in AMR**		**% Turnovers**
	$	**%**	**& Renewals[(1)]**	**$**	**%**	**& Renewals[(1)]**
Suite Turnovers	**4.0**	**0.4**	**5.7**	11.4	1.2	5.2
Lease Renewals	**20.7**	**2.1**	**12.9**	22.7	2.3	14.0
Weighted Average of Turnovers & Renewals	**15.5**	**1.6**		19.7	2.0	

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

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

For the first quarter of 2010, suite turnovers in the residential suite portfolio (excluding co-ownerships) resulted in average monthly rent increases of approximately $4 or 0.4% compared to increases of $11 or 1.2% in the prior year. The change in average monthly rents from suite turnovers was adversely impacted by the continued effect of aggressive rent discounting of approximately 6.3% or $70 per suite in the Alberta market and, to a lesser extent, by the sub-metering of hydro consumption, which results in reductions in rent. Excluding the impact of the Alberta portfolio and the effects of sub-metering, residential suite turnovers would have resulted in average monthly rent increases of $11 or 1.1%. Management believes that as occupancies stabilize throughout the portfolio and the markets for rental accommodation continue to improve, CAPREIT will generate additional rent increases on both turnover and lease renewals over the long term.

Pursuant to Management's focus on increasing overall portfolio rents, for the three months ended March 31, 2010, average monthly rents on lease renewals increased by approximately $21 or 2.1% compared to increases of $23 or 2.3% for the same period last year. Management believes that as occupancies stabilize throughout the portfolio and the markets for rental accommodation continue to 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 March 31,		**2010**			**2009**	
		AMR	**Occ. %**		**AMR**	**Occ. %**
Ontario						
Greater Toronto Area	**$**	**1,068**	**97.9**	$	1,050	97.7
Ottawa		**853**	**99.9**		827	99.8
London/Kitchener/Waterloo		**810**	**96.9**		795	95.7
Other Ontario		**930**	**97.1**		915	97.3
	$	**1,025**	**97.9**	$	1,007	97.7
Québec						
Montréal	**$**	**657**	**96.9**	$	634	95.4
Québec City		**796**	**99.2**		771	98.5
	$	**717**	**97.9**	$	693	96.7
Nova Scotia						
Halifax	**$**	**1,001**	**97.2**	$	973	97.5
Alberta						
Edmonton	**$**	**968**	**90.3**	$	1,005	93.5
Calgary		**1,002**	**97.1**		1,035	92.4
	$	**994**	**95.6**	$	1,028	92.7
Saskatchewan						
Saskatoon	**$**	**775**	**97.7**	$	741	99.2
Regina		**860**	**100.0**		834	99.1
	$	**813**	**98.8**	$	783	99.2
British Columbia						
Greater Vancouver Region	**$**	**963**	**99.1**	$	916	97.7
Victoria		**736**	**92.9**		693	89.4
	$	**899**	**97.3**	$	853	95.3
Total Residential Suites	**$**	**960**	**97.7**	$	942	97.1
MHC Land Lease Sites	**$**	**610**	**99.8**	$	598	99.8
Total Residential Suites and MHC Land Lease Sites	**$**	**943**	**97.8**	$	926	97.3

Overall average occupancy improved slightly as at March 31, 2010 to 97.8% compared to 97.3% in the same period last year as Management continued to focus on tenant quality, combined with an emphasis on maintaining or increasing rents in most of the portfolio's core markets, as summarized below:

- Average monthly rents increased in all regions of the portfolio with the exception of Alberta, while average occupancy levels increased moderately in the majority of regions in which CAPREIT operates.
- Ontario, whose residential suites represent over 67% of the total residential portfolio, experienced an increase of 1.8% in average monthly rents and marginally higher occupancy levels.
- In Québec, representing 16% of the total residential portfolio, occupancy levels improved to 97.9% from 96.7% and average monthly rents increased 3.5% from the same period last year. Management expects the Québec rental market to continue to remain strong during the remainder of the year.
- Continued weak market conditions in Alberta, combined with continued low rents offered by competitors during the period, resulted in a 3.3% drop in average monthly rents on a year-over-year basis, despite a 2.9% increase in occupancy levels. Management believes the Alberta market continues to be challenging but is expected to stabilize during the year.

- Improving conditions in British Columbia resulted in a 5.4% increase in average monthly rents while also improving occupancy levels by 2.0% to 97.3% at March 31, 2010.

Overall average monthly rents for the residential suite portfolio as at March 31, 2010, increased by approximately 1.9% as compared to March 31, 2009. Management believes annual occupancies can be maintained in the 97% to 98% range and the trend for gradual increases in average monthly rents will continue, providing the basis for sustainable year-over-year increases in revenues.

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

RESULTS OF OPERATIONS

Three Months Ended March 31,	2010		2009	
($ Thousands)		% (1)		% (1)
Operating Revenues	**$ 83,515**		$ 82,198	
Operating Expenses				
Realty Taxes	**11,105**	**13.3**	10,906	13.3
Utilities	**13,362**	**16.0**	15,053	18.3
Other	**15,416**	**18.5**	16,511	20.1
Total Operating Expenses	**39,883**	**47.8**	42,470	51.7
NOI	**$ 43,632**	**52.2**	$ 39,728	48.3

(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 months ended March 31, 2010, total operating revenues increased by 1.6% compared to the same period last year due to increased average monthly rents and higher occupancies. CAPREIT increased average monthly rents in the residential portfolio to $960 at March 31, 2010, compared to $942 at March 31, 2009, while occupancy improved slightly to 97.7% compared to 97.1% in the same period last year. As CAPREIT continues to enhance the profile of its resident base and increase the level of service to residents, it expects to realize further increases in operating revenues.

Overall average residential vacancies, as a percentage of operating revenues, declined slightly to 2.3% for the three months ended March 31, 2010, compared to 2.6% in the prior year period. The improvement in occupancies was led by recoveries in most geographic markets compared to the same period last year.

Bad debt and tenant inducements remained stable as a percentage of revenues compared to the same period last year.

Operating Expenses

Operating expenses for the three months ended March 31, 2010 fell in comparison to the same period last year due to the following factors:

- CAPREIT's energy management strategies, which include various energy savings initiatives and a revised natural gas supply strategy (see Utility Costs below), combined with a milder winter in 2010 compared to 2009, resulted in a decrease in utility costs, as a percentage of revenues, from 18.3% to 16.0% for the first quarter of 2010.

- Other operating expenses as a percentage of revenues decreased to 18.5% from 20.1% for the three months ended March 31, 2010 compared to the same period last year. Other operating expenses include repairs and maintenance ("R&M"), wages and benefits, insurance and advertising. Though partly offset by increased insurance costs, the decrease was driven primarily by lower R&M costs for the first quarter of 2010 resulting from Management's continued steady progress in mitigating the impact of a garbage levy introduced by the City of Toronto in late 2008 through improved resident education and the implementation of waste recycling programs.

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

Utility Costs

Three Months Ended March 31, ($ Thousands)	**2010**	2009
Natural Gas	**$ 5,812**	$ 7,063
Electricity	**5,157**	5,777
Water	**2,291**	2,092
Heating Oil	**102**	121
Total	**$ 13,362**	$ 15,053

Natural gas costs decreased primarily due to lower consumption during the period resulting from CAPREIT's ongoing investment in energy management initiatives, the impact of milder weather and lower commodity costs on the portion of CAPREIT's consumption not subject to fixed rates.

With the authorization of the Board of Trustees, effective March 1, 2010, Management implemented a revised natural gas supply strategy that, in effect, converted substantially all of the fixed price natural gas commitments to spot pricing arrangements through the amendment of physical delivery contracts and the use of derivative financial instruments. The amendment resulted in the realization of a $4.5 million loss inherent in the physical delivery contracts, which was settled through the use of derivative financial instruments entered into with creditworthy counterparties (see discussion under the Net Loss section). The revised strategy eliminated the protection afforded by formerly fixed pricing arrangements; however, Management expects to achieve long-term energy cost savings as a result of declining natural gas prices, including related commodity tax savings, while also providing Management with greater flexibility to lock-in natural gas prices in the future when deemed appropriate.

Management has chosen not to apply hedge accounting to these derivative financial instruments, which will be marked-to-market through net income or loss on an ongoing basis. However, the derivatives are structured such that, other than the initial loss recognized on these contracts at inception, Management expects any gains and losses between the derivatives to be largely offset and therefore not have a significant impact on CAPREIT's financial performance in the future (see item (iii) C*ontracts for which hedge accounting is not being applied*, under the discussion of Realized and Unrealized Gains and Losses on Derivative Financial Instruments).

Electricity costs decreased primarily due to lower consumption during the period resulting from CAPREIT's ongoing investment in energy management initiatives and the impact of milder weather on CAPREIT's electrically heated properties.

The increase in water costs is due primarily to a change in billing rates at CAPREIT's Grand Bend, Ontario manufactured home community.

NET OPERATING INCOME

The following table shows the change in the revenues, expenses and NOI for each province for the three months ended March 31, 2010 compared to the same period last year.

Percentage Change From Prior Year

Three Months Ended March 31, 2010

(As a percentage)	Revenues	Expenses	NOI
Ontario	1.6	(5.9)	10.1
Québec	4.2	(10.7)	23.3
Alberta	(6.0)	(2.0)	(9.2)
British Columbia	3.4	0.4	5.6
Nova Scotia	3.1	(6.9)	9.8
Saskatchewan	5.0	(12.5)	26.2
Total	1.6	(6.1)	9.8

The table below shows the NOI, the NOI margin attained and percentage of total NOI contributed by each province during the three months ended March 31, 2010 and 2009.

By Province For Three Months Ended March 31,

	2010			2009		
($ Thousands)	NOI	NOI Margin (%)	% of Total NOI	NOI	NOI Margin (%)	% of Total NOI
Ontario	$ 30,078	50.9	68.9	$ 27,317	47.0	68.8
Québec	5,200	51.8	11.9	4,217	43.7	10.6
Alberta	2,685	53.7	6.2	2,957	55.6	7.4
British Columbia	3,122	58.5	7.2	2,955	57.2	7.4
Nova Scotia	2,225	63.6	5.1	2,027	59.7	5.1
Saskatchewan	322	54.5	0.7	255	45.3	0.7
	$ 43,632	52.2	100.0	$ 39,728	48.3	100.0

For the first quarter of 2010, overall NOI increased by $3.9 million or 9.8%, while the NOI margin improved to 52.2% from 48.3% for the same period in the prior year. While CAPREIT increased NOI and NOI margins in all of its markets except Alberta, it continues to focus 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:

NOI contribution from the Ontario portfolio increased 10.1% during the three months ended March 31, 2010 compared to the same period last year primarily due to lower operating costs from a combination of lower energy consumption, lower pricing of natural gas and lower R&M costs. While Management continues to focus on geographically diversifying its overall portfolio through acquisitions, the Ontario portfolio continued to represent 68.9% of total NOI for the first quarter of 2010 compared to 68.8% in the same period last year. The NOI margin improved for the three months ended March 31, 2010, due to effective recycling initiatives and the reduction in utility costs as outlined earlier. Management believes the Ontario portfolio will remain stable and generate steady returns in the medium term despite significant challenges imposed by the introduction of the harmonized sales tax in Ontario effective July 1, 2010 (see Harmonization of Federal Goods and Services Tax and Provincial Sales Tax discussion under the Risks and Uncertainties section contained in CAPREIT's 2009 Annual Report).

Québec:

During the three months ended March 31, 2010, the NOI margin improved significantly to 51.8% from 43.7% last year primarily due to certain R&M expenses incurred in the prior year period combined with higher occupancy levels in the current year period. CAPREIT believes the Québec rental market will remain strong and generate steady to improving returns in the medium term.

Alberta:

The Alberta market experienced continued downward pressure on rental rates in the first quarter of 2010 in comparison to the same period last year, resulting in lower revenues. As a result, the NOI margin decreased to 53.7% for the first quarter of 2010 from 55.6% last year. Management believes the Alberta market will continue to be challenging but will stabilize over the near term. The overall impact on CAPREIT will be minimal as less than 5% of its overall residential suite portfolio is located in the province.

British Columbia:

Due to increased average monthly rents and occupancy levels in the British Columbia markets, the NOI margin increased to 58.5% for the three months ended March 31, 2010, compared to 57.2% for the same period last year. With its growth in the region, CAPREIT has established the infrastructure and critical mass to build its presence and improve its performance in this market going forward. Management believes the ongoing stabilization of occupancies will enable the British Columbia portfolio to continue to generate improved returns in the medium term. Management believes that the introduction of the harmonized sales tax in British Columbia is a negative development; however, the impact is expected to be more modest than in Ontario as only 6.3% of the portfolio is located in the province.

Nova Scotia:

Increased average monthly rents and a reduction in overall operating costs resulted in the NOI margin improving to 63.6% for the three months ended March 31, 2010 compared to 59.7% for the same period last year despite a slight reduction in occupancy levels. Management believes its presence primarily in downtown locations will serve to maintain or increase occupancy levels and average monthly rents in the medium term.

Saskatchewan:

The Saskatchewan market continues to perform very well with increased average monthly rents combined with lower utility expenses compared to the same period last year. The NOI margin increased to 54.5% for the three months ended March 31, 2010 from 45.3% last year. However, the overall impact on CAPREIT of changes in operating performance in its Saskatchewan properties is minimal as less than 1% of the overall residential suite portfolio is located in the province. As a result of the relatively small size of the portfolio in this province, the timing of lease turnovers is the main driver of the change in occupancy levels as reported. The province's economy remains strong and CAPREIT believes it is well positioned to maintain or improve current occupancy levels and average monthly rents in the province over the medium term.

OPERATING PERFORMANCE BY TYPE OF PROPERTY INTEREST

The following table provides a summary of the NOI by type of property interest held by CAPREIT (see Types of Property Interests under Section I, Property Portfolio):

NOI by Type of Property Interest

Three Months Ended March 31,		**2010**			**2009**	
($ Thousands)			%			%
Fee Simple Interests - Apartments and Townhomes	$	**33,706**	**77.2**	$	30,349	76.4
Operating Leasehold Interests		**6,495**	**14.9**		5,915	14.9
Land Leasehold Interests		**1,908**	**4.4**		1,996	5.0
Total Residential Suites	$	**42,109**	**96.5**	$	38,260	96.3
Fee Simple Interests - MHC Land Lease Sites		**1,523**	**3.5**		1,468	3.7
Total	$	**43,632**	**100.0**	$	39,728	100.0

CAPREIT experienced NOI growth in 2010 for each type of property interest with the exception of its investment in land leasehold interests. The decline in NOI for land leasehold interests is primarily attributable to the fact that two of the three land parcels are in Alberta which continues to be a challenging rental market as outlined earlier.

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

NOI of Operating Leasehold Interests Portfolio by Lease Maturity

Three Months Ended March 31,		**2010**			**2009**	
($ Thousands)			%			%
2033	$	**5,154**	**79.4**	$	4,679	79.1
2034		**339**	**5.2**		309	5.2
2035		**300**	**4.6**		238	4.0
2037		**702**	**10.8**		689	11.7
	$	**6,495**	**100.0**	$	5,915	100.0

NOI of Land Leasehold Interests Portfolio by Lease Maturity

Three Months Ended March 31,		**2010**			**2009**	
($ Thousands)			%			%
2045	$	**1,027**	**53.8**	$	1,025	51.4
2068		**279**	**14.6**		292	14.6
2070		**602**	**31.6**		679	34.0
	$	**1,908**	**100.0**	$	1,996	100.0

STABILIZED PORTFOLIO PERFORMANCE

Stabilized properties for the three months ended March 31, 2010 are defined as all properties owned by CAPREIT continuously since December 31, 2008, and therefore do not take into account the impact on performance of property acquisitions completed in subsequent periods.

As there were no significant property acquisitions in 2009 and in the first three months of 2010, stabilized portfolio performance is comparable to overall portfolio performance. As of March 31, 2010, CAPREIT has generated 17 consecutive quarters of stable or improved year-over-year NOI growth for stabilized properties.

NET LOSS

Three Months Ended March 31,		**2010**		**2009**
($ Thousands, except per Unit amounts)				
Net Operating Income	**$**	**43,632**	$	39,728
Less:				
Trust Expenses		**2,948**		3,572
Mortgage Interest		**19,239**		18,874
Interest on Bank Indebtedness		**1,479**		801
Net Loss on Natural Gas Contracts		**4,497**		–
Other Income		**(462)**		(465)
Depreciation		**20,571**		18,975
Amortization		**896**		822
Loss Before Other Costs, Losses and Income Taxes		**(5,536)**		(2,851)
Restructuring Costs		**(150)**		–
Unrealized Loss on Derivative Financial Instruments		**(54)**		(845)
Recovery of (Provision for) Future Income Taxes		**950**		(803)
Net Loss	**$**	**(4,790)**	$	(4,499)
Basic Net Loss per Unit	**$**	**(0.072)**	$	(0.068)
Diluted Net Loss per Unit	**$**	**(0.072)**	$	(0.068)
Weighted Average Number of Units (000s) – Basic		**66,423**		65,770
Weighted Average Number of Units (000s) – Diluted		**66,665**		65,854

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 declined by $0.6 million to $2.9 million for the three months ended March 31, 2010, mainly due to lower legal and compensation costs.

Interest on Mortgages and Bank Indebtedness

Mortgage interest expense increased in the three months ended March 31, 2010, to $19.2 million from $18.9 million in the same period last year, due to mortgage renewals and top up mortgage financings completed since March 31, 2009. As a percentage of operating revenues, mortgage interest expense remained steady at 23.0% compared to the three months ended March 31, 2009.

Interest on bank indebtedness relates to borrowings under the Credit Facilities (see Bank Indebtedness and Credit Facilities). Interest on bank indebtedness for the three months ended March 31, 2010 increased to $1.5 million from $0.8 million in the same period of the prior year due to higher interest rates and a higher level of borrowings under the Credit Facilities to fund property capital investments. The weighted average floating interest rate for the amounts drawn under the Acquisition and Operating Facility was 3.42% at March 31, 2010, compared to 2.26% at March 31, 2009. At March 31, 2010, the weighted average floating interest rate for the amounts drawn under the Land Lease Facility was 3.42%, compared to 1.65% at March 31, 2009.

Net Loss on Natural Gas Contracts

As previously outlined in the Results of Operations section, effective March 1, 2010, Management implemented a revised natural gas supply strategy that, in effect, converted substantially all of the fixed price natural gas commitments to spot pricing arrangements through the amendment of physical delivery contracts and the use of derivative financial instruments. The amendment resulted in the crystallization of a $4.5 million loss settled through the use of derivative financial instruments (see item (iii) *Contracts for which hedge accounting is not being applied*, under the discussion of Realized and Unrealized Gains and Losses on Derivative Financial Instruments below).

Other Income

Other income includes interest, dividends and other miscellaneous revenues (see notes 2(g) and 5 to the consolidated financial statements).

Depreciation and Amortization

CAPREIT depreciates its properties on a straight-line basis over their estimated useful lives, not exceeding 40 years. Depreciation expense increased in the three months ended March 31, 2010 due to capital investments on the property portfolio in the last 12 months.

Amortization expense in the three months ended March 31, 2010 increased to $0.9 million from $0.8 million mainly due to CMHC premiums incurred with respect to new financings since March 31, 2009.

Restructuring Costs

These costs primarily represent employee severance payments incurred in the three months ended March 31, 2010.

Realized and Unrealized Gains and Losses on Derivative Financial Instruments

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

   CAPREIT settled these interest rate forward contracts during 2009. As hedge accounting ceased to be applied to these contracts effective October 1, 2008, any subsequent changes in the fair value of these contracts were recognized in the consolidated statements of operations and comprehensive loss. For the three months ended March 31, 2010, the unrealized loss resulting from mark-to-market valuations on these contracts of $nil (March 31, 2009 - $0.8 million) was recognized in the consolidated statements of operations and

comprehensive loss. The associated cumulative unamortized loss on the interest rate forward contracts of $9.9 million included in Accumulated Other Comprehensive Loss ("AOCL") at September 30, 2008 will be amortized to mortgage interest expense over the original terms of the hedged contracts. For the three months ended March 31, 2010, $0.3 million (March 31, 2009 - $nil) was amortized from AOCL to mortgage interest expense.

The position of unrealized losses on derivative financial instruments is summarized below:

Three Months Ended March 31, ($ Thousands)	**2010**	**2009**
Opening Cumulative Unrealized Loss, Beginning of Period	**$ –**	$ (27,535)
Unrealized Loss Included in Net Loss	**–**	(845)
Closing Cumulative Unrealized Loss, End of Period	**$ –**	$ (28,380)

ii) *Contracts for which hedge accounting is being applied:* As at March 31, 2010, CAPREIT has a $55 million interest rate swap agreement fixing the interest rate at 5.706%, maturing in July 2012, to 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 first quarter of 2010, an unrealized gain of $0.7 million (March 31, 2009 – unrealized loss of $0.1 million) has been included in OCI (see note 12(a) to the consolidated financial statements). In addition, for the quarter ended March 31, 2010, an unrealized loss of $54 thousand (March 31, 2009 - $nil) has been recognized in the consolidated statements of operations and comprehensive loss for the ineffective portion of the interest rate swap agreement. The mark-to-market cumulative unrealized losses of $4.2 million and $7.3 million are included in AOCL and have been set up in accounts payable and other liabilities as at March 31, 2010 and 2009, respectively. CAPREIT monitors its exposure regarding the unsettled obligations with the counterparty (a Canadian chartered bank) through the regular assessment of CAPREIT's own credit risk and the credit risk of the counterparty.

The position of unrealized gains and losses on the interest rate swap agreement is summarized below:

Three Months Ended March 31, ($ Thousands)	**2010**	**2009**
Opening Cumulative Unrealized Loss, Beginning of Period	**$ (4,850)**	$ (7,214)
Unrealized Gain (Loss) Included in OCI	**706**	(105)
Unrealized Loss Included in Net Loss	**(54)**	–
Closing Cumulative Unrealized Loss, End of Period	**$ (4,198)**	$ (7,319)

iii) *Contracts for which hedge accounting is not being applied:* Effective March 1, 2010, CAPREIT adopted a revised natural gas supply strategy that, in effect, converted substantially all of the fixed price natural gas commitments through October 2012 (see note 20 to the consolidated financial statements) to spot pricing arrangements through the amendment of physical delivery contracts and the use of derivative financial instruments. The amended arrangement is comprised of a physical delivery contract at spot pricing, a floating-to-fixed derivative financial instrument with the natural gas supplier and an offsetting fixed-to-floating derivative financial instrument with a Canadian chartered bank.

Management has elected not to apply hedge accounting to these derivative financial instruments, which will be marked-to-market through net loss on an ongoing basis. A mark-to-market unrealized loss of $5.5 million on the floating-to-fixed derivative financial instrument has been recorded in accounts payable and other liabilities as at March 31, 2010 and a mark-to-market unrealized gain of $1.3 million on the fixed-to-floating derivative financial instrument has been recorded in sundry assets as at March 31, 2010 (see tables below). As a result of the amendment of the fixed price natural gas commitments, the inherent net loss of $4.5 million has been crystallized and has been included in the consolidated statements of operations and comprehensive loss for the three months ended March 31, 2010.

The position of realized and unrealized gains and losses on the natural gas derivative financial instruments is summarized below:

Three Months Ended March 31, ($ Thousands)	**2010**	**2009**
Opening Cumulative Unrealized Net Loss, Beginning of Period	**$ –**	$ –
Unrealized Loss on Natural Gas Contracts included in Net Loss	**(5,878)**	–
Unrealized Gain on Natural Gas Contracts included in Net Loss	**1,381**	–
Net Loss on Natural Gas Contracts included in Net Loss	**(4,497)**	–
Net Realized Loss Relating to Supply Arrangements for the Period	**288**	$ –
Closing Cumulative Unrealized Net Loss, End of Period	**$ (4,209)**	$ –

As at March 31, ($ Thousands)	**2010**	**2009**
Unrealized Gain included in Sundry Assets	**$ 1,286**	$ –
Unrealized Loss included in Accounts Payable and Accrued Liabilities	**(5,495)**	–
Closing Cumulative Unrealized Net Loss, End of Period	**$ (4,209)**	$ –

Future Income Taxes

CAPREIT uses the liability method of accounting for future income taxes. The future income tax balance of $53.1 million represents the cumulative amount of taxes applicable to temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes that are expected to reverse on or after January 1, 2011. For the three months ended March 31, 2010, the change in the future income tax liability has been recorded as a recovery of $1.0 million to the consolidated statements of operations and comprehensive loss compared to a provision of $0.8 million for the first quarter of 2009. Future income taxes are measured at the tax rates expected to apply in the future when temporary differences reverse (see Taxation-Related Risks discussion under the Risks and Uncertainties section contained in CAPREIT's 2009 Annual Report and note 9 to the consolidated financial statements).

OTHER COMPREHENSIVE (LOSS) INCOME

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

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

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

iii) *Change in fair value of investments:* this represents the cumulative marked-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

Net Operating Income

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

Funds From Operations and Normalized Funds From Operations

FFO is a measure of 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.

Distribution Reinvestment Plan ("DRIP") and Net Distributions

Three Months Ended March 31, ($ Thousands)	**2010**	2009
Distributions Declared	**$ 18,675**	$ 18,331
Less: Distributions Reinvested (1)	**(1,925)**	(2,224)
Net Distributions Paid	**$ 16,750**	$ 16,107
% Reinvested	**10.3%**	12.1%

(1) Cash reinvested by Unitholders through the DRIP and non-cash distributions related to the DUP and the RUR plan.

A reconciliation of net loss to FFO is as follows:

Three Months Ended March 31, ($ Thousands, except per Unit amounts)	**2010**	2009
Net Loss	**$ (4,790)**	$ (4,499)
Adjustments:		
(Recovery of) Provision for Future Income Taxes	**(950)**	803
Depreciation	**20,571**	18,975
Amortization of Tenant Improvements	**69**	70
Amortization of Intangible Assets	**149**	335
Amortization of Above- and Below-market Leases	**(2)**	(61)
FFO	**$ 15,047**	$ 15,623
FFO Per Unit – Basic	**$ 0.227**	$ 0.238
FFO Per Unit – Diluted	**$ 0.226**	$ 0.237
Distributions Declared	**$ 18,675**	$ 18,331
FFO Payout Ratio	**124.1%**	117.3%
Net Distributions Paid (1)	**$ 16,750**	$ 16,107
Shortfall FFO over Net Distributions Paid	**$ (1,703)**	$ (484)
FFO Effective Payout Ratio	**111.3%**	103.1%

(1) Distributions declared less cash reinvested through the DRIP and non-cash distributions related to the DUP and the RUR plan.

Distributions declared to Unitholders of $18.7 million in these tables are based on all outstanding Units including unissued, granted Units under the DUP and RUR plan (see Unitholders' Equity under Liquidity and Financial Condition section for a discussion of these plans). When establishing the level of cash distributions to Unitholders, which are paid monthly, the Board of Trustees relies on cash flow information including forecasts and budgets.

The average participation rate in the DRIP decreased to 10.3% for the first quarter of 2010 as compared to 12.1% in the prior year. The DRIP participation rate is subject to factors beyond Management's control and that vary between investors.

CAPREIT calculates NFFO by excluding from FFO the effect of the change in fair value of hedging instruments originally put in place for interest rate protection (see note 15 to the interim consolidated financial statements and discussion regarding Realized and Unrealized Gains and Losses on Derivative Financial Instruments), losses incurred on the amendment of natural gas physical delivery contracts (see note 15(c) to the interim consolidated financial statements and discussion under Results of Operations and Net Loss sections) and the effect of certain non-recurring items in order to facilitate better comparability to prior period performance.

Management considers NFFO to be the key measure of CAPREIT's operating performance and the primary indicator with respect to the sustainability of CAPREIT's distributions.

A reconciliation of FFO to NFFO is as follows:

Three Months Ended March 31,	**2010**	**2009**
($ Thousands, except per Unit amounts)		
FFO	**$ 15,047**	$ 15,623
Adjustments:		
Restructuring Costs	**150**	–
Unrealized Loss on Derivative Financial Instruments	**54**	845
Loss on Natural Gas Contracts	**4,497**	–
Amortization of Loss on Derivative Financial Instruments Included in Mortgage Interest	**274**	–
NFFO	**$ 20,022**	$ 16,468
NFFO per Unit – Basic	**$ 0.301**	$ 0.250
NFFO per Unit – Diluted	**$ 0.300**	$ 0.250
Distributions Declared	**$ 18,675**	$ 18,331
NFFO Payout Ratio	**93.3%**	111.3%
Net Distributions Paid [(1)]	**$ 16,750**	$ 16,107
Excess NFFO Over Net Distributions Paid	**$ 3,272**	$ 361
Effective NFFO Payout Ratio	**83.7%**	97.8%

(1) Distributions declared less cash reinvested through the DRIP and non-cash distributions related to the DUP and the RUR plan.

NFFO for the three months ended March 31, 2010 increased by 21.6% compared to the same period last year primarily due to higher average monthly rents and moderately higher occupancy levels, resulting from Management's sales and marketing programs along with reduced operating costs (as discussed under Results of Operations). NFFO per Unit increased by 20.4% during the three months ended March 31, 2010 compared to the prior year period.

Comparing distributions declared to NFFO, the NFFO payout ratio for the three months ended March 31, 2010 was 93.3%, compared to 111.3% for last year. The effective NFFO payout ratio, which compares net distributions paid to Unitholders to NFFO, decreased to 83.7% from 97.8% for the three months ended March 31, 2010, primarily due to the increase in NFFO during the quarter. Management believes NFFO will be sufficient to fund CAPREIT's distributions on an annualized basis.

Adjusted Funds From Operations

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

Management relies on an industry-based estimate to determine the amount of maintenance property capital investments as significant judgment is required to classify property capital investments as either *maintenance* or *stabilizing or value-enhancing* (see discussion under Section IV, Productive Capacity). Management views AFFO as less reliable or applicable under a gross lease operating structure, as is the case for CAPREIT, because maintenance property capital investments are not clearly identifiable. However, given the current use by investors and other stakeholders of this non-GAAP measure, CAPREIT currently intends to continue presenting an estimate of AFFO in its quarterly and annual MD&A.

CAPREIT calculates AFFO by deducting from NFFO an industry-based estimate for maintenance property capital investment (see discussion under Section IV, Productive Capacity) and adding back the non-cash compensation costs for Long-Term Incentive Plan ("LTIP"), Senior Executive Long-Term Incentive Plan ("SELTIP"), the Deferred Unit Plan ("DUP") and the Restricted Units Rights Plan ("RUR"). In order to determine the AFFO payout ratio, CAPREIT compares distributions declared to AFFO. The effective AFFO payout ratio compares net cash distributions paid to Unitholders to AFFO.

A reconciliation of NFFO to AFFO is as follows:

Three Months Ended March 31, ($ Thousands, except per Unit amounts)		**2010**		2009
NFFO	**$**	**20,022**	$	16,468
Adjustments:				
Provision for Maintenance Property Capital Investments [1]		**(2,977)**		(2,977)
Non-cash Compensation for LTIP, SELTIP, DUP and RUR		**320**		608
AFFO	**$**	**17,365**	$	14,099
AFFO per Unit – Basic	**$**	**0.261**	$	0.214
AFFO per Unit – Diluted	**$**	**0.260**	$	0.214
Distributions Declared	**$**	**18,675**	$	18,331
AFFO Payout Ratio		**107.5%**		130.0%
Net Distributions Paid [2]	**$**	**16,750**	$	16,107
Excess (Shortfall) AFFO over Net Distributions Paid	**$**	**615**	$	(2,008)
Effective AFFO Payout Ratio		**96.5%**		114.2%

(1) Based on an industry estimate of $450 per suite per year and the weighted average number of residential suites during the period (see Productive Capacity section).
(2) Distributions declared less cash reinvested through the DRIP and non-cash distributions related to the DUP and the RUR plan.

The AFFO payout ratio improved for the three months ended March 31, 2010 to 107.5% from 130.0% for the same period last year. The effective AFFO payout ratio for the three months ended March 31, 2010 improved as a result of higher NFFO and also stable DRIP participation rates quarter over quarter.

SECTION IV

PROPERTY CAPITAL INVESTMENTS

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

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

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

strategic investments taken at this time will position the portfolio for improved operating performance as the economy strengthens and over the long term.

During the first quarter of 2010, CAPREIT incurred property capital investments of $8.4 million as compared to $9.2 million for the same period in 2009. Property capital investments were lower compared to the prior year period primarily due to the timing of building improvement programs in the quarter, partly offset by higher investments in suite improvements and high-efficiency boilers. In addition, CAPREIT continues to invest in environment-friendly and energy saving initiatives, including the above-mentioned boilers, energy-efficient lighting systems, water saving and waste recycling programs, which have permitted CAPREIT to mitigate potentially higher increases in utility costs and have improved overall portfolio NOI significantly as discussed in the Results of Operations section.

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

Property Capital Investments by Category

Three Months Ended March 31, ($ Thousands)		**2010**	%		**2009**	%
Building Improvements	$	**2,044**	**24.3**	$	3,440	37.3
Suite Improvements		**3,296**	**39.2**		2,929	31.7
Common Area		**760**	**9.0**		968	10.5
Energy Saving Initiatives		**447**	**5.3**		403	4.4
Equipment		**1,150**	**13.7**		1,106	12.0
Boiler and Elevators		**423**	**5.0**		140	1.5
Appliances		**294**	**3.5**		241	2.6
	$	**8,414**	**100.0**	$	9,227	100.0

For the first quarter of 2010, CAPREIT incurred $8.4 million of property capital investments. Based on CAPREIT's multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments of approximately $92.5 million to $97.5 million during 2010.

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

Future Investments in Building Improvements

Year Ending December 31 ($ Thousands)		**Estimated Range**			
2010	$	60,000	–	$	65,000
2011	$	43,000	–	$	49,000
2012	$	30,000	–	$	34,000
2013	$	29,000	–	$	33,500
2014	$	10,000	–	$	12,500

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

PRODUCTIVE CAPACITY

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

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

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

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

Three Months Ended March 31, ($ Thousands)		**2010**		2009
Total Property Capital Investments (1)	$	**8,414**	$	9,227
Less: Estimated Maintenance Property Capital Investments (2)		**(2,977)**		(2,977)
Stabilizing and Value-Enhancing Capital Investments	$	**5,437**	$	6,250

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

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

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

Management believes it will be able to raise sufficient top up financing (as explained in the Liquidity and Financial Condition section) and increase amortization periods of new mortgages to be in a position to implement the above property capital investment strategy, which is intended to enhance 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 of the market value of the properties determined on an annual basis.

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

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

As at ($ Thousands)		March 31, 2010	December 31, 2009
Mortgages Payable		**$ 1,533,515**	$ 1,545,315
Bank Indebtedness		**178,528**	146,891
Unitholders' Equity		**435,898**	457,184
Total Capital		**$ 2,147,941**	$ 2,149,390
	Threshold		
Total Debt to Gross Book Value (1)	Maximum 70.00%	**63.22%**	62.75%
Tangible Net Worth (2)	Minimum $400,000	**$ 489,005**	$ 511,243
For the four quarters ended		**March 31, 2010**	**December 31, 2009**
Debt Coverage Ratio (times) (3)	Minimum 1.20	**1.30**	1.28
Interest Coverage Ratio (times) (4)	Minimum 1.50	**2.08**	2.06

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

(2) 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.

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

(4) Interest coverage ratio is defined as EBITDA less taxes paid divided by interest expense.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

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

i) CAPREIT's operating business conditions continue to be stable and are expected to generate sufficient cash flow from operating activities to fund the current level of distributions. Management expects the current level of funds reinvested from its DRIP and the retained portion of its annual NFFO will be sufficient to fund its ongoing maintenance property capital investments. For the three months ended March 31, 2010, CAPREIT's NFFO payout ratio was 93.3% compared to 111.3% for the same period last year. The effective payout ratio for NFFO to net distributions paid (see discussion in Non-GAAP Financial Measures section) was 83.7% compared to 97.8% for the same period last year. Management believes the annual NFFO payout ratio will be in the 85% to 90% range.

ii) Management believes CAPREIT is well positioned to meet its mortgage renewals and refinancing goals in 2010 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in renewing maturing mortgages of approximately $161.8 million and refinancing approximately $46.3 million principal repayments through 2010, which combined had an effective interest rate of approximately 4.89%, with new mortgages at lower interest rates.

iii) On June 30, 2009, Management also successfully renewed its Acquisition and Operating Facility aggregating to $250 million. The renewed credit facility was effectively amended and simplified to provide a one-year revolving facility of $100 million and a three-year revolving facility of $150 million, subject to compliance with

the various provisions of the Credit Facilities, in order to fund operations, acquisitions, capital improvements, letters of credit and other uses. In addition, the Land Lease Facility of $10 million was also renewed for a one-year term maturing on June 30, 2010. Management expects to renew the Credit Facilities during the second quarter of this year.

The available borrowing capacity under CAPREIT's Acquisition and Operating Facility at March 31, 2010 was $63.5 million ($94.4 million as at December 31, 2009). The decline in the borrowing capacity under CAPREIT's Acquisition and Operating Facility is primarily attributable to the absence of any meaningful mortgage maturities during the first quarter of 2010, which limited Management's ability to top up mortgages to fund capital investments and principal repayments. The available borrowing capacity under CAPREIT's Land Lease Facility at March 31, 2010, was $7.7 million ($7.8 million as at December 31, 2009).

The contractual maturities and repayment obligations of CAPREIT's financial liabilities for upcoming periods as at March 31, 2010 are as follows:

($ Thousands)	2010	2011 – 2012	2013 – 2014	2015 onward
Mortgages Payable	$ 196,095	$ 485,540	$ 411,989	$ 444,489
Bank Indebtedness	96,236	82,292	–	–
Mortgage Interest Payable	53,583	106,390	63,629	85,986
Bank Indebtedness Interest Payable	3,225	4,620	–	–
Accounts Payable and Accrued Liabilities	41,367	2,067	–	–
Security Deposits	18,783	–	–	–
Distributions Payable	6,203	–	–	–
	$ 415,492	$ 680,909	$ 475,618	$ 530,475

Mortgages Payable

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

The key liquidity metrics are summarized in the table below:

As at March 31,	**2010**	**2009**
Mortgage Debt to Gross Book Value	**56.63%**	57.00%
Total Debt to Gross Book Value	**63.22%**	61.84%
Total Debt to Total Capitalization	**63.33%**	65.27%
Debt Coverage Ratio (times) (1)	**1.30**	1.29
Interest Coverage Ratio (times) (1)	**2.08**	2.07
Weighted Average Mortgage Interest Rate (2)	**5.06%**	5.27%
Weighted Average Mortgage Term to Maturity (years)	**4.8**	4.9

(1) For the four quarters ended March 31.

(2) Effective weighted average interest rate including deferred financing costs and fair value adjustments but excluding CMHC premiums. Additionally, including the amortization of the realized component of the loss on settlement of $9.9 million included in AOCL, the effective portfolio weighted average interest rate at March 31, 2010 would be 5.15%.

At March 31, 2010, the overall leverage represented by the ratio of total debt to gross book value increased to 63.22%, as compared to 61.84% at March 31, 2009. The maximum ratio allowable under CAPREIT's DOT is 70%. Due to the rise in CAPREIT's Unit price since March 31, 2009 and overall market capitalization, as at March 31, 2010, CAPREIT's total debt declined to approximately 63.33% of total market capitalization compared to 65.27% last year. In addition, CAPREIT's coverage ratios, represented by debt and interest coverage tests, improved for the four quarters

ended March 31, 2010, compared to last year despite the impact of additional mortgage financing obtained in the last 12 months on principal and interest payments, demonstrating Management's prudent operating and financing strategies.

The effective portfolio weighted average interest rate has steadily declined from 5.27% as at March 31, 2009, to 5.06% as at March 31, 2010, which will result in significant interest rate savings in future years. Management believes that, as CAPREIT's refinancing plan continues to be implemented, there is scope to further reduce the effective portfolio weighted average interest rate based on current market conditions and despite recent and expected increases in interest rates in the near term. Management is also focused on ensuring the portfolio weighted average term to maturity remains steady in the five-year range and expects to gradually extend the term as credit conditions improve and longer term interest rates are deemed accretive.

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

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

At March 31, 2010, 96.2% (March 31, 2009 – 95.1%) of CAPREIT's mortgage portfolio is CMHC-insured (excluding the MHC land lease sites portfolio).

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

As at March 31, ($ Thousands)		**2010**	2009
Balance, Beginning of the Year		**$ 1,545,315**	$ 1,472,822
Add:	Refinanced	**–**	43,400
Less:	Mortgage Repayments	**(12,039)**	(12,427)
	Mortgages Matured	**–**	(26,025)
	Deferred Financing Costs and Fair Value Adjustments, net	**239**	(17)
Balance, End of Period		**$ 1,533,515**	$ 1,477,753

Management expects to achieve its total mortgage renewal and refinancing plan for 2010 of between $285 million to $300 million (approximately $200 million for renewals and $100 million for additional top up financing), of which $29.1 million ($17.2 million for renewals and $11.9 million for top ups) has been closed or committed up to May 11, 2010.

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

As at March 31, 2010

($ Thousands)

Year of Maturity		Mortgage Maturities(1)		Mortgages on the Same Properties Maturing in Other Years(1)		Total Mortgages		NOI of Properties with Maturing Mortgage(s) (2)
2010	$	161,632	$	54,847	$	216,479	$	33,421
2011		202,897		32,173		235,070		30,783
2012		207,552		4,029		211,581		23,019
2013		133,104		(13,886)		119,218		18,126
2014		223,232		(16,611)		206,621		26,370
2015 onward		327,393		(60,552)		266,841		51,108
Total	$	1,255,810	$	–	$	1,255,810	$	182,827

(1) Mortgage balance due upon maturity.
(2) NOI for 12 months ended March 31, 2010.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at March 31, 2010, is as follows:

($ Thousands, except where noted)

Year		Principal Repayments		Mortgage Maturities		Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%)(1)
2010	$	34,463	$	161,632	$	196,095	12.7	4.88
2011		39,695		202,897		242,592	15.8	5.28
2012		35,396		207,552		242,948	15.8	5.28
2013		31,122		133,104		164,226	10.7	5.19
2014		24,531		223,232		247,763	16.2	4.28
2015		20,698		25,946		46,644	3.0	5.02
2016		18,325		22,026		40,351	2.6	6.34
2017		15,093		80,867		95,960	6.2	4.89
2018		14,456		52,234		66,690	4.3	4.69
2019		12,071		82,760		94,831	6.2	5.16
2020 – 2024		32,895		59,865		92,760	6.0	5.76
2025 onward		3,558		3,695		7,253	0.5	5.15
Total	**$**	**282,303**	**$**	**1,255,810**	**$**	**1,538,113**	**100.0**	**5.06** (2)
Deferred financing costs and fair value adjustments						(4,598)		
Mortgages Payable					**$**	**1,533,515**		

(1) Effective weighted average interest rates for maturing mortgages only.
(2) Effective weighted average interest rate including deferred financing costs and fair value adjustments but excluding CMHC premiums. Additionally, including the amortization of the realized component of the loss on settlement of $9.9 million included in AOCL, the effective portfolio weighted average interest rate at March 31, 2010 would be 5.15%.

To ensure CAPREIT is not overly exposed to interest rate volatility risk, Management has also been successful in staggering the maturity dates within its mortgage portfolio. During the remainder of 2010, total debt repayments (including maturing mortgages) will be approximately 12.7 % 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 refinance its mortgage principal repayments.

Bank Indebtedness and Credit Facilities

Bank indebtedness includes borrowings on the Acquisition and Operating Facility and the Land Lease Facility. As at March 31, 2010, $176.3 million (March 31, 2009 – $122.3 million) was outstanding on the Acquisition and Operating Facility. In addition, at March 31, 2010, letters of credit in the amount of $6.0 million (March 31, 2009 - $5.3 million) were outstanding, which reduce the maximum amount available under the facility. The excess borrowing capacity on the Acquisition and Operating Facility, after taking into account outstanding letters of credit and the hedge liability on the interest rate swap agreement, was $63.5 million (March 31, 2009 – $86.7 million). Management expects the borrowing

capacity under the Credit Facilities to increase during the second half of 2010 as CAPREIT's mortgage maturities, and consequently its top up opportunities, are more heavily weighted to that period.

The Land Lease Facility of $10 million, which was established to fund operating, development and acquisition costs for the Bowmanville and Grand Bend manufactured home communities, matured on June 30, 2009 and was renewed for one year as explained in note 8 to the consolidated financial statements. As at March 31, 2010, $2.2 million (March 31, 2009 – $3.2 million) was outstanding on this Facility. In addition, letters of credit in the amount of $0.1 million (March 31, 2009 – $0.1 million) were outstanding, which reduce the maximum amount available under the facility.

Unitholders' Equity

The total market value of CAPREIT's equity as at March 31, 2010 was $991 million and the total Units outstanding of CAPREIT as at March 31, 2010 were 69,069,098 (including 75,984 DUP Units, 69,991 RURs and 411,311 exchangeable CAPLP Units), of which trustees and officers owned approximately 5.3%. As of March 31, 2010, 387,200 options to acquire Trust Units were outstanding and exercisable.

During 2008, CAPREIT implemented the Deferred Unit Plan, which gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred Units (see note 12(h) to the consolidated financial statements). For the first quarter of 2010, total compensation costs of $0.2 million (2009 – $0.1 million) were expensed in relation to the new awards under the DUP.

During the first quarter of 2010, CAPREIT introduced the Restricted Units Rights Plan ("RUR plan") as the primary plan through which long-term incentive compensation will be awarded, subject to Unitholders' approval on May 19, 2010. The Compensation and Governance Committee of the Board of Trustees may award restricted unit rights ("RURs"), subject to the attainment of specified performance objectives to certain officers and key employees, collectively the "Participants". The purpose of the RUR plan is to provide its Participants with additional incentive and to further align the interests of its Participants with Unitholders. Upon vesting, RURs are exercisable for Units issued from treasury.

On February 24, 2010, subject to approval by Unitholders, 69,552 RURs were granted at $14.09 based on the weighted average trading price of the Units for the five trading days prior to the grant date. The fair value of the compensation costs for the Units granted on this day was $1.0 million based on the closing market price of CAPREIT Units on the date of grant. As the RURs vest in their entirety on the third anniversary of the grant date, the compensation costs are amortized on a straight-line basis over the three-year vesting period. During the three months ended March 31, 2010, total compensation costs of $30 thousand were expensed in relation to awards granted under the RUR plan.

RURs earn notional distributions in respect of each distribution paid on Units commencing from the grant date and such notional distributions are used to calculate additional RURs ("Distribution RURs"), which are accrued for the benefit of the Participant. The Distribution RURs are credited to the Participants only when the underlying RURs upon which the Distribution RURs are earned become vested.

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 were acquired under this NCIB as of March 31, 2010.

SECTION V

SELECTED CONSOLIDATED QUARTERLY INFORMATION

(Thousands except, per Unit amounts)		Q1 10	Q4 09	Q3 09	Q2 09	Q1 09	Q4 08	Q3 08	Q2 08
Operating Revenues		$ 83,515	$ 83,827	$ 82,990	$ 82,017	$ 82,198	$ 82,616	$ 80,721	$ 78,977
NOI		$ 43,632	$ 44,826	$ 47,726	$ 46,644	$ 39,728	$ 43,567	$ 46,364	$ 44,581
(Loss) Income from Continuing									
Operations		$ (4,790)	$ 10,192	$ 950	$ 9,073	$ (4,499)	$ (26,221)	$ 4,994	$ 3,446
Net (Loss) Income		$ (4,790)	$ 10,192	$ 950	$ 9,073	$ (4,499)	$ (26,221)	$ 4,994	$ 3,387
FFO		$ 15,047	$ 20,639	$ 21,059	$ 28,630	$ 15,623	$ 1,573	$ 23,469	$ 22,164
NFFO		$ 20,022	$ 20,178	$ 23,581	$ 23,153	$ 16,468	$ 19,200	$ 23,469	$ 22,164
(Loss) Income from Continuing									
Operations Per Unit	- Basic	$ (0.072)	$ 0.154	$ 0.014	$ 0.138	$ (0.068)	$ (0.400)	$ 0.076	$ 0.053
	- Diluted	$ (0.072)	$ 0.153	$ 0.014	$ 0.137	$ (0.068)	$ (0.400)	$ 0.076	$ 0.053
Net (Loss) Income Per Unit	- Basic	$ (0.072)	$ 0.154	$ 0.014	$ 0.138	$ (0.068)	$ (0.400)	$ 0.076	$ 0.052
	- Diluted	$ (0.072)	$ 0.153	$ 0.014	$ 0.137	$ (0.068)	$ (0.400)	$ 0.076	$ 0.052
FFO Per Unit	- Basic	$ 0.227	$ 0.311	$ 0.319	$ 0.434	$ 0.238	$ 0.024	$ 0.358	$ 0.339
NFFO Per Unit	- Basic	$ 0.301	$ 0.305	$ 0.357	$ 0.351	$ 0.250	$ 0.293	$ 0.358	$ 0.339
Weighted Average Units	- Basic	66,423	66,262	66,086	65,938	65,770	65,572	65,496	65,334
	- Diluted	66,665	66,416	66,208	66,002	65,854	65,643	65,795	65,648

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

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

SECTION VI

ACCOUNTING POLICIES AND ESTIMATES

Changes in Accounting Policies and New Accounting Standards

There were no notable changes in accounting policies and standards issued and adopted by CAPREIT during the three months ended March 31, 2010. Accounting policies and standards in effect are disclosed in CAPREIT's Annual Report for the year ended December 31, 2009.

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. CAPREIT will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information (see the IFRS section below and the Risks and Uncertainties section contained in CAPREIT's 2009 Annual Report for discussion of the potential impact on CAPREIT of the adoption of IFRS).

Accounting Estimates

In preparing the consolidated financial statements, certain accounting policies require Management to make estimates or assumptions that, in some cases, relate to matters that are inherently uncertain. Certain areas of estimation are considered less critical or involve a lesser degree of subjectivity and, therefore, are limited in their potential positive or

negative impact to the results of operations or financial position of CAPREIT. However, such estimates still have the potential to affect the reported amounts. Areas of such estimation include, but are not limited to: financial instruments that are required to be measured or disclosed at fair value on initial recognition or on a periodic basis, valuation of accounts receivable, capitalization of costs, accounting accruals, the allocation of fair value on acquisition of investment properties, and the depreciation and amortization of certain assets. Changes to estimates and judgments may affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

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

During the three months ended March 31, 2010, there were no notable changes in the types of assumptions and the nature of estimates deemed by Management to be significant to CAPREIT. CAPREIT's Annual Report for the year ended December 31, 2009 includes a discussion of significant accounting estimates.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following discussion is an update on the status of CAPREIT's preparedness for the adoption of IFRS as required by the AcSB for Canadian public entities 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 with the quarter ended March 31, 2011, with comparative information.

In May 2008, the Canadian Securities Administrators issued Staff Notice 52-320, Disclosure of Expected Changes in Accounting Policies Relating to Changeover to International Financial Reporting Standards, which provides guidance on the disclosure of changes in expected accounting policies related to the changeover to IFRS. In accordance with the notice and additional guidance provided by the CICA, for purposes of the year ended December 31, 2010, CAPREIT is required to discuss the status of the key elements and timing of its changeover plan, as well as providing more illustrative and entity specific implications of the transition. This update should be read in conjunction with the related IFRS disclosure presented in the MD&A for the year ended December 31, 2009 contained in CAPREIT's 2009 Annual Report.

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

As indicated in the 2009 Annual Report, CAPREIT's changeover plan encompasses three primary phases: (i) scope/diagnostic phase; (ii) assessment/design phase, and (iii) implementation/monitoring phase. Having completed the first phase in the fourth quarter of 2008, CAPREIT continues to make steady progress through the second and third phases.

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

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

that may be affected as a result of the changeover, such as the Declaration of Trust, mortgage and credit agreements, and employment agreements.

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

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

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

- Research and analysis of the standards;
- Training;
- Information technology systems;
- Investment property valuations; and
- Financial statement presentation and disclosure requirements.

These task forces include both internal staff and external consultants to CAPREIT. Strategic milestones and objectives were established as part of the changeover plan, including responsibility assignment and timelines pertaining to all IFRS sections 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.

Progress achieved to date under each task force is as follows:

a. *Research and analysis of the standards:* Virtually all standards have been analyzed for potential impact to CAPREIT and those expected to have a significant impact have been previously disclosed and discussed. However, due to ongoing interpretations of more complex issues by advisors, auditors and industry associations, Management's conclusions remain preliminary and are subject to change based on further analysis. In addition, the finalization of accounting policy choices such as elections under IFRS 1 could change based on a final comprehensive review of the impact of IFRS prior to the changeover date. CAPREIT continues to monitor guidance issued and remains in discussions with its advisors as to the impact on CAPREIT.

b. *Training*: CAPREIT has implemented a strategic training plan that establishes training at all levels and departments of the organization, including its Board of Trustees. For the training of finance, accounting and operating personnel, a training program has been established to address the following needs:

– A broad understanding of IFRS real estate accounting practices; and

– CAPREIT-specific policy and procedural training required to address internal systems and processes.

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

c. *Information technology systems*: CAPREIT has made significant progress in the assessment of the information technology system and design implications as a result of the IFRS changeover and is in the process of implementing the necessary changes. Comprehensive reviews of its general ledger and fixed asset modules have taken place in anticipation of the comparative financial information required under IFRS in 2011. In accordance with this requirement, CAPREIT will be able to prepare financial information under both GAAP and IFRS during the transitional periods.

d. *Investment property valuation*: CAPREIT has also made significant progress in its planning of systems and processes to accommodate quarterly fair value assessments of its investment properties under IFRS. Fair value assessments are expected to be performed internally for interim reporting and with the assistance of external appraisers for year-end reporting.

e. *Financial statement presentation and disclosure requirements*: CAPREIT has commenced the compilation of draft financial statements for the first quarter of 2011, which includes an opening balance sheet under IFRS. The draft financial statements include reconciliations necessary between current GAAP and IFRS. The draft financial statements and MD&A are expected to be presented to the Board of Trustees in the second half of 2010.

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

As CAPREIT progresses through the changeover plan, the implementation of the plan continues to evolve due to changes in IFRS and to more detailed analysis during the assessment/design phase and implementation/monitoring phase. CAPREIT continues to progress through the assessment/design and implementation/monitoring phases, the results of which are discussed below. Management believes it is important to provide the more significant, though preliminary, conclusions to stakeholders well in advance of the transition reporting deadlines.

Standards

CAPREIT has identified certain standards that may have a significant financial statement impact at the changeover date, of which the more significant standards are: (i) IAS 40, Investment Property; (ii) IAS 32, Financial Instruments; and (iii) IFRS 1, First-Time Adoption of IFRS. A detailed discussion of and the impact expected in connection with these standards is available in CAPREIT's 2009 Annual Report. There have been no significant changes to these standards since December 31, 2009.

Other Considerations

CAPREIT continues to assess the business implications resulting from the IFRS changeover and has commenced certain key modifications to borrowing agreements and finalized certain changes to its DOT at the Annual General Meeting held on May 20, 2009, so as to accommodate both current and changing IFRS requirements. As of the date of this MD&A, no new matters have arisen under the assessment/design or implementation/monitoring phases and no notable policy decisions have been made beyond those discussed in the MD&A contained in CAPREIT's 2009 Annual Report.

The key covenants under CAPREIT's DOT and Credit Facilities that are expected to be affected are discussed below.

Declaration of Trust

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

Investments in any single real property (net of assumed or borrowed financings), mortgages, mortgage bonds and other investments may not exceed 20% of Adjusted Unitholders' Equity (as defined in CAPREIT's Declaration of Trust). It is expected that the Adjusted Unitholders' Equity will be materially impacted by the IFRS changes noted above. Currently, Management does not expect negative implications in its ability to invest further in accretive investments as a result of this change, but the definition of Adjusted Unitholders' Equity or the threshold applied to the ratio may require further clarification or amendment in the future. Amendments to the DOT are expected to be executed in the second half of 2010.

Credit Facilities

EBITDA and Tangible Net Worth are expected to be impacted by the adoption of IFRS as noted above. At present, the fair value adjustment associated with revaluing CAPREIT's investment property and other non-cash or unusual items are currently excluded from the definition of EBITDA per the Credit Facilities' Agreement. However, as many of the

adjustments expected under IFRS have not yet been quantified, the impact these changes may have on Debt Coverage and Interest Coverage ratios, either positive or negative, cannot yet be quantified. Management is in the process of negotiating a credit agreement renewal and expects to implement the changes necessary in order to remain in compliance under IFRS.

Key Performance Indicators and Performance Measurements

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

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

Upon adoption of IFRS in 2011, users of CAPREIT's financial information are encouraged to consider certain KPIs 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, KPIs 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.

Outlook

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

At the present time, Management is unable to reasonably quantify or report the quantitative impacts of the effects of IFRS differences on the consolidated annual financial statements, but will continue to provide quarterly and annual updates as analysis and quantification of amounts are finalized.

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 Canadian Securities Administrators requirements under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, CAPREIT's President and Chief Executive Officer and the Chief Financial Officer have satisfied themselves that as at March 31, 2010, the design of disclosure controls and procedures and the design of internal controls over financial reporting continue to be appropriate.

CAPREIT did not make any changes to the design of internal controls over financial reporting during the first quarter of 2010 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

There are certain risks inherent in an investment in the Units and the activities of CAPREIT, which investors should carefully consider before investing in Units. Risks and uncertainties in addition to those discussed below are disclosed in CAPREIT's Annual Report for the year ended December 31, 2009 and in the latest Annual Information Form.

Energy Costs and Hedging

As a significant part of CAPREIT's operating expenses are attributable to energy and energy-related charges and fees, fluctuations in the price of energy and any related charges and fees (including commodity taxes), can have a material impact on the performance of CAPREIT, its ability to pay distributions and the value of the Units.

From time to time CAPREIT may enter into agreements to receive fixed prices on all or certain of its energy requirements (principally, natural gas and electricity in certain markets) to offset the risk of rising expenditures if prices for these energy commodities increase; however, if the prices for these energy commodities decline beyond the levels set in these agreements, CAPREIT will not benefit from such declines in energy prices and will be required to pay the higher price contracted for such energy supplies.

With the authorization of the Board of Trustees, effective March 1, 2010, Management implemented a revised natural gas supply strategy that, in effect, converted substantially all of the prior fixed price natural gas commitments to spot pricing arrangements through the amendment of physical delivery contracts and the use of derivative financial instruments. The revised strategy eliminates the protection afforded by former fixed pricing arrangements, which could negatively impact the performance of CAPREIT, its ability to pay distributions and the value of the Units. However, through the revised strategy, Management expects to achieve long-term energy cost savings as a result of declining natural gas prices, including related commodity tax savings, while also providing Management with greater flexibility to lock in natural gas prices in the future when deemed appropriate.

RELATED PARTY TRANSACTIONS

For the three months ended March 31, 2010, CAPREIT paid construction management fees of $0.2 million (based on 4.5% of construction costs up to $20.0 million, 3.0% for the next $15.0 million and 1.0% thereafter) in consideration for construction management services provided by a company owned by two trustees and officers of CAPREIT in connection with the capital investment programs for the properties.

CAPREIT leases 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 months ended March 31, 2010 was $0.2 million, including property operating costs, and has been expensed as trust expenses. On August 21, 2009, the lease was renewed for an additional term of five years commencing November 1, 2009, and expiring October 31, 2014. The yearly minimum rental payments are $0.4 million plus GST/HST.

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 quarter of 2010, 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 20 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.

Natural gas is a key input to CAPREIT's heating costs. CAPREIT's income properties consume an estimated 1.5 million gigajoules of natural gas per year. CAPREIT has contracted with various utility companies to supply a generally fixed daily amount of natural gas (the "Daily Delivery Requirement"), which is used by these utility companies to supply natural gas to CAPREIT's income properties. As CAPREIT's Daily Delivery Requirement is generally fixed throughout the year but consumption fluctuates based on seasonality, CAPREIT is generally "under-delivered" during the cooler months but balances this position during the warmer months (see note 20 to the consolidated financial statements).

SUBSEQUENT EVENTS

On April 1, 2010, CAPREIT entered into a binding agreement to buy a property comprising 199 suites located in Mississauga, Ontario. The purchase price of approximately $31.0 million, excluding closing and transaction costs, is expected to be funded from a new CMHC-insured mortgage in the amount of $23.3 million and the balance from the Acquisition and Operating Facility. The transaction is expected to close in the second quarter of 2010.

On April 12, 2010, CAPREIT completed the acquisition of a property comprising 162 suites located in Vancouver, British Columbia. The purchase price of $37.5 million, excluding closing and transaction costs, was funded by the assumption of an existing CMHC-insured first mortgage of $22.7 million at 4.59% maturing on April 5, 2017 and the balance from the Acquisition and Operating Facility.

On April 30, 2010, CAPREIT also entered into a binding agreement to sell a property comprising 146 suites located in London, Ontario, for a sale price of $7.6 million, excluding closing and transaction costs. The purchaser will assume $5.7 million of existing mortgages. The net cash proceeds from this sale will be used to repay bank indebtedness. The transaction is expected to close in the second quarter of 2010.

SECTION VIII

FUTURE OUTLOOK

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

However, as a result of some continued uncertainty in economic conditions in certain regions, CAPREIT may have to account for an increase in bad debt, experience a reduction in occupancy levels in certain markets and that tenant inducement costs may increase over the short term. 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 of the unfavourable economic conditions that certain regions are experiencing or may experience. CAPREIT intends to continue to seek opportunities to further diversify its property portfolio. In addition, CAPREIT may also experience difficulty in obtaining long-term financing (i.e., financing for terms of ten years and longer) at acceptable interest rates due to credit market conditions.

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

associated savings with the amendment of some fixed priced physical delivery contracts into spot pricing arrangements (see also Harmonization of Federal Goods and Services Tax and Provincial Sales Tax discussion under Section VII, Risks and Uncertainties, of CAPREIT's Annual Report for the year ended December 31, 2009 and in the latest Annual Information Form).

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

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

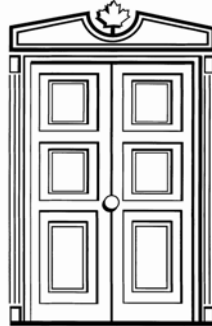
Second, Management will continue to focus on reducing its operating costs as a percentage of total revenues. Management is investing in various environment-friendly and energy-saving initiatives including energy-efficient heating boilers and lighting systems, and is evaluating all energy purchasing programs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

Third, Management will continue to direct its efforts on its building infrastructure improvement programs to upgrade properties across the portfolio and to reposition the portfolio by completing value-enhancing capital investments. These investments are expected to enhance the life safety of residents, 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 conform to its current portfolio composition or operating strategies. Management believes the realization and reinvestment of capital are fundamental components of its growth strategy and demonstrate 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 within its mortgage portfolio to ensure it is not exposed in any one year to a refinancing risk. Management believes that because of the continuing availability of financing insured by CMHC that is at lower cost than is currently available under conventional mortgages, CAPREIT is well positioned to meet its financing and refinancing objectives at reasonable costs over the medium term.

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



CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2010

(Unaudited)

CONSOLIDATED BALANCE SHEETS

(Unaudited - $ Thousands)

As at	March 31, 2010	December 31, 2009
Assets		
Income properties *(note 4)*		
Cost	**$ 2,608,678**	$ 2,599,301
Less: accumulated depreciation	**(412,135)**	(391,495)
Net book value	**2,196,543**	2,207,806
Sundry assets *(note 5)*	**72,772**	71,481
Intangible assets *(note 6)*	**340**	492
	$ 2,269,655	$ 2,279,779
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages payable *(note 7)*	**$ 1,533,515**	$ 1,545,315
Bank indebtedness *(note 8)*	**178,528**	146,891
Accounts payable and other liabilities *(note 15(b))*	**43,434**	51,323
Security deposits	**18,783**	18,624
Distributions payable	**6,203**	6,191
Intangible liabilities *(note 6)*	**187**	192
Future income taxes *(note 9)*	**53,107**	54,059
	1,833,757	1,822,595
Unitholders' Equity	**435,898**	457,184
	$ 2,269,655	$ 2,279,779

See accompanying notes to consolidated financial statements.

Contingencies *(note 21)*

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(Unaudited - $ Thousands, except per Unit amounts)

For The Three Months Ended March 31,	**2010**	2009
Operating Revenues		
Revenue from income properties	**$ 83,515**	$ 82,198
Operating Expenses		
Realty taxes	**11,105**	10,906
Property operating costs	**28,778**	31,564
	39,883	42,470
Income Before the Undernoted	**43,632**	39,728
Depreciation	**20,571**	18,975
Amortization *(note 13)*	**896**	822
Trust expenses	**2,948**	3,572
Mortgage interest	**19,239**	18,874
Interest on bank indebtedness	**1,479**	801
Net loss on natural gas contracts *(note 15(c))*	**4,497**	–
Other income	**(462)**	(465)
Loss From Continuing Operations Before Other Costs, Losses and Income Taxes	**(5,536)**	(2,851)
Unrealized loss on derivative financial instruments *(notes 15(a) and (b))*	**(54)**	(845)
Restructuring costs *(note 14)*	**(150)**	–
Recovery of (provision for) future income taxes *(note 9)*	**950**	(803)
Net Loss	**$ (4,790)**	$ (4,499)
Other Comprehensive (Loss) Income *(note 12(a))*	**$ (768)**	$ 893
Comprehensive Loss	**$ (5,558)**	$ (3,606)
Basic Net Loss Per Unit	**$ (0.072)**	$ (0.068)
Diluted Net Loss Per Unit	**$ (0.072)**	$ (0.068)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(Unaudited – $ Thousands)

	Note		Cumulative Capital		Cumulative Net Income		Cumulative Distributions		Accumulated Other Comprehensive Loss		Total
Unitholders' Equity, January 1, 2010		**$**	**889,237**	**$**	**97,869**	**$**	**(507,568)**	**$**	**(22,354)**	**$**	**457,184**
Net loss			**–**		**(4,790)**		**–**		**–**		**(4,790)**
Distributions declared and paid			**–**		**–**		**(12,394)**		**–**		**(12,394)**
Distributions payable			**–**		**–**		**(6,203)**		**–**		**(6,203)**
Distribution Reinvestment Plan ("DRIP")	**12 (b)**		**1,811**		**–**		**–**		**–**		**1,811**
Employee Unit Purchase Plan ("EUPP")	**12 (e)**		**66**		**–**		**–**		**–**		**66**
Long-Term Incentive Plan ("LTIP")	**12 (f)**		**326**		**–**		**266**		**–**		**592**
Senior Executive Long-Term Incentive Plan ("SELTIP")	**12 (g)**		**64**		**–**		**156**		**–**		**220**
Deferred Unit Plan ("DUP")	**12 (h)**		**220**		**–**		**(72)**		**–**		**148**
Restricted Units Rights ("RUR") Plan	**12 (i)**		**38**		**–**		**(6)**		**–**		**32**
Other comprehensive loss	**12 (a)**		**–**		**–**		**–**		**(768)**		**(768)**
Unitholders' Equity, March 31, 2010		**$**	**891,762**	**$**	**93,079**	**$**	**(525,821)**	**$**	**(23,122)**	**$**	**435,898**

	Note		Cumulative Capital		Cumulative Net Income		Cumulative Distributions		Accumulated Other Comprehensive Loss		Total
Unitholders' Equity, January 1, 2009		$	877,590	$	82,153	$	(435,410)	$	(38,400)	$	485,933
Net loss			–		(4,499)		–		–		(4,499)
Distributions declared and paid			–		–		(12,191)		–		(12,191)
Distributions payable			–		–		(6,140)		–		(6,140)
DRIP	12 (b)		2,837		–		–		–		2,837
EUPP	12 (e)		55		–		–		–		55
LTIP	12 (f)		758		–		217		–		975
SELTIP	12 (g)		177		–		160		–		337
DUP	12 (h)		105		–		–		–		105
Units cancelled	12 (j)		(169)		–		–		–		(169)
Other comprehensive income	12 (a)		–		–		–		893		893
Unitholders' Equity, March 31, 2009		$	881,353	$	77,654	$	(453,364)	$	(37,507)	$	468,136

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - $ Thousands)

For the Three Months Ended March 31,	2010	2009
Cash Provided By (Used In):		
Operating Activities		
Net loss	**$ (4,790)**	$ (4,499)
Items not affecting cash:		
Unrealized loss on derivative financial instruments *(notes 15(a) and (b))*	**54**	845
Net loss on natural gas contracts *(note 15(c))*	**4,497**	–
(Recovery of) provision for future income taxes *(note 9)*	**(950)**	803
Depreciation	**20,571**	18,975
Amortization *(note 13)*	**896**	822
Amortization of above and below market leases	**(2)**	(61)
Amortization of loss on derivative financial instruments in AOCL	**274**	–
Fair value adjustment of utility contracts *(note 2(g))*	**2**	141
Straight-line rent adjustment	**(29)**	(44)
Compensation component of LTIP, SELTIP , DUP and RUR Plan awards granted	**320**	608
	20,843	17,590
Changes in non-cash operating assets and liabilities *(note 16(a))*	**(9,224)**	(1,644)
Cash Provided By Operating Activities	**11,619**	15,946
Investing Activities		
Acquisition of income properties *(note 16(e))*	**(912)**	(724)
Capital investments *(note 16(d))*	**(14,028)**	(9,645)
Change in restricted cash	**(192)**	32
Cash Used In Investing Activities	**(15,132)**	(10,337)
Financing Activities		
Mortgage financings	**–**	43,400
Mortgage principal repayments	**(12,039)**	(12,427)
Mortgages repaid on maturity	**–**	(26,025)
Mortgage financing costs	**(49)**	(248)
Bank indebtedness, net	**31,637**	4,434
Proceeds on issuance of Units	**66**	55
Net cash distributions to Unitholders *(note 16(b))*	**(16,774)**	(15,438)
Cancellation of Units	**–**	(169)
Amounts received under LTIP and SELTIP	**672**	809
Cash Provided By (Used In) Financing Activities	**3,513**	(5,609)
Changes in Cash and Cash Equivalents During the Period	**–**	–
Cash and Cash Equivalents, Beginning of Period	**–**	–
Cash and Cash Equivalents, End of Period	**$ –**	$ –

See accompanying notes to consolidated financial statements.

1. Organization of the Trust

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

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 annual financial statements for the year ended December 31, 2009.

CAPREIT's results for the three months ended March 31, 2010 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 interim consolidated financial statements include the accounts of CAPREIT and its subsidiaries, together with CAPREIT's proportionate share of assets, liabilities, income and expenses of co-ownerships in which it participates. All inter-entity transactions and accounts have been eliminated.

c) Income properties

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

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

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

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

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

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

d) Tenant inducements

Tenant inducements such as free rent or move-in allowances, which are provided upon signing a lease with a term of one year or more, are initially deferred and included in sundry assets, and amortized over the respective term of the lease and included in the determination of revenues from income properties. In the event that a tenant vacates its

leased space prior to the contractual term of the lease, any unamortized balance will result in a reduction of revenues at that time.

e) Intangible assets and liabilities acquired on acquisitions

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

f) Prepaid CMHC premiums

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

g) Financial instruments

Financial assets and financial liabilities

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

Classification of financial instruments

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

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

Held-for-trading

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

Loans and receivables

Loans and receivables are accounted for at amortized cost.

Available-for-sale

Investments are accounted for as *available-for-sale*. The assets are measured at fair value at each balance sheet date and the differences between the fair value of the asset and its cost basis is included in other comprehensive income (loss). Differences accumulated in accumulated other comprehensive loss are transferred to net loss when the asset is

removed from the balance sheet or an impairment loss on the asset has to be recognized. Income on *available-for-sale* investments is recognized as earned and included in other income.

Other liabilities

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

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

Transaction costs

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

Determination of fair value

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

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.

CAPREIT has entered into fixed and variable 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 statements of operations and comprehensive loss in property operating costs, except for those contracts that are designated for its own use. At March 31, 2010, the change in fair value for those contracts not designated for its own use was an unrealized loss of $2 (March 31, 2009 – $141).

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 statements of operations and comprehensive loss.

As at March 31, 2010 and 2009, CAPREIT did not have any outstanding contracts or financial instruments with embedded derivatives that required bifurcation.

Financial instrument disclosure

CAPREIT has classified and disclosed in note 18(a) to the interim consolidated financial statements the financial instruments presented at fair value on the consolidated balance sheets based on the three levels of fair value hierarchy, including the relative reliability of the inputs used in those measurements.

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 (loss) income ("OCL or OCI"), while the ineffective portion is recognized in net loss. 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 statements of operations and comprehensive loss.

i) Comprehensive loss

Comprehensive loss includes net loss and other comprehensive (loss) income. Other comprehensive (loss) income 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 loss are disclosed in note 12(a).

j) Accumulated Other Comprehensive Loss ("AOCL")

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

k) Impairment of long-lived assets

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

l) Revenue recognition

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

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

m) Discontinued operations

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

n) Stock-based compensation

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

Deferred Units granted under the Deferred Unit Plan ("DUP") are recognized in compensation expense based on the closing market price of CAPREIT's Units on the date of grant (see note 12(h)). The Deferred Units are considered to be outstanding Units from the date of grant for basic and diluted earnings per Unit calculations.

Restricted Units granted under the Restricted Units Rights ("RUR") Plan are recognized in compensation expense based on the closing market price of CAPREIT's Units on the date of grant (see note 12(i)). The Restricted Units are not considered to be outstanding Units for basic earnings per Unit calculations but are considered to be outstanding Units from the date of grant for 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 interim consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that, in some cases, relate to matters that are inherently uncertain, and which affect the amounts reported in the interim consolidated financial statements and accompanying notes. Areas of such estimation include, but are not limited to: testing for impairment; future income taxes; financial instruments that are required to be measured or disclosed at fair value on initial recognition or on a periodic basis; valuation of accounts receivable; capitalization of costs; accounting accruals; the allocation of fair value upon acquisition of income properties; and the depreciation and amortization of certain assets. Actual results could differ from those estimates.

q) Cash flow statements

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

r) Income taxes

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

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

s) Future accounting changes

The Canadian Institute of Chartered Accountants ("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 meets the definition of equity, are to be recognized at fair value at the acquisition date and will be remeasured at fair value through earnings for each period until settled. Sections 1601 and 1602 revise and enhance the standards for the preparation of consolidated financial statements subsequent to a business combination. All three sections come into effect for financial periods beginning January 1, 2011 with prospective application. Early adoption of these sections is permitted. All three sections must be adopted concurrently. CAPREIT intends to adopt these sections effective for CAPREIT's 2011 fiscal year commencing January 1, 2011. These new sections may impact CAPREIT's consolidated financial statements for acquisitions that are entered into subsequent to January 1, 2011.

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public entities will have to adopt International Financial Reporting Statndards ("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 ending March 31, 2011, with comparative information. The impact of the adoption of IFRS on the consolidated financial statements of CAPREIT will likely be significant and, as such, CAPREIT is in the process of executing 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.

3. Recent Property Acquisitions

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

For the three months ended March 31, 2010:

- On February 22, 2010, CAPREIT Limited Partnership ("CAPLP") acquired 14 manufactured home communities ("MHC") land lease sites (13 sites near Bowmanville, Ontario and one site in Grand Bend, Ontario) for total acquisition costs of $912, all of which were funded from the Land Lease Facility (note 8(b)).

For the year ended December 31, 2009:

- On August 14, 2009, CAPLP acquired 14 MHC land lease sites (11 sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of $841, all of which were funded from the Land Lease Facility (note 8(b)).

- On February 10, 2009, CAPLP acquired ten MHC land lease sites (eight sites near Bowmanville, Ontario and two sites in Grand Bend, Ontario) for total acquisition costs of $548, all of which were funded from the Land Lease Facility (note 8(b)).

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

		March 31, 2010		**December 31, 2009**
The consideration paid was funded through:				
Bank indebtedness		**912**		1,389
	$	**912**	$	1,389
The allocation of consideration paid was as follows:				
Income properties				
Land	**$**	**563**	$	1,059
Buildings and improvements		**349**		330
	$	**912**	$	1,389

4. Income Properties

	March 31, 2010	December 31, 2009
Fee Simple Interest		
Land	**$ 362,850**	$ 362,287
Buildings and improvements		
Cost	**1,706,650**	1,700,421
Accumulated depreciation	**(300,151)**	(285,207)
Net Book Value – Buildings and improvements	**1,406,499**	1,415,214
Net Book Value – Fee Simple Interest	**1,769,349**	1,777,501
Leasehold Interest		
Buildings and improvements		
Cost	**476,650**	475,610
Accumulated depreciation	**(94,936)**	(90,426)
Net Book Value – Buildings and improvements	**381,714**	385,184
Options to purchase	**10,830**	10,830
Net Book Value – Leasehold Interest	**392,544**	396,014
Equipment		
Cost	**51,698**	50,153
Accumulated depreciation	**(17,048)**	(15,862)
Net Book Value – Equipment	**34,650**	34,291
Total cost	**2,608,678**	2,599,301
Total accumulated depreciation	**(412,135)**	(391,495)
Net Book Value – Income Properties	**$ 2,196,543**	$ 2,207,806

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

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

5. Sundry Assets

	March 31, 2010	December 31, 2009
Prepaid CMHC premiums – net of amortization of $6,330 (2009 – $5,993)	**$ 27,772**	$ 28,109
Prepaid expenses	**4,161**	2,784
Tenant inducements	**433**	540
Other receivables *(note 15(c))*	**6,757**	4,889
Restricted cash	**2,738**	2,546
Deposits on purchases *(a)*	**333**	824
Deposits	**1,478**	633
Investments	**27,022**	28,739
Leasehold improvements – net of amortization of $550 (2009 – $530)	**644**	663
Other assets – net of amortization of $1,855 (2009 – $1,534)	**1,434**	1,754
Total	**$ 72,772**	$ 71,481

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

6. Intangible Assets and Liabilities

	March 31, 2010	December 31, 2009
Intangible assets		
Value of tenant in-place leases		
Cost	**$ 15,084**	$ 15,084
Accumulated amortization	**(14,813)**	(14,674)
Net Book Value	**271**	410
Value of tenant relationships		
Cost	**1,571**	1,571
Accumulated amortization	**(1,507)**	(1,497)
Net Book Value	**64**	74
Value of above market leases		
Cost	**1,243**	1,243
Accumulated amortization	**(1,238)**	(1,235)
Net Book Value	**5**	8
Total Cost	**17,898**	17,898
Total Accumulated amortization	**(17,558)**	(17,406)
Net Book Value - Intangible assets	**$ 340**	$ 492
Intangible liabilities		
Value of below market leases		
Cost	**$ 1,908**	$ 1,908
Accumulated amortization	**(1,721)**	(1,716)
Net Book Value - Intangible liabilities	**$ 187**	$ 192

7. Mortgages Payable

Mortgages payable bear interest at a weighted average effective rate of 5.15% (December 31, 2009 – 5.15%), and mature between 2010 and 2027. The effective interest rate as at March 31, 2010 includes 0.09% (December 31, 2009 – 0.08%) for the amortization of the realized component of the loss on settlement of derivative financial instruments included in AOCL. As at March 31, 2010, all but $5,132 or 0.33% (December 31, 2009 – $nil or 0%) of CAPREIT's 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
Nine months remaining in 2010	$ 196,095	12.7
2011	242,592	15.8
2012	242,948	15.8
2013	164,226	10.7
2014	247,763	16.2
Subsequent to 2014	444,489	28.8
	1,538,113	100.0
Deferred financing costs and fair value adjustments	(4,598)	
	$ 1,533,515	

As at March 31, 2010, unamortized deferred financing costs of $5,220 and fair value adjustments of ($622) are netted against mortgages payable.

8. Bank Indebtedness

CAPREIT has a credit agreement comprising an acquisition and operating facility ("Acquisition and Operating Facility") and a land lease facility ("Land Lease Facility") (the "Credit Facilities"). Effective June 30, 2009, the Credit Facilities were renewed and amended as summarized below.

a) Acquisition and Operating Facility

The maximum amount available is $250,000, comprising one facility of $100,000 for a one-year term maturing on June 30, 2010 and another facility of $150,000 for a three-year term maturing on June 30, 2012, subject to compliance with the various provisions of the credit agreement, in order to fund ongoing working capital requirements, general corporate purposes and acquisition and improvements to the properties. Floating charge debentures on certain of CAPREIT's income properties have been provided as security. At March 31, 2010, the weighted average floating interest rate for amounts drawn under this facility is 3.42% (December 31, 2009 – 3.39%). At March 31, 2010, the borrowings outstanding for this facility were $176,327 (December 31, 2009 – $144,816). In addition, at March 31, 2010, letters of credit in the amount of $5,965 (December 31, 2009 – $5,965) were outstanding, which reduce the maximum amount available under the facility.

b) Land Lease Facility

The Land Lease Facility was established (notes 3 and 5) to fund operating, development and acquisition costs associated with CAPREIT's MHC land lease portfolio. The maximum amount of the facility is $10,000 for a one-year term maturing on June 30, 2010. Floating charge debentures on the MHC land lease properties have been provided as security. At March 31, 2010, the weighted average floating interest rate for amounts drawn under this facility is 3.42% (December 31, 2009 – 3.38%). At March 31, 2010, the borrowings outstanding for this facility were $2,201 (December 31, 2009 – $2,075). In addition, as at March 31, 2010, letters of credit in the amount of $82 (December 31, 2009 – $106) were outstanding, which reduce the maximum amount available under the facility.

9. Future Income Taxes

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

Certain real estate investment trusts that satisfy specified conditions (the "REIT Exception") are excluded from the SIFT definition and therefore will not be subject to the SIFT Rules. As CAPREIT did not meet the REIT Exception as at October 31, 2006, June 22, 2007 or as at March 31, 2010, a future income tax liability in the amount of $53,107 has been recorded at March 31, 2010 (December 31, 2009 – $54,059) based on the temporary differences that are expected to reverse on or after January 1, 2011. The change in the future income tax liability has been recorded as a recovery to the consolidated statements of operations and comprehensive loss in the amount of $950 for the three months ended March 31, 2010 (March 31, 2009 – provision of $803) and a recovery to other comprehensive (loss) income for $2 (March 31, 2009 – provision of $816) relating to the unrealized loss on derivative financial instruments and interest rate swap agreements. Under current Canadian GAAP, 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 statements of operations and

comprehensive loss at that time. CAPREIT is not currently taxable and, accordingly, no current income taxes have been recorded for 2010 and 2009. CAPREIT has not exceeded the Normal Growth Guidelines.

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

	Three Months Ended March 31, 2010	2009
Current income taxes at Canadian statutory tax rate	**$ –**	$ –
(Recovery of) provision for future income taxes relating to OCI *(note 12(a))*	**(3)**	775
Provision for future income taxes for changes in substantively enacted tax rates for OCI	**1**	41
Provision for future income taxes for changes in substantively enacted tax rates	**39**	805
Recovery of future income taxes related to timing differences that are expected to reverse	**(989)**	(2)
Future income tax (recovery) expense	**$ (952)**	$ 1,619

The future income tax liability is as follows:	March 31, 2010	December 31, 2009
Future income tax liability as at January 1,	**$ 54,059**	$ 63,221
Future income tax (recovery) expense relating to OCI *(note 12(a))*	**(2)**	406
Future income tax recovery	**(950)**	(9,568)
Future income tax liability, end of period	**$ 53,107**	$ 54,059

The components of the future income tax liability are as follows:	March 31, 2010	December 31, 2009
Net book value in excess of tax value of income properties	**$ 47,632**	$ 47,960
Future income taxes relating to OCI *(note 12(a))*	**2,702**	2,704
Other	**2,773**	3,395
Future income tax liability, end of period	**$ 53,107**	$ 54,059

10. Distributions

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

	Three Months Ended March 31, 2010	2009
Distributions declared *(note 16(b))*	**$ 18,675**	$ 18,331
Distributions Per Unit	**$ 0.270**	$ 0.270

11. Per Unit Calculations

Basic per Unit calculations are based on the weighted average number of participating voting units of the trust ("Trust Units") and exchangeable limited partnership units ("CAPLP Units") (collectively, "Units") outstanding for the period, including deferred Units allocated under the DUP *(note 12(h))*, but excluding Units or Unit Rights issued under the LTIP *(note 12(f))*, SELTIP *(note 12(g))*, RUR Plan *(note 12(i))* and unexercised options under the Unit Option Plan *(note 12(c))*.

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

	Three Months Ended March 31,	
	2010	**2009**
Weighted average number of total Units or Unit Rights	**68,942,224**	67,852,164
Less:		
Weighted average LTIP Units	**(1,672,927)**	(1,264,355)
Weighted average SELTIP Units	**(817,914)**	(817,914)
Weighted average RURs	**(27,904)**	-
Weighted average number of basic Units	**66,423,479**	65,769,895

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

	Three Months Ended March 31,	
	2010	**2009**
Weighted average number of basic Units	**66,423,479**	65,769,895
Effect of dilutive Unit options, LTIP and SELTIP Units and RURs	**242,014**	84,326
Weighted average number of diluted Units or Unit Rights	**66,665,493**	65,854,221

12. Unitholders' Equity

Authorized – Unlimited, voting Units

The number of issued and outstanding Units and Unit Rights granted under compensation plans comprises the following:

	Issued Trust Units	**CAPLP Units**	**DUP and RUR**	**Total**
Units or Unit Rights outstanding, January 1, 2010	**68,374,898**	**411,311**	**60,624**	**68,846,833**
Issued or granted during the period:				
Distribution Reinvestment Plan ("DRIP")	**132,285**	**–**	**–**	**132,285**
Employee Unit Purchase Plan ("EUPP")	**4,629**	**–**	**–**	**4,629**
Deferred Unit Plan ("DUP")	**–**	**–**	**15,360**	**15,360**
Restricted Units Rights ("RUR") Plan	**–**	**–**	**69,991**	**69,991**
Units or Unit Rights outstanding, March 31, 2010	**68,511,812**	**411,311**	**145,975**	**69,069,098**

	Issued Trust Units	**CAPLP Units**	**DUP and RUR**	**Total**
Units or Unit Rights outstanding, January 1, 2009	67,192,419	411,311	28,672	67,632,402
Issued or granted during the period:				
DRIP	219,416	–	–	219,416
EUPP	4,359	–	–	4,359
LTIP	407,500	–	–	407,500
DUP	–	–	8,413	8,413
Units cancelled	(13,500)	–	–	(13,500)
Units or Unit Rights outstanding, March 31, 2009	67,810,194	411,311	37,085	68,258,590

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

The maximum number of Units issuable under all of CAPREIT's Unit incentive plans, namely the Unit Option Plan, the EUPP, the Unit Purchase Plan, the LTIP, the SELTIP, the DUP and the RUR Plan, is 6,000,000 Units. The maximum available for future issuance under all Unit incentive plans as at March 31, 2010 is 763,396 Units (December 31, 2009 – 853,376 Units).

a) Accumulated Other Comprehensive Loss ("AOCL") and Other Comprehensive (Loss) Income ("OCL/OCI")

	Three Months Ended March 31,	
	2010	**2009**
AOCL balance, beginning of period	**$ (22,354)**	$ (38,400)
Other comprehensive income (loss):		
Amortization of AOCL to mortgage interest [(1)]	**274**	–
Gain (loss) on interest rate swap agreements *(note 15(b))*	**706**	(105)
Recovery of (provision for) future income taxes *(note 9)*	**2**	(816)
Loss on amounts designated as cash flow hedges settled in prior years and transferred to mortgage interest expense	**(33)**	(69)
Unrealized (loss) gain on the change in fair value of investments	**(1,717)**	1,883
Other comprehensive (loss) income	**(768)**	893
AOCL balance, end of period	**$ (23,122)**	$ (37,507)

	March 31, 2010	**December 31, 2009**
AOCL comprised of:		
Loss on derivative financial instruments [(1)]		
Cumulative realized loss	**$ (9,908)**	$ (9,908)
Accumulated amortization to mortgage interest	**866**	592
Loss on interest rate swap agreements	**(4,886)**	(5,592)
Provision for future income taxes *(note 9)*	**(2,702)**	(2,704)
Unamortized balance of loss on amounts designated as cash flow hedges settled in prior years	**(2)**	31
Unrealized loss on the change in fair value of investments	**(6,490)**	(4,773)
AOCL balance, end of period	**$ (23,122)**	$ (22,354)

(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 statements of operations and comprehensive loss over periods ending in December 2014 to September 2022, being the original terms of the hedged contracts. The estimated amount of the amortization that is expected to be reclassified to net loss from AOCL in the next 12 months is $1,112.

b) Distribution Reinvestment Plan ("DRIP")

The terms of the DRIP 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.

c) Unit Option Plan

Under the terms of the Unit Option Plan, options are granted to Trustees, officers and employees based on a performance incentive for improved service and enhancing profitability and vest on the date of grant. There were no options granted during 2010 and 2009.

A summary of Unit option activity for the three months ended March 31, 2010 and 2009 is presented below. All options are exercisable as at March 31, 2010 and 2009.

	March 31, 2010		March 31, 2009	
	Number of Units	Weighted Avg. Exercise Price	Number of Units	Weighted Avg. Exercise Price
Options outstanding, beginning of period	**387,200**	**$ 13.42**	387,200	$ 13.42
Options exercised	**–**	**–**	–	–
Options outstanding, end of period	**387,200**	**$ 13.42**	387,200	$ 13.42

The following Unit Option Plan grants are outstanding:

		March 31, 2010	March 31, 2009
Exercise Price	Expiry Date	Number of Units	Number of Units
$ 11.85	December 17, 2010	**57,700**	57,700
$ 14.10	November 14, 2011	**151,000**	151,000
$ 13.73	April 4, 2012	**40,000**	40,000
$ 13.25	November 17, 2012	**138,500**	138,500
		387,200	387,200

d) 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 executive officers the ability to purchase CAPREIT Units with the assistance of loans to the extent of three times the amount of incentive compensation earned. These loans were fully repaid in 2006. No new Units have been issued and no new loans to purchase Units have been granted to the executive officers since 2003.

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

e) Employee Unit Purchase Plan ("EUPP")

The EUPP 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 months ended March 31, 2010 was $6 (March 31, 2009 – $5).

f) 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 instalments, with an initial instalment of 5% paid when the Units are issued. The balance represented by Instalment 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) and are required to apply cash distributions received by them on these Units toward the payment of interest and the remaining instalments. Participants may pre-pay any remaining instalments at their discretion. The Instalment Receipts are non-recourse to the Participants and are secured by the Units as well as the distributions on the Units. If a Participant fails to pay interest and/or principal, CAPREIT may elect to reacquire or sell the Units in satisfaction of the outstanding amounts.

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

	Three Months Ended March 31,	
Number of Units	**2010**	**2009**
Balance, beginning of period	**1,672,927**	1,164,744
Issued during the period	**–**	407,500
Balance, end of period	**1,672,927**	1,572,244
Value of LTIP Units granted during the period	**$ –**	$ 5,208

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

	Three Months Ended March 31,	
Instalment Receipts	**2010**	**2009**
Balance, beginning of period	**$ 23,103**	$ 17,458
Amounts granted, net of initial instalment of $nil (2009 - $261)	**–**	4,947
Principal repayments during the period	**(186)**	(110)
Balance, end of period	**$ 22,917**	$ 22,295

Instalment Receipts	**March 31, 2010**	**December 31, 2009**
Balance as at January 1,	**$ 23,103**	$ 17,458
Amounts granted, net of initial instalment of $nil (2009 - $329)	**–**	6,249
Principal repayments during the period	**(186)**	(604)
Balance, end of period	**$ 22,917**	$ 23,103

The Instalment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the three months ended March 31, 2010, interest payments in the amount of $266 (March 31, 2009 – $217), were credited to Unitholders' Equity in cumulative distributions.

The following table summarizes the fair value of the compensation costs for the Units granted using the Black-Scholes option pricing model and the amount expensed in the consolidated statements of operations and comprehensive loss with a corresponding amount included in Unitholders' Equity in cumulative capital.

Date Issued	Number of Units	Issue Price	Fair Value of Units Granted	Three Months Ended March 31, 2010	2009
November 19, 2009	100,683	$ 13.61	$ 173	**$ 14**	$ –
March 10, 2009	407,500	$ 12.78	$ 694	**53**	231
February 29, 2008	380,000	$ 16.10	$ 960	**73**	80
August 21, 2007	190,000	$ 17.73	$ 480	**–**	$ 40
March 2, 2007	377,000	$ 20.90	$ 1,260	**–**	$ 35
				$ 140	$ 386

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

Grant Date	Risk-free interest rate	Expected life (years)	Expected volatility	Dividend yield
November 19, 2009	3.78%	10	19.00%	7.94%
March 10, 2009	2.99%	10	12.00%	8.45%
February 29, 2008	3.70%	10	12.00%	6.71%
August 21, 2007	4.38%	10	12.00%	6.10%
March 2, 2007	4.06%	10	12.00%	5.25%

g) 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 instalments, with an initial instalment of 5% paid when the Units are issued. The balance represented by Instalment 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 instalments 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 instalments at their discretion. The Instalment 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:

	Three Months Ended March 31,	
Number of Units	**2010**	**2009**
Balance, beginning of period	**817,914**	817,914
Issued during the period	**–**	–
Balance, end of period	**817,914**	817,914

The details of the SELTIP Instalment Receipts are shown below:

	Three Months Ended March 31,	
Instalment Receipts	**2010**	**2009**
Balance, beginning of period	$ **12,835**	$ 13,075
Principal repayments during the period	**(64)**	(61)
Balance, end of period	$ **12,771**	$ 13,014

Instalment Receipts	**March 31, 2010**	**December 31, 2009**
Balance as at January 1,	$ **12,835**	$ 13,075
Principal repayments during the period	**(64)**	(240)
Balance, end of period	$ **12,771**	$ 12,835

The Instalment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the three month period ended March 31, 2010, interest payments in the amount of $156 (March 31, 2009 – $160), were credited to Unitholders' Equity in cumulative distributions. The compensation costs relating to the fair value of the Units granted under the SELTIP for the three months ended March 31, 2010 were $nil (March 31, 2009 – $116).

h) 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 or her 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 2010 is 100% (2009 - 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 or her Deferred Unit account only once in a five-year period. During the three months ended March 31, 2010, total compensation costs of $220 (March 31, 2009 – $105) were expensed in relation to the new awards under the DUP.

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

	Three Months Ended March 31,	
	2010	**2009**
Outstanding, beginning of period		
Number of Units	**60,624**	28,672
Weighted average price	**$ 15.03**	$ 16.59
Granted during the period		
Number of Units	**15,360**	8,413
Weighted average price	**$ 14.35**	$ 12.50
Outstanding, end of period		
Number of Units	**75,984**	37,085
Weighted average price	**$ 14.89**	$ 15.66

i) Restricted Units Rights ("RUR") Plan

During the first quarter of 2010, CAPREIT adopted the RUR Plan as the primary plan through which long-term incentive compensation will be awarded, subject to Unitholders' approval on May 19, 2010. The Compensation and Governance Committee of the Board of Trustees may award RURs, subject to the attainment of specified performance objectives, to certain officers and key employees, collectively the "Participants". The purpose of the RUR Plan is to provide its Participants with additional incentive and to further align the interest of its Participants with Unitholders through the use of RURs which, upon vesting, are exercisable for Units. RUR Plan Units will be issued from treasury upon vesting.

On February 24, 2010, subject to approval by Unitholders, 69,552 RURs were granted at $14.09 based on the market price equal to the weighted average trading price of the Units for the five trading days prior to the grant date. The fair value of the compensation costs for these RURs was $972 based on the closing market price of CAPREIT Units on the date of grant. As the RURs vest in the entirety on the third anniversary of the grant date, the compensation costs are amortized on a straight-line basis over the three-year vesting period. During the three months ended March 31, 2010, total compensation costs of $32 (March 31, 2009 – $nil) were expensed in relation to awards granted under the RUR Plan.

The RURs earn notional distributions in respect of each distribution paid on RURs commencing from the grant date and such notional distributions are used to calculate additional RURs ("Distribution RURs"), which are accrued for the benefit of the Participant. The Distribution RURs are credited to the Participants only when the underlying RURs upon which the Distribution RURs are earned become vested.

The details of the RURs granted under the RUR Plan (including the Distribution RURs) are as follows:

	Three Months Ended March 31, 2010	2009
Outstanding, beginning of period		
Number of Units	–	–
Weighted average price	$ –	$ –
Granted during the period		
Number of Units	69,991	–
Weighted average price	$ 13.97	$ –
Outstanding, end of period		
Number of Units	69,991	–
Weighted average price	$ 13.97	$ –

j) ***Units Cancelled***

During the three months ended March 31, 2010, nil Units (March 31, 2009 – 13,500) were acquired for cancellation pursuant to a normal course issuer bid, at market prices aggregating $nil (March 31, 2009 – $169).

13. Amortization

	Three Months Ended March 31, 2010	2009
Amortization of other financing costs and CMHC premiums	$ 658	$ 396
Amortization of leasehold improvements	20	21
Amortization of tenant improvements	69	70
Amortization of intangible assets	149	335
	$ 896	$ 822

14. Restructuring Costs

In the three months ended March 31, 2010, $150 of restructuring costs were incurred (March 31, 2009 – $nil). These costs primarily represent employee severance payments.

15. 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.

CAPREIT settled these interest rate forward contracts during 2009. As hedge accounting ceased to be applied to these contracts from October 1, 2008, any subsequent changes in the fair value of these contracts were recognized in the consolidated statements of operations and comprehensive loss. For the three months ended March 31, 2010, the unrealized loss resulting from mark-to-market valuations on these contracts totalling $nil (March 31, 2009 – $845) was recognized in the consolidated statements of operations and comprehensive loss. The associated cumulative unamortized loss 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. For the three months ended March 31, 2010, $274 (March 31, 2009 – $nil) was amortized from AOCL to mortgage interest expense.

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

	Three Months Ended March 31,	
	2010	**2009**
Opening cumulative unrealized loss, beginning of period	**$ –**	$ (27,535)
Unrealized loss included in net loss	**–**	(845)
Closing cumulative unrealized loss, end of period	**$ –**	$ (28,380)

b) Contracts for which hedge accounting is being applied

As at March 31, 2010, 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 months ended March 31, 2010, an unrealized gain of $706 (March 31, 2009 – unrealized loss of $105) has been included in OCI (note 12(a)). In addition, for the three months ended March 31, 2010, an unrealized loss of $54 (March 31, 2009 – $nil) has been recognized in the consolidated statements of operations and comprehensive loss for the ineffective portion of the interest rate swap agreement. The mark-to-market cumulative unrealized loss of $4,198 and $7,319 is included in AOCL and has been set up in accounts payable and other liabilities as at March 31, 2010 and March 31, 2009, respectively.

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

	Three Months Ended March 31,	
	2010	**2009**
Opening cumulative unrealized loss, beginning of period	**$ (4,850)**	$ (7,214)
Unrealized gain (loss) included in OCI	**706**	(105)
Unrealized loss included in net loss	**(54)**	–
Closing cumulative unrealized loss, end of period	**$ (4,198)**	$ (7,319)

c) Contracts for which hedge accounting is not being applied

Effective March 1, 2010, CAPREIT adopted a natural gas supply strategy that, in effect, converted substantially all of the fixed price natural gas commitments through October 2012 (see note 20) to spot pricing arrangements through the amendment of physical delivery contracts and the use of derivative financial instruments. The amended arrangement is comprised of a physical delivery contract at spot pricing, a floating-to-fixed derivative financial instrument with the natural gas supplier and an offsetting fixed-to-floating derivative financial instrument with a Canadian chartered bank.

CAPREIT has elected not to apply hedge accounting to these derivative financial instruments, which will be marked to market through net loss on an ongoing basis. As at March 31, 2010, a mark-to-market unrealized loss of $5,495 on the floating-to-fixed derivative financial instrument has been recorded in accounts payable and other liabilities and a mark-to-market unrealized gain of $1,286 on the fixed-to-floating derivative financial instrument has been recorded in sundry assets.

As a result of the amendment of the fixed price natural gas commitments, for the three months ended March 31, 2010, the inherent net loss of $4,497 (March 31, 2009 – $nil) has been crystallized and has been included in the consolidated statements of operations and comprehensive loss.

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

	Three Months Ended March 31, 2010	2009
Opening cumulative unrealized net loss, beginning of period	**$ –**	$ –
Unrealized loss included in net loss on natural gas contracts	**(5,878)**	–
Unrealized gain included in net loss on natural gas contracts	**1,381**	–
Net loss on natural gas contracts included in net loss	**(4,497)**	–
Net realized loss relating to supply arrangements for the period	**288**	$ –
Closing cumulative unrealized net loss, end of period	**$ (4,209)**	$ –

	March 31, 2010	2009
Unrealized gain included in sundry assets	**$ 1,286**	$ –
Unrealized loss included in accounts payable and accrued liabilities	**(5,495)**	–
Closing cumulative unrealized net loss, end of period	**$ (4,209)**	$ –

16. Supplemental Cash Flow Information

a) Changes in non-cash operating assets and liabilities

	Three Months Ended March 31, 2010	2009
Prepaid CMHC premiums	**$ –**	$ (1,342)
Prepaid expenses	**(1,377)**	(764)
Tenant inducements	**107**	39
Other receivables	**(555)**	121
Other assets	**(1)**	(101)
Deposits on purchases	**491**	327
Deposits	**(845)**	(284)
Leasehold improvements	**(1)**	–
Accounts payable and other liabilities	**(7,202)**	308
Security deposits	**159**	52
	$ (9,224)	$ (1,644)

b) Net cash distributions to Unitholders

	Three Months Ended March 31, 2010	2009
Distributions declared to Unitholders	**$ (18,675)**	$ (18,331)
Add: Distributions payable at beginning of period	**(6,191)**	(6,084)
Less: Distributions payable at end of period	**6,203**	6,140
Less: Distributions to participants in the DRIP	**1,811**	2,837
Less: Distributions to participants in the DUP and RUR Plan	**78**	–
	$ (16,774)	$ (15,438)

c) Mortgages and loans

	Three Months Ended March 31, 2010	2009
Interest paid	**$ (20,234)**	$ (19,436)

d) Capital investments

	Three Months Ended March 31, 2010	2009
Capital investments	**$ (8,465)**	$ (9,733)
Change in accounts payable and other liabilities	**(5,563)**	88
	$ (14,028)	$ (9,645)

e) Acquisition of income properties

	Three Months Ended March 31, 2010	2009
Acquired properties *(note 3)*	**$ (912)**	$ (724)
Assumed debt *(note 3)*	**–**	–
Net proceeds	**$ (912)**	$ (724)

17. 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 months ended March 31, 2010 (excluding GST) amounted to $222 (March 31, 2009 – $218), and have been capitalized to income properties. At March 31, 2010, there were construction management fees outstanding of $86 (December 31, 2009 – $72), included 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 months ended March 31, 2010 was $176 (March 31, 2009 – $161), including property operating costs, and has been expensed as trust expenses. The lease agreement expires on October 31, 2014. Minimum annual rental payments are as follows:

Year	Annual Repayment
Nine months remaining in 2010	$ 305
2011	$ 407
2012	$ 407
2013	$ 407
2014	$ 339

c) CAPREIT had a consulting agreement, which expired in May 2009, with a company owned by one of the trustees and officers. The total fees paid for March 31, 2010 (excluding GST) were $nil (March 31, 2009 – $13) and have been expensed as trust expenses. At March 31, 2010 and December 31, 2009, there were no consulting fees outstanding and included 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 periods ended March 31, 2010 or 2009, (excluding GST) and $nil is outstanding and included in accounts payable and other liabilities.

18. 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 interim consolidated financial statements, approximates their carrying amount due to the short-term and variable rate nature of those instruments.

At March 31, 2010, the fair value of CAPREIT's mortgages payable is estimated to be $1,610,725 (December 31, 2009 – $1,602,624). The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions.

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

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

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

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

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

The following table presents CAPREIT's estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as of March 31, 2010, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts CAPREIT could ultimately realize.

	Level 1 Quoted prices in active markets for identical assets and liabilities	**Level 2** Significant other observable inputs	**Level 3** Significant unobservable	**Total**
Assets				
Restricted cash	$ 2,738 (1)	$ –	$ –	$ 2,738
Investments	$ 27,022 (2)	$ –	$ –	$ 27,022
Derivative financial instruments – utilities	$ –	$ 1,286 (5)	$ –	$ 1,286
Liabilities				
Derivative financial instruments – interest	$ –	$ 4,198 (4)	$ –	$ 4,198
Derivative financial instruments – utilities	$ 49 (3)	$ 5,495 (5)	$ –	$ 5,544
Total	$ 29,809	$ 10,979	$ –	$ 40,788

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

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

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

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

(5) CAPREIT uses certain derivative financial instruments to manage its price risk with respect to energy costs. The valuation of these instruments is determined using widely accepted valuation techniques, netting the future notional cash payments based on the fixed prices specified in the contracts and the expected notional cash receipts, which are estimated using an expectation of future natural gas prices (forward curves) derived from observable market forward pricing curves. CAPREIT also considers the impact of credit valuation adjustments to reflect both its risk and the counterparty's risk in the fair value measurements of CAPREIT's natural gas derivative financial instruments.

Although CAPREIT has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by CAPREIT itself. As of March 31, 2010, CAPREIT has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of the derivative. As a result, CAPREIT has determined that the derivative valuations in their entirety should be classified in Level 2 of the fair value hierarchy.

b) Risk management

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

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 periods ended March 31, 2010 and 2009, a 100 basis points change in interest rates would have the following effect:

	Change in interest rates (basis points)	Increase (decrease) in net loss		Increase (decrease) in OCI	
		2010	**2009**	**2010**	**2009**
Floating rate debt	+100	**$ 395**	$ 299	**$ –**	$ –
Floating rate debt	-100	**$ (395)**	$ (299)	**$ –**	$ –
Derivative financial instruments	+100	**$ –**	$ (10,018)	**$ –**	$ –
Derivative financial instruments	-100	**$ –**	$ 10,272	**$ –**	$ –
Interest rate swap agreements	+100	**$ –**	$ –	**$ 1,372**	$ 1,843
Interest rate swap agreements	-100	**$ –**	$ –	**$ (1,250)**	$ (1,885)

CAPREIT's objective of managing interest rate risk is to minimize the volatility of earnings. As at March 31, 2010, interest rate risk has been minimized as all but $5,132 or 0.33% of mortgages payable are financed at fixed interest rates, with maturities staggered over a number of years.

Liquidity risk

Liquidity risk is the risk that CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 96.2% of CAPREIT's mortgages are CMHC-insured (excluding a $55,000 mortgage on the portfolio of MHC land lease sites), which reduces the risk of mortgage refinancings. CAPREIT's overall risk for mortgage refinancings is further reduced as the unamortized mortgage insurance premiums are transferable between approved lenders and are 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 March 31, 2010, CAPREIT had undrawn lines of credit in the amount of $63,509 (December 31, 2009 – $94,369).

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at March 31, 2010 are as follows:

($ Thousands)	**2010**	**2011-2012**	**2013-2014**	**2015 onward**
Mortgages payable	$ 196,095	$ 485,540	$ 411,989	$ 444,489
Bank indebtedness	96,236	82,292	–	–
Mortgage interest payable	53,583	106,390	63,629	85,986
Bank indebtedness interest payable	3,225	4,620	–	–
Accounts payable and accrued liabilities	41,367	2,067	–	–
Security deposits	18,783	–	–	–
Distributions payable	6,203	–	–	–
	$ 415,492	$ 680,909	$ 475,618	$ 530,475

Credit risk

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

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

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

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

19. Capital Management

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

CAPREIT's Credit Facilities (note 8) require compliance with the financial covenants shown in the following table. In addition, borrowings must not exceed the borrowing base, calculated at a predefined percentage to the market value of the properties.

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

CAPREIT is in compliance with all its investment and debt restrictions and financial covenants contained in the DOT and in the Credit Facilities.

The total capital managed by CAPREIT and the results of its compliance with the key covenants are summarized as follows:

		March 31, 2010	December 31, 2009
Mortgages payable *(note 7)*		**$ 1,533,515**	$ 1,545,315
Bank indebtedness *(note 8)*		**178,528**	146,891
Unitholders' equity		**435,898**	457,184
Total capital		**$ 2,147,941**	$ 2,149,390
	Threshold		
Total debt to gross book value [1]	Maximum 70.00%	**63.22%**	62.75%
Tangible net worth [2]	Minimum $400,000	**$ 489,005**	$ 511,243
		March 31, 2010	December 31, 2009
Debt coverage ratio (times) [3]	Minimum 1.20	**1.30**	1.28
Interest coverage ratio (times) [4]	Minimum 1.50	**2.08**	2.06

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

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

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

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

20. Commitments

Natural gas and hydro

Through the combination of fixed and variable price contracts, CAPREIT is committed as at March 31, 2010, in the aggregate amount of $15,482 for its natural gas and $511 for its hydro requirements. These commitments, which range from one to three years, fix the price of natural gas and hydro for a portion of CAPREIT's gas and hydro requirements. Certain of these contracts have been designated for CAPREIT's own use. The fixed price component of the natural gas commitments is 7.37% or $1,141 of the total commitments.

Effective March 1, 2010, through the use of derivative financial instruments, CAPREIT, in effect, converted substantially all of the fixed price natural gas commitments to spot pricing arrangements (see note 18).

During 2009, CAPREIT entered into hydro purchase agreements to fix future rates for its Alberta properties. Rates have been fixed for CAPREIT's Edmonton and Calgary properties for the periods covering May 1, 2011 to April 30, 2014 and March 1, 2011 to February 28, 2014, respectively. The new purchase agreements meet the requirement for hedge accounting as they set the minimum quantity requirement at 0% of expected usage and, therefore, do not require "net settlement" of unused volume and are not included in the $511 referenced above.

Land leases - land leasehold interest

Three of the properties have ground leases with various expiry dates (subject to revisions at periodic intervals) between March 31, 2045 and March 31, 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. Total expenses under these three leases were $542 during the three months ended March 31, 2010 (March 31, 2009 – $478).

In addition, CAPREIT has two leasehold interests, expiring on September 30, 2013 and May 31, 2014, in land parcels used in conjunction with two of its existing freehold properties. Total expenses under these two leases were $2 during the three months ended March 31, 2010 (March 31, 2009 – $4).

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

Year	Annual Rent
Nine months remaining in 2010	$ 555
2011	$ 740
2012	$ 740
2013	$ 736
2014	$ 724
Thereafter	$ 28,601

Normal course issuer bid ("NCIB")

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

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 March 31, 2009 at market prices aggregating $3,908.

Property capital investments

Commitments primarily related to capital investments in income properties of $17,847 were outstanding as at March 31, 2010 (December 31, 2009 – $3,719).

21. 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.

22. Subsequent Events

a) On April 1, 2010, CAPREIT entered into a binding agreement to buy a property comprising 199 suites located in Mississauga, Ontario. The purchase price of approximately $31,000, excluding closing and transaction costs, is expected to be funded by new CMHC-insured first mortgage financing in the amount of $23,250 and the balance from the Acquisition and Operating Facility. The transaction is expected to close in the second quarter of 2010.

b) On April 12, 2010, CAPREIT completed the acquisition of a property comprising 162 suites located in Vancouver, British Columbia. The purchase price of approximately $37,500, excluding closing and transaction costs, was funded by the assumption of an existing CMHC-insured first mortgage of $22,671 at 4.59%, maturing on April 5, 2017, and the balance from the Acquisition and Operating Facility.

c) On April 30, 2010, CAPREIT entered into a binding agreement to sell a property comprising 146 suites located in London, Ontario for a sale price of $7,600, excluding closing and transaction costs. The purchaser will assume $5,674 of existing mortgages. The net cash proceeds from this sale will be used to repay bank indebtedness. The transaction is expected to close in the second quarter of 2010.

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