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Management's Discussion and Analysis

of results of operations and financial condition
Year Ended December 31, 2010

Section 1 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 years ended December 31, 2010 and 2009 should be read in conjunction with CAPREIT's audited consolidated annual financial statements.

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, projected costs, capital investments, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities 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; that inflation will remain at current low rates; that interest rates will rise modestly starting in 2011; 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 Reporting Standards ("IFRS"), 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. A comprehensive discussion of risk factors may be found in the Risks and Uncertainties section. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

Non-GAAP Financial Measures

CAPREIT prepares and releases unaudited consolidated interim 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"), Net Rental Revenue Run-Rate, 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 3, under Non-GAAP Financial Measures. Since NOI, Net Rental Revenue Run-Rate, 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 the Units ("Unitholders") and to evaluate CAPREIT's performance. A reconciliation of non-GAAP measures is provided in Section 3, under Non-GAAP Financial Measures. 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, townhomes and manufactured home communities located in and near major urban centres across Canada. At December 31, 2010, CAPREIT had ownership interests in a portfolio that included 27,172 residential suites (CAPREIT's share – 26,017 suites), diversified by geographic location and asset type, and two Ontario manufactured home communities ("MHC") comprising 1,325 land lease sites. As at December 31, 2010, CAPREIT had 734 employees (783 employees as at December 31, 2009).

The tables below summarize acquisitions and dispositions of properties for the year ended December 31, 2010:

Acquisitions Completed

($ Thousands)	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Mortgage Funding	Interest Rate	Mortgage Maturity Date
February 22, 2010	MHC	14	Bowmanville and Grand Bend	$ 912	$ – [1]	[1]	[1]
April 12, 2010	Luxury	162	Vancouver	38,425	22,652 [2]	4.59%	April 5, 2017
May 14, 2010	Luxury	199	Mississauga	31,653	22,165	3.37%	June 1, 2015
July 29, 2010 [3]	Mixed	307	Victoria	47,194	26,366 [3]	[3]	[3]
December 20, 2010	MHC	9	Bowmanville and Grand Bend	488	– [1]	[1]	[1]
Total		691		$ 118,672	$ 71,183		

(1) The acquisition of MHC land lease sites is funded from CAPREIT's Land Lease Facility (see Liquidity and Financial Condition section).
(2) The mortgage was assumed from the vendor at acquisition.
(3) The acquisition comprised of two affordable, four mid-tier and two luxury properties. Funding for the acquisition comprised of new mortgage financing of $25,580 at 3.67% maturing December 1, 2020 and an assumed mortgage of $786 at a stated rate of 4.73% maturing on February 1, 2016.

During the year ended December 31, 2009, CAPREIT acquired 24 additional land lease sites at its Bowmanville and Grand Bend manufactured home communities.

Subsequent to December 31, 2010, CAPREIT completed the acquisition of a mid-tier townhome complex comprising 83 suites, located in Burlington, Ontario. The purchase price of $8.9 million, excluding closing and transaction costs, was funded with a new CMHC-insured mortgage of $6.8 million at an interest rate of 4.26%, maturing on March 1, 2021, and the balance from CAPREIT's acquisition and operating facility (see discussion under Subsequent Event).

Dispositions Completed

($ Thousands)	Demographic Sector	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage(s) Repaid
June 3, 2010	Mid-Tier	88	Montréal	$ 3,000	$ 2,831	$ 1,926
June 9, 2010	Affordable	250	Montréal	11,750	10,568	4,014
July 5, 2010	Affordable	146	London	7,600	7,116	5,650
July 29, 2010	Mid-Tier	570	Mississauga and Kitchener	45,900	42,232	20,106
November 24, 2010	Mid-Tier	56	Toronto	6,430	6,042	–
Total		1,110		$ 74,680	$ 68,789	$ 31,696

A gain of $11.7 million ($0.174 per Unit) has been recognized in connection with dispositions in the year ended December 31, 2010.

Unless otherwise indicated, all figures in this MD&A, including those figures relating to prior year comparable periods, have been adjusted to exclude the results of discontinued operations.

Objectives

CAPREIT's objectives are to:

- Provide Unitholders with long-term, stable and predictable monthly cash distributions;
- Grow Normalized Funds From Operations, sustainable distributions and Unit value through the active management of its properties, accretive acquisitions and strong financial management; and
- 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 maintaining 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 improves 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 strives to capture potential economies of scale and cost synergies arising from past growth. CAPREIT's enterprise-wide procurement system streamlines and centralizes 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 review of its portfolio and developed a five-year capital investment plan that continues 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 net operating income. As a component of this growth strategy, CAPREIT will monitor its portfolio and, from time to time, identify certain non-core properties for divestiture. 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 capital 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 currently strives to achieve an annual net operating income margin that is in the range of 55% to 57% 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 has historically targeted a long-term 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 service 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 4).

Performance Measures

The following table presents an overview of certain key GAAP and non-GAAP financial measures and operational results of CAPREIT for the years ended December 31, 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 year, monthly cash distributions declared to its Unitholders remained constant at $0.09 per Unit.

Year Ended December 31,		2010		2009
Portfolio Performance (1)				
Overall Portfolio Occupancy (2)		98.4%		98.1%
Overall Portfolio Average Monthly Rents (2)	$	979	$	952
Operating Revenues (000s)	$	333,465	$	321,159
NOI (000s) (3)	$	187,709	$	174,432
NOI Margin		56.3%		54.3%
Operating Performance (3)				
FFO Per Unit – Basic	$	1.268	$	1.302
NFFO Per Unit – Basic	$	1.364	$	1.263
Cash Distributions Per Unit	$	1.080	$	1.080
FFO Payout Ratio		88.8%		85.9%
NFFO Payout Ratio		82.5%		88.5%
Liquidity and Leverage (4)				
Total Debt to Gross Book Value Ratio (2)		58.87%		62.75%
Weighted Average Mortgage Interest Rate (2)		4.82%		5.07%
Weighted Average Mortgage Term (years) (2)		4.9		5.1
Debt Service Coverage (times) (5)		1.35		1.28
Interest Coverage (times) (5)		2.12		2.06
Available Liquidity – Acquisition and Operating Facility (000s) (2)	$	223,545	$	94,369
Other				
Number of Suites and Sites Acquired		691		24
Number of Suites Disposed		1,110		–
Closing Price of Trust Units (2)	$	17.14	$	14.06
Market Capitalization ($ millions) (6)	$	1,323	$	968

(1) Excludes results of discontinued operations, including the effect on prior comparable period.
(2) As at December 31.
(3) 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).
(4) Not adjusted for the effect of discontinued operations.
(5) Based on the trailing four quarters ended December 31.
(6) 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. In the case of one of the properties, the purchase option entitles CAPREIT to acquire a prepaid operating leasehold interest in the property maturing in 2072 (see Portfolio of Operating Leasehold Interests 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 for additional information).

Fee Simple Interests – 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 December 31,	2010	%	2009 (1)	%
Fee Simple Interests – Apartments and Townhomes	22,458	78.8	22,900	79.2
Operating Leasehold Interests	3,815	13.4	3,815	13.2
Land Leasehold Interests	899	3.2	899	3.1
Total Residential Suites	27,172	95.4	27,614	95.5
Fee Simple Interests – MHC Land Lease Sites	1,325	4.6	1,302	4.5
Total Residential Suites and MHC Land Lease Sites	28,497	100.0	28,916	100.0

(1) Suite count not adjusted for discontinued operations.

Portfolio Diversification

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

During the fourth quarter of 2010, Management revised the demographic sector classification of certain properties. For the year ended December 31, 2010, the classification of six properties comprising 1,925 suites located in Ontario were reclassified from affordable to mid-tier and two properties comprising 354 suites located in Québec and Ontario were reclassified from mid-tier to luxury. These reclassifications reflect the increases in average monthly rents and the improvements in the quality of the properties and tenant bases, resulting from property capital investments completed in 2010 and in prior years.

Portfolio by Demographic Sector

As at December 31,	2010	%	2009 (1)	%
Affordable	1,357	4.8	3,638	12.6
Mid-tier	15,718	55.2	14,711	50.9
Luxury	10,097	35.4	9,265	32.0
Total Residential Suites	27,172	95.4	27,614	95.5
MHC Land Lease Sites	1,325	4.6	1,302	4.5
Total Residential Suites and MHC Land Lease Sites	28,497	100.0	28,916	100.0

(1) Suite count not adjusted for discontinued operations or change in demographic sector classifications.

Portfolio by Geography

As at December 31,	2010	%	2009 (1)	%
Ontario				
Greater Toronto Area	14,184	49.8	14,178	49.0
Ottawa	1,527	5.4	1,527	5.3
London / Kitchener / Waterloo	903	3.2	1,482	5.1
Other Ontario	1,470	5.1	1,470	5.1
Ontario Residential Suites	18,084	63.5	18,657	64.5
MHC Land Lease Sites	1,325	4.6	1,302	4.5
Ontario Residential Suites and Land Lease Sites	19,409	68.1	19,959	69.0
Québec				
Greater Montréal Region	2,207	7.7	2,545	8.8
Québec City	1,909	6.7	1,909	6.6
	4,116	14.4	4,454	15.4
British Columbia				
Greater Vancouver Region	1,453	5.1	1,291	4.5
Victoria	815	2.9	508	1.8
	2,268	8.0	1,799	6.3
Alberta				
Edmonton	310	1.1	310	1.1
Calgary	1,070	3.8	1,070	3.7
	1,380	4.9	1,380	4.8
Nova Scotia				
Halifax	1,083	3.8	1,083	3.7
Saskatchewan				
Saskatoon	133	0.4	133	0.4
Regina	108	0.4	108	0.4
	241	0.8	241	0.8
Total Residential Suites	27,172	95.4	27,614	95.5
Total Residential Suites and MHC Land Lease Sites	28,497	100.0	28,916	100.0

(1) Suite count not adjusted for discontinued operations.

Through accretive acquisitions, CAPREIT expects to enhance the geographic diversification of its residential suite portfolio. CAPREIT continues to maintain its objective of acquiring between 1,500 and 2,000 suites on an annual basis; however, in light of the strong competition for acquisitions the objective was not met for 2010.

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 of Ontario; however, Management also continues to believe strategic investments in Ontario will benefit Unitholders as the province's residential market remains strong. 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 potential downturns in specific markets.

Portfolio of Operating Leasehold Interests

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

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

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

Operating Leasehold Interests Portfolio by Lease Maturity

As at December 31, 2010 and 2009 ($ Thousands)

Year of Lease Maturity	Properties	Suites	%	Option Exercise Prices 26th Year	Option Exercise Prices 35th Year	Prepaid Lease Amount [1]
2033	10	3,099	81.3	$ 202,071	$ 242,596	$ 136,101
2034	2	161	4.2	19,300	23,150	13,700
2035	1	200	5.2	14,200	17,000	9,000
2037	2	355	9.3	47,200	56,000	33,500
Total Operating Leasehold Interests Portfolio	15	3,815	100.0	$ 282,771	$ 338,746	$ 192,301

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

Portfolio of Land Leasehold Interests

In the absence of any new arrangements negotiated between CAPREIT and the landowners of the three parcels on which CAPREIT has land leasehold interests, CAPREIT's interests in the properties mature in 2045, 2068 and 2070. Generally, each lease provides for annual ground rent and additional rent calculated from the properties' operating results. All rental payments associated with land leasehold interests are included in other operating expenses (see Results of Operations).

Land Leasehold Interests Portfolio by Lease Maturity

Year Ended December 31, ($ Thousands)

Year of Lease Maturity	Suites	%	Annual Ground Rent 2010	Annual Ground Rent 2009
2045	473	52.6	$ 1,121	$ 779
2068	154	17.1	205	215
2070	272	30.3	1,010	1,035
Total Land Leasehold Interests Portfolio	899	100.0	$ 2,336	$ 2,029

Section 2 Average Monthly Rents and Occupancy

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

	Total Portfolio				Properties Owned Prior to December 31, 2009				Properties Acquired Since December 31, 2009	
As at December 31,	2010		2009		2010		2009		2010	
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %
Affordable	$ 763	97.6	$ 755	97.9	$ 766	97.6	$ 755	97.9	$ 749	95.0
Mid-tier	944	98.3	921	98.0	945	98.3	921	98.0	874	96.7
Luxury	1,107	98.6	1,073	98.0	1,100	98.6	1,073	98.0	1,242	99.0
Average Residential Suites	997	98.4	969	98.0	994	98.4	969	98.0	1,124	98.2
Average MHC Land Lease Sites	622	100.0	607	99.9	622	100.0	607	99.9	599	100.0
Overall Portfolio Average	$ 979	98.4	$ 952	98.1	$ 976	98.5	$ 952	98.1	$ 1,107	98.3

Adjusted for the effects of changes in classification of properties between demographic sectors (see Property Diversification) and discontinued operations.

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

Average monthly rents increased in all sectors of the residential suite portfolio, resulting in a 2.9% increase in overall average monthly rent as at December 31, 2010 to $997, compared to $969 in the prior year. The increases in average monthly rents and occupancy levels were due to a combination of the acquisition of mid-tier and luxury properties and the disposition of certain affordable properties during the year, successful sales and marketing strategies and continued strength in the residential rental sector in the majority of CAPREIT's regional markets.

Average monthly rents for the residential suite portfolio properties owned prior to December 31, 2009 also increased at December 31, 2010 to $994 from $969 at December 31, 2009, with gains of up to 2.6% in some sectors of the portfolio. Occupancy also increased in most sectors of the residential suite portfolio, resulting in nearly full occupancy at 98.4% compared to 98.0% in the prior year.

For the MHC land lease portfolio, average monthly rents rose to $622 as at December 31, 2010, compared to $607 as at December 31, 2009, while occupancy remained at full levels.

Suite Turnovers and Lease Renewals

Year Ended December 31,	2010			2009 (1)		
	Change in AMR		% Turnovers	Change in AMR		% Turnovers
	$	%	& Renewals (2)	$	%	& Renewals (2)
Suite Turnovers	6.3	0.6	34.9	(5.3)	(0.5)	34.7
Lease Renewals	22.4	2.3	76.7	20.5	2.1	76.7
Weighted Average of Turnovers & Renewals	17.4	1.8		12.5	1.3	

(1) Not adjusted for the effect of discontinued operations.

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

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

Suite turnovers in the residential suite portfolio (excluding co-ownerships) during the year ended December 31, 2010 resulted in a $6 or 0.6% increase in average monthly rents compared to a decrease of $5 or 0.5% for the same period last year. Although the change in average monthly rents from suite turnovers improved from last year, the effect of aggressive rent discounting in the Alberta market by approximately $44 or 4.2% per suite for the year ended December 31, 2010 continues to have an adverse impact. Excluding the impact of the Alberta portfolio, residential suite turnovers would have instead resulted in average monthly rent increases of $11 or 1.1% for the year ended December 31, 2010.

Pursuant to Management's focus on increasing overall portfolio rents, for the year ended December 31, 2010, average monthly rents on lease renewals increased by approximately $22 or 2.3% compared to increases of $21 or 2.1% for the same period last year. Management believes that as 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 December 31,	2010		2009	
	AMR	Occ. %	AMR	Occ. %
Ontario				
Greater Toronto Area	$ 1,103	99.0	$ 1,067	98.2
Ottawa	871	99.9	850	99.9
London / Kitchener / Waterloo	866	98.2	841	95.5
Other Ontario	963	98.8	932	97.8
	$ 1,068	99.0	$ 1,033	98.2
Québec				
Greater Montréal Region	$ 679	95.5	$ 674	96.6
Québec City	807	98.3	795	99.3
	$ 739	96.8	$ 730	97.9
British Columbia				
Greater Vancouver Region	$ 1,003	98.8	$ 951	99.0
Victoria	840	97.5	751	95.3
	$ 944	98.4	$ 894	97.9
Alberta				
Edmonton	$ 1,013	98.1	$ 1,008	94.2
Calgary	984	94.7	1,004	96.3
	$ 990	95.4	$ 1,005	95.8
Nova Scotia				
Halifax	$ 1,043	98.3	$ 1,005	98.0
Saskatchewan				
Saskatoon	$ 769	93.2	$ 769	97.7
Regina	883	100.0	858	100.0
	$ 820	96.3	$ 809	98.8
Total Residential Suites	$ 997	98.4	$ 969	98.0
MHC Land Lease Sites	$ 622	100.0	$ 607	99.9
Total Residential Suites and MHC Land Lease Sites	$ 979	98.4	$ 952	98.1

Overall average occupancy remained at nearly full levels at 98.4% as at December 31, 2010 compared to 98.1% last year as CAPREIT's strong portfolio and favourable market conditions enabled Management to continue to focus on improving resident quality, with an emphasis on maintaining or increasing rents in most of the portfolio's core markets, as summarized below:

- Average monthly rents remained stable or increased in all regional markets of the portfolio with the exception of Calgary, while average occupancy levels improved or remained stable in the majority of regions in which CAPREIT operates.
- Ontario, whose residential suites represent close to 67% of the total residential suite portfolio, experienced an increase of 3.4% in average monthly rents and improved occupancy levels to virtually full occupancy at 99.0%, up from 98.2% last year. Management expects the Ontario rental market to remain strong during 2011.
- In Québec, representing over 15% of the total residential suite portfolio, average monthly rents increased 1.2% from the same period last year while occupancy levels decreased slightly to 96.8% as a result of ongoing construction at certain properties from 97.9% over the same period last year. Management expects the Québec City rental market to remain stable and the Montréal region occupancy to improve in 2011.
- The acquisition of properties during the second and third quarters combined with improving industry and economic conditions in British Columbia resulted in a 5.6% increase in average monthly rents while occupancy levels improved to nearly full occupancy at 98.4% compared to 97.9% last year. Management expects British Columbia's rental market to remain strong during 2011.
- Weak market conditions in Alberta, combined with continued lower rents and high incentives offered by competitors during the year, resulted in a 1.5% drop in average monthly rents on a year-over-year basis and occupancy levels decreased slightly from 95.8% last year to 95.4% at December 31, 2010. Management believes the Alberta market will remain challenging but is expected to improve slightly during 2011.

Overall average monthly rents for the residential suite portfolio as at December 31, 2010 increased by approximately 2.9% as compared to December 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 sector. 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.

The table below shows the additional tenant inducements incurred during the years ended December 31, 2010 and 2009 as well as the amortization of tenant inducements and loss from vacancies included in net rental revenue for the same periods.

Tenant Inducements and Vacancy Loss on Residential Suites and Sites

Year Ended December 31, ($ Thousands)	2010	2009
New Tenant Inducements Incurred	$ 1,107	$ 968
Tenant Inducements Amortized	$ 1,010	$ 702
Vacancy Loss Incurred	6,701	7,613
Total Amortization and Loss	$ 7,711	$ 8,315

Results of Operations

Total Operating Revenues by Geography

Year Ended December 31, ($ Thousands)	2010	2009
Ontario		
Greater Toronto Area	$ 188,944	$ 182,497
Ottawa	8,404	8,150
London / Kitchener / Waterloo	17,468	16,971
Other Ontario	9,419	9,245
Ontario Residential Suites	$ 224,235	$ 216,863
MHC Land Lease Sites	9,864	9,589
Ontario Residential Suites and Land Lease Sites	$ 234,099	$ 226,452
Québec		
Greater Montréal Region	$ 18,666	$ 18,178
Québec City	19,281	18,738
	$ 37,947	$ 36,916
British Columbia		
Greater Vancouver Region	$ 18,644	$ 16,390
Victoria	6,252	4,700
	$ 24,896	$ 21,090
Alberta		
Edmonton	$ 4,009	$ 4,291
Calgary	15,951	16,458
	$ 19,960	$ 20,749
Nova Scotia		
Halifax	$ 14,230	$ 13,684
Saskatchewan		
Saskatoon	$ 1,187	$ 1,157
Regina	1,146	1,111
	$ 2,333	$ 2,268
Total Residential Suites	$ 323,601	$ 311,570
Total Residential Suites and MHC Land Lease Sites	$ 333,465	$ 321,159

Results of Operations

Year Ended December 31, ($ Thousands)	2010	% (1)	2009	% (1)
Operating Revenues				
Net Rental Revenues	$ 317,418	95.2	$ 305,918	95.3
Other (2)	16,047	4.8	15,241	4.7
Total Operating Revenues	$ 333,465	100.0	$ 321,159	100.0
Operating Expenses				
Realty Taxes	42,621	12.8	41,236	12.9
Utilities	37,857	11.3	41,471	12.9
Other	65,278	19.6	64,020	19.9
Total Operating Expenses	$ 145,756	43.7	$ 146,727	45.7
NOI	$ 187,709	56.3	$ 174,432	54.3

(1) As a percentage of Total Operating Revenues.
(2) Comprised of ancillary income such as parking, laundry and antenna income.

Operating Revenues

For the year ended December 31, 2010, total operating revenues increased by 3.8% compared to last year due to the contribution from recent acquisitions, increased average monthly rents and higher occupancies. CAPREIT increased average monthly rents in the residential portfolio to $997 at December 31, 2010, compared to $969 at December 31, 2009, while occupancy improved to 98.4% compared to 98.0% for 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. Ancillary revenues, such as parking, laundry and antenna income, rose 5.3% for the year ended December 31, 2010 as Management increased its focus on maximizing the revenue potential of its property portfolio.

For the year ended December 31, 2010, overall average residential vacancies as a percentage of operating revenues improved to 2.0% compared to 2.4% for the same period last year. The improvement in occupancies was led by recoveries in most geographic markets compared to last year.

For the year ended December 31, 2010, bad debt and tenant inducements remained stable as a percentage of revenues compared to the same period last year at less than 1.0%.

Estimated Net Rental Revenue Run-Rate

As at December 31, ($ Thousands)	2010	2009
Residential Rent Roll (1),(2)	$ 318,213	$ 311,164
Commercial Rent Roll (1),(2)	8,003	7,945
Estimated Net Rental Revenue Run-Rate	$ 326,216	$ 319,109

(1) Based on rent roll as at December 31, net of vacancy loss, tenant inducement and bad debt for the 12 months ended on such date.
(2) Includes rent roll for properties classified as discontinued operations.

The table above shows the estimated net rental revenue run-rate, net of average historical vacancy loss, tenant inducement and bad debt and based on the average monthly rents in place and CAPREIT's share of residential suites and sites as at December 31, 2010 and 2009. The estimated annualized net rental revenue run-rate improved by 2.2% to $326.2 million from $319.1 million. Net rental revenue for the year ended December 31, 2010, including the results of discontinued operations, was $322.8 million (2009 – $315.4 million).

Operating Expenses

Operating expenses were negatively impacted during the year ended December 31, 2010 as a result of a combination of: (i) the introduction of harmonized sales tax ("HST") in Ontario and British Columbia, (ii) rising electricity rates in Ontario, (iii) higher insurance costs, and (iv) the impact of property acquisitions.

Despite these negative factors, for the year ended December 31, 2010, total operating expenses declined in comparison to the same period last year due primarily to CAPREIT's energy management strategies. These strategies include various energy-saving initiatives and a revised natural gas supply and pricing strategy implemented in 2010 that resulted in lower pricing compared to the unfavourable fixed-price arrangements in effect during the prior year (see Utility Costs below). Combined with a milder winter and spring in 2010 compared to last year, these factors resulted in a significant decrease in utility costs despite the impact of property acquisitions. As a percentage of revenues, utility costs for the year ended December 31, 2010 declined significantly to 11.3% from 12.9% for the same period last year.

Other operating expenses as a percentage of revenues also decreased for the year ended December 31, 2010, to 19.6% from 19.9% for the same period last year. Other operating expenses include repairs and maintenance ("R&M"), wages and benefits, insurance and advertising. The impact on other operating costs for the year ended December 31, 2010 from the introduction of the HST in Ontario and British Columbia effective July 1, 2010 was in line with CAPREIT's expectations of approximately $1.4 million.

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

Year Ended December 31, ($ Thousands)	2010	2009
Natural Gas	$ 11,155	$ 15,440
Electricity	17,704	16,915
Water	8,716	8,818
Heating Oil	282	298
Total	$ 37,857	$ 41,471

Natural gas costs decreased primarily due to lower consumption during the year 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 unfavourable 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 Income 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, 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 offset each other and therefore not have a significant impact on CAPREIT's financial performance in the future (see item (iii) *Natural Gas Contracts,* under the discussion of Realized and Unrealized Gains and Losses on Derivative Financial Instruments).

In the third quarter of 2010, CAPREIT entered into a floating-to-fixed natural gas financial instrument covering the period from November 2010 through March 2011 ("Winter 2011") and in the fourth quarter of 2010, a second floating-to-fixed natural gas financial instrument was entered into covering the same period (see note 24 to the audited consolidated annual financial statements). The two financial instruments fix the price of natural gas at $4.32 and $3.58 per gigajoule for 2,700 and 500 gigajoules per day, respectively, which combined, represent approximately 85% of CAPREIT's anticipated Winter 2011 natural gas delivery requirements. These fixed prices compare favourably to the average price per gigajoule at which CAPREIT converted its fixed price natural gas commitments to spot pricing arrangements effective March 1, 2010, of $5.05 per gigajoule and the average price paid by CAPREIT for natural gas from November 2009 through March 2010 of $6.49 per gigajoule.

As a result of the continued decline in the forward pricing curve for natural gas prices, CAPREIT recorded an unrealized loss of $141 thousand on these derivative financial instruments for the year ended December 31, 2010 (see discussion under the Other Comprehensive Income section).

The table below explains the key components of the change in natural gas costs between 2009 and 2010, as well as a proforma estimation of the impact on natural gas costs for 2010 had the fixed price natural gas commitments been unwound on January 1, 2010.

Year Ended December 31, ($ Thousands)		
Natural Gas Costs - Year Ended December 31, 2009	$	15,440
Impact of Change in Consumption		(1,059)
Impact of Unwinding Fixed Price Commitments		(2,291)
Impact of Change in Spot Prices on Unhedged Supply		(1,060)
Impact of Property Acquisitions		125
Natural Gas Costs – Year Ended December 31, 2010	$	11,155
Pro-Forma Impact of Unwinding Fixed Price Commitments for Period Prior to March 1, 2010		(478)
Pro-Forma Natural Gas Costs – Year Ended December 31, 2010	$	10,677

Electricity costs increased in 2010 primarily due to an increase in electricity rates and the introduction of the HST in Ontario, although partially offset by the impact of milder weather on CAPREIT's electrically heated properties.

Net Operating Income

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 (i) related direct costs such as utilities, realty taxes, insurance, repairs and maintenance and on-site wages and salaries and (ii) an appropriate allocation of overhead costs. It may not, however, be comparable to similar measures presented by other real estate trusts or companies.

The following table shows the NOI and the NOI margin attained for each regional market for the years ended December 31, 2010 and 2009.

NOI by Geography

Year Ended December 31, ($ Thousands)	2010			2009	
	NOI	NOI Margin (%)	Change (%) [1]	NOI	NOI Margin (%)
Ontario					
Greater Toronto Area	$ 104,641	55.4	7.8	$ 97,050	53.2
Ottawa	4,393	52.3	7.1	4,102	50.3
London / Kitchener / Waterloo	9,119	52.2	6.8	8,539	50.3
Other Ontario	5,114	54.3	3.6	4,935	53.4
Ontario Residential Suites	$ 123,267	55.0	7.5	$ 114,626	52.9
MHC Land Lease Sites	5,658	57.4	8.7	5,203	54.3
Ontario Residential Suites and Land Lease Sites	$ 128,925	55.1	7.6	$ 119,829	52.9
Québec					
Greater Montréal Region	$ 10,342	55.4	14.4	$ 9,040	49.7
Québec City	11,291	58.6	4.3	10,825	57.8
	$ 21,633	57.0	8.9	$ 19,865	53.8
British Columbia					
Greater Vancouver Region	$ 11,208	60.1	15.7	$ 9,689	59.1
Victoria	3,782	60.5	30.8	2,892	61.5
	$ 14,990	60.2	19.1	$ 12,581	59.7
Alberta					
Edmonton	$ 2,522	62.9	(12.8)	$ 2,893	67.4
Calgary	8,725	54.7	(4.8)	9,165	55.7
	$ 11,247	56.3	(6.7)	$ 12,058	58.1
Nova Scotia					
Halifax	$ 9,575	67.3	8.3	$ 8,844	64.6
Saskatchewan					
Saskatoon	$ 590	49.7	8.5	$ 544	47.0
Regina	749	65.4	5.3	711	64.0
	$ 1,339	57.4	6.7	$ 1,255	55.3
Total Residential Suites	$ 182,051	56.3	7.6	$ 169,229	54.3
Total Residential Suites and MHC Land Lease Sites	$ 187,709	56.3	7.6	$ 174,432	54.3

(1) Change in NOI from prior year comparable period.

For the year ended December 31, 2010, overall NOI increased by $13.3 million or 7.6%, while the NOI margin improved significantly to 56.3% from 54.3% for the same period last year. While CAPREIT increased NOI and NOI margins in the majority of its markets, it remains focused on continuing to improve overall NOI through a combination of accretive and value-enhancing acquisitions, successful sales and marketing strategies to improve revenues and investments in capital programs to further reduce costs and enhance the quality and value of its portfolio.

Ontario – NOI from the Ontario portfolio increased 7.6% during the year ended December 31, 2010 compared to last year primarily due to lower operating costs from a combination of lower energy consumption, lower prices for natural gas and lower R&M costs. As a result, the NOI margin improved to 55.1% for the year ended December 31, 2010. Management believes

the Ontario portfolio will remain strong and generate steady returns in the medium term despite significant challenges imposed by the introduction of the HST 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).

Québec – For the year ended December 31, 2010, the NOI margin improved significantly to 57.0% from 53.8% for the same period last year primarily due to lower R&M expenses combined with higher average monthly rents in 2010. CAPREIT believes the Québec rental market will remain stable and generate steady to improving returns in the medium term.

British Columbia – For the year ended December 31, 2010, the NOI margin for the British Columbia portfolio improved slightly to 60.2% from 59.7% for the same period last year. Due to the small size of the portfolio at the beginning of the year, acquisitions completed during the year were the primary contributing factor for the large increase in revenues and NOI for the year ended December 31, 2010. 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 impact of the introduction of the HST in British Columbia will remain more modest than in Ontario as only 8.0% of the portfolio is located in the province.

Alberta – The Alberta market experienced continued downward pressure on rental rates for the year ended December 31, 2010 in comparison to last year, resulting in lower revenues. As a result, for the year ended December 31, 2010, NOI margin decreased to 56.3% from 58.1% for the same period last year. Management believes the Alberta market will remain challenging but should stabilize over the near term. The overall impact on CAPREIT will be minimal as only 5% of its overall residential suite portfolio is located in the province.

Nova Scotia – Increased average monthly rents and occupancy levels combined with a reduction in overall operating costs resulted in the NOI margin improving significantly for the year ended December 31, 2010, to 67.3%, from 64.6% for the same period last year. Management believes its presence primarily in downtown locations will serve to maintain or increase occupancy levels and average monthly rents in the medium term.

Saskatchewan – The Saskatchewan market continues to perform well with slightly higher average monthly rents combined with lower expenses compared to last year. The NOI margin improved for the year ended December 31, 2010 to 57.4%, from 55.3% for the same period 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. 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 the Property Portfolio section) for the years ended December 31, 2010 and 2009:

NOI by Type of Property Interest

Year Ended December 31, ($ Thousands)	2010	%	2009	%
Fee Simple Interests – Apartments and Townhomes	$ 146,110	77.8	$ 133,885	76.8
Operating Leasehold Interests	28,322	15.1	27,231	15.6
Land Leasehold Interests	7,619	4.1	8,113	4.6
Total Residential Suites	$ 182,051	97.0	$ 169,229	97.0
Fee Simple Interests – MHC Land Lease Sites	5,658	3.0	5,203	3.0
Total	$ 187,709	100.0	$ 174,432	100.0

The decline in NOI for the year ended December 31, 2010 for land leasehold interests compared to last year is primarily attributable to the fact that two of the three land parcels are located in Alberta, which was a challenging rental market in 2010 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

Year Ended December 31, ($ Thousands)	2010	%	2009	%
2033	$ 22,413	79.1	$ 21,749	79.9
2034	1,551	5.5	1,415	5.2
2035	1,283	4.5	1,136	4.2
2037	3,075	10.9	2,931	10.7
	$ 28,322	100.0	$ 27,231	100.0

NOI of Land Leasehold Interests Portfolio by Lease Maturity

Year Ended December 31, ($ Thousands)	2010	%	2009	%
2045	$ 4,026	52.9	$ 4,105	50.6
2068	1,075	14.1	1,160	14.3
2070	2,518	33.0	2,848	35.1
	$ 7,619	100.0	$ 8,113	100.0

Stabilized Portfolio Performance

Year Ended December 31,	2010	% (1)	2009
Stabilized Suites and Sites	26,674		26,674
Operating Revenues ($ millions)	$ 328.1	2.2	$ 321.1
Operating Costs ($ millions)	$ 143.5	(1.8)	$ 146.2
Net Operating Income ($ millions)	$ 184.6	5.5	$ 174.9
Net Operating Income Margin (%)	56.3	1.8	54.5

(1) Change from prior year comparable period.

Stabilized properties for the year ended December 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 acquisitions completed during 2010 and 2009. As at December 31, 2010, stabilized suites and sites represent 97.6% of the overall portfolio.

As of December 31, 2010, CAPREIT has generated 20 consecutive quarters of stable or improved year-over-year NOI growth for stabilized properties. For the year ended December 31, 2010, operating revenues increased by 2.2% and operating costs decreased by 1.8%. As a result, stabilized NOI increased by 5.5% for the year ended December 31, 2010.

For properties acquired since December 31, 2008, namely those acquired during 2010, the NOI margin was 64.4% for the year ended December 31, 2010.

Net Income

Year Ended December 31, ($ Thousands, except per Unit amounts)	2010	2009
Net Operating Income	$ 187,709	$ 174,432
Less (Plus):		
Trust Expenses	14,012	16,834
Mortgage Interest	77,211	74,772
Interest on Bank Indebtedness	6,102	3,838
Net Loss on Natural Gas Contracts	4,497	–
Other Income	(1,854)	(1,853)
Depreciation	82,765	76,252
Amortization	4,123	3,503
Severence and Other Employee Termination Costs	736	–
Income from Continuing Operations Before (Losses) Gains and Income Taxes	117	1,086
Unrealized (Loss) Gain on Derivative Financial Instruments	(174)	742
Realized Gain on Derivative Financial Instruments	–	4,063
Recovery of Future Income Taxes	50,429	9,120
Income From Continuing Operations	50,372	15,011
Income From Discontinued Operations	12,949	705
Net Income	$ 63,321	$ 15,716
Basic Net Income Per Unit		
Continuing Operations	$ 0.750	$ 0.227
Discontinued Operations	$ 0.193	$ 0.011
Basic Net Income Per Unit	$ 0.943	$ 0.238
Diluted Net Income Per Unit		
Continuing Operations	$ 0.745	$ 0.227
Discontinued Operations	$ 0.192	$ 0.011
Diluted Net Income Per Unit	$ 0.937	$ 0.238
Weighted Average Number of Units (000s) – Basic	67,130	66,016
Weighted Average Number of Units (000s) – Diluted	67,570	66,122

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and advisory services, trustees' and officers' insurance premiums, and other general and administrative expenses. Trust expenses decreased significantly for the year ended December 31, 2010, to $14.0 million from $16.8 million for the same period last year mainly due to lower legal and compensation costs, and the $1.6 million incurred in 2009 relating to the retirement of CAPREIT's former Chief Financial Officer.

Interest on Mortgages and Bank Indebtedness

Mortgage interest expense increased in the year ended December 31, 2010, to $77.2 million from $74.8 million for the same period last year, due to increased top up mortgage financing activity since December 31, 2009. However, as a percentage of operating revenues, mortgage interest expense decreased to 23.2% for the year ended December 31, 2010 compared to 23.3% for the same period last year.

Interest on bank indebtedness relates to borrowings under the Credit Facilities (see Bank Indebtedness and Credit Facilities). Interest on bank indebtedness for the year ended December 31, 2010 increased significantly to $6.1 million from $3.8 million for the same period last year due to higher interest rates and a higher level of borrowings throughout most of the year under the Credit Facilities, which were used to fund property capital investments and property acquisitions. The weighted average floating interest rate for the amounts drawn under the Acquisition and Operating Facility was 3.95% at December 31, 2010, compared to 3.39% at December 31, 2009. At December 31, 2010, the weighted average floating interest rate for the amounts drawn under the Land Lease Facility was 4.17%, compared to 3.38% at December 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) *Natural gas contracts,* under the discussion of Realized and Unrealized Gains and Losses on Derivative Financial Instruments below).

Other Income

Other income consists primarily of dividends received from investments (see notes 2(g) and 6 to the audited consolidated annual financial statements).

Depreciation and Amortization

CAPREIT depreciates its properties on a straight-line basis over their estimated useful lives, not exceeding 40 years. Depreciation expense increased in the year ended December 31, 2010 due to property capital investments and acquisitions in 2010.

For the year ended December 31, 2010, amortization expense increased compared to the same period last year mainly due to CMHC premiums incurred with respect to new financings completed since December 31, 2009.

Severence and Other Employee Termination Costs

These costs primarily represent employee severance costs incurred in the year ended December 31, 2010.

Realized and Unrealized Gains and Losses on Derivative Financial Instruments

i) ***Interest rate contracts for which hedge accounting is no longer effective:*** During 2005, CAPREIT entered into interest rate forward contracts aggregating $145.7 million 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 income and comprehensive income (See notes 13(a) and 17(a) to the audited consolidated annual financial statements).

ii) ***Interest rate contracts for which hedge accounting is being applied:*** As at December 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 banker's acceptance-based floating rate credit facility to a fixed rate facility for a five-year term (see notes 13(b) and 17(b) to the audited consolidated annual financial statements).

iii) ***Natural gas contracts:*** 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 24 to the audited consolidated annual financial statements) to spot pricing arrangements through the amendment of physical delivery contracts and the use of derivative financial instruments. The amended arrangement comprises 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.

Hedge accounting is not being applied to these derivative financial instruments, which will be marked-to-market through net income on an ongoing basis. A mark-to-market unrealized loss of $3.7 million on the floating-to-fixed derivative financial instrument ($3.9 million including the $146 thousand mark-to-market unrealized loss on the floating-to-fixed derivative financial instrument for which hedge accounting is being applied) has been recorded in accounts payable and other liabilities as at December 31, 2010 and a mark-to-market unrealized gain of $1.4 million on the fixed-to-floating derivative financial instrument has been recorded in sundry assets as at December 31, 2010. 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 income and comprehensive income for the year ended December 31, 2010 (See notes 13(c) and 17(c) to the audited consolidated annual financial statements).

Future Income Taxes

Amendments enacted in 2007 (the "SIFT Rules") to the Income Tax Act (Canada) (the "Tax Act") modified the federal income tax treatment of certain publicly traded trusts and partnerships that were deemed specified investment flow-through trusts or partnerships ("SIFT"). Under these SIFT Rules, a SIFT such as CAPREIT would generally be taxed in a manner similar to corporations on income from a business carried on in Canada at a rate similar to the combined federal/provincial tax rate of a corporation. However, the SIFT Rules do not apply until the 2011 taxation year to SIFTs that were publicly traded and were deemed SIFTs as at October 31, 2006. Effective December 24, 2010, based on the guidelines and conditions established under the Tax Act (the "REIT Exception"), CAPREIT became qualified for an exemption from the SIFT Rules (see the Risks and Uncertainties section for further details).

As CAPREIT uses the liability method of accounting for future income taxes, the non-cash future income tax liability balance represented the cumulative amount of taxes applicable to temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes expected to reverse on or after January 1, 2011. The future income tax liability of $54.1 million recorded as at December 31, 2009, was reversed upon satisfaction of the REIT Exception and recorded as a recovery of $51.4 million to the consolidated statement of income and comprehensive income and a recovery of $2.7 million to other comprehensive income ("OCI") for the year ended December 31, 2010.

Gain on Sale of Assets

One of CAPREIT's key performance objectives is to maximize the earnings and cash flow potential from its operating properties and from time to time to dispose of non-core properties. During the year ended December 31, 2010, CAPREIT completed the sales of certain non-core properties, resulting in a gain on sale of $11.7 million ($0.174 Per Unit). Management believes the gain on sale demonstrates its success in enhancing the value of its properties primarily through its active property management and capital investment programs, thereby facilitating the continued realization and reinvestment of its capital to implement its growth strategies.

Other Comprehensive Income

Included in Other Comprehensive Income are the following:

i) ***Realized loss on derivative financial instruments:*** represents the cumulative mark-to-market losses up to October 1, 2008 when hedge accounting ceased to be applied to interest rate forward contracts used to hedge CAPREIT's exposure to the potential rise in interest rates for refinancings of mortgages maturing in 2009 (see note 13(b) to the audited consolidated annual financial statements).

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 banker's acceptance 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 fixed interest rate and the corresponding three-month banker's acceptance 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) ***Unrealized loss on natural gas price swap agreement:*** this represents the cumulative mark-to-market loss on a floating-to-fixed price swap agreement entered into in August 2010, which effectively converts floating prices for natural gas to a fixed price arrangement for the Winter 2011 period. This swap agreement has been assessed as an effective hedge as per CICA Handbook Section 3865, Hedges. The cumulative mark-to-market loss will ultimately reverse over the remaining term of the swap agreement.

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

Section 3 Non-GAAP Financial Measures

Net Operating Income

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

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 real estate trusts or companies in similar or different industries. Management considers FFO to be an important measure of CAPREIT's operating performance.

Payout ratios compare total and net distributions declared to these non-GAAP financial measures. Management considers these rates to also be important measures of the sustainability of the level of distributions.

Distribution Reinvestment Plan ("DRIP") and Net Distributions Paid

Year Ended December 31, ($ Thousands)	2010	2009
Distributions Declared	$ 75,526	$ 73,805
Less: Distributions Reinvested [(1)]	12,009	10,843
Net Distributions Paid	$ 63,517	$ 62,962
Percent Reinvested	15.9%	14.7%

(1) Comprises: (i) cash reinvested by Unitholders through the DRIP, (ii) non-cash distributions related to the DUP and the RUR plan, and (iii) retained distributions on LTIP and SELTIP Units (see below for a discussion of these plans).

Under CAPREIT's DRIP, a participant may purchase additional Units with the cash distributions paid on the eligible Units, registered in the participant's name or held in a participant's account maintained pursuant to the DRIP. Each participant has the right to receive an additional amount equal to 5% of their monthly distributions reinvested pursuant to the DRIP, which shall automatically be paid on each distribution date in the form of additional Units. The price at which Units will be purchased with cash distributions will be the weighted average trading price for CAPREIT's Trust Units on the Toronto Stock Exchange ("TSX") for the five trading days immediately preceding the relevant distribution date.

The average participation rate in the DRIP and other plans under which distributions are reinvested increased for the year ended December 31, 2010 to 15.9% from 14.7% for the same period last year. Also, as the price of CAPREIT's Units has steadily risen during the period since December 31, 2009, the number of Units issued for a given amount of reinvested distributions has declined. The DRIP participation rate is subject to factors beyond Management's control and varies between investors.

Distributions declared to Unitholders in these tables are based on all outstanding Units including unissued, granted Units under the Deferred Unit Plan ("DUP"), Restricted Unit Rights ("RUR") Plan, Long-Term Incentive Plan ("LTIP") and Senior Executive Long-Term Incentive Plan ("SELTIP") (see Unitholders' Equity under Liquidity and Financial Condition section and note 13 to the audited consolidated annual financial statements for a discussion of these plans). When establishing the level of monthly cash distributions to Unitholders, the Board of Trustees relies on cash flow information including forecasts and budgets.

A reconciliation of net income to FFO is as follows:

Year Ended December 31, ($ Thousands, except per Unit amounts)	2010	2009
Net Income	$ 63,321	$ 15,716
Adjustments:		
Recovery of Future Income Taxes	(51,355)	(9,568)
Depreciation	83,999	78,648
Amortization of Tenant Improvements	261	294
Amortization of Intangible Assets	633	981
Amortization of Above- and Below-market Leases	(82)	(120)
Gain on Sale of Assets	(11,688)	–
FFO	$ 85,089	$ 85,951
FFO – Continuing Operations	$ 83,520	$ 83,298
FFO – Discontinued Operations	$ 1,569	$ 2,653
FFO Per Unit – Basic	$ 1.268	$ 1.302
FFO Per Unit – Diluted	$ 1.259	$ 1.300
Distributions Declared	$ 75,526	$ 73,805
FFO Payout Ratio	88.8%	85.9%
Net Distributions Paid	$ 63,517	$ 62,962
Excess FFO over Net Distributions Paid	$ 21,572	$ 22,989
FFO Effective Payout Ratio	74.6%	73.3%

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 17 to the audited consolidated annual financial statements and the discussion under Realized and Unrealized Gains and Losses on Derivative Financial Instruments in Section 2), losses incurred on the amendment of natural gas physical delivery contracts (see note 17(c) to the audited consolidated annual financial statements and discussion under Results of Operations and Net Income sections) and the effect of certain non-recurring items in order to facilitate better comparability to prior period performance and provide a better indicator of its cash flow generation capability.

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:

Year Ended December 31, ($ Thousands, except per Unit amounts)	2010	2009
FFO	$ 85,089	$ 85,951
Adjustments:		
Severence and Other Employee Termination Costs	736	–
Retiring Allowance (1)	–	1,642
Net Loss on Natural Gas Contracts	4,497	–
Unrealized Loss (Gain) on Derivative Financial Instruments	174	(742)
Realized Gain on Derivative Financial Instruments	–	(4,063)
Amortization of Loss on Derivative Financial Instruments Included in Mortgage Interest	1,096	592
NFFO	$ 91,592	$ 83,380
NFFO – Continuing Operations	$ 89,997	$ 80,707
NFFO – Discontinued Operations	$ 1,595	$ 2,673
NFFO per Unit – Basic	$ 1.364	$ 1.263
NFFO per Unit – Diluted	$ 1.356	$ 1.261
Distributions Declared	$ 75,526	$ 73,805
NFFO Payout Ratio	82.5%	88.5%
Net Distributions Paid	$ 63,517	$ 62,962
Excess NFFO Over Net Distributions Paid	$ 28,075	$ 20,418
Effective NFFO Payout Ratio	69.3%	75.5%

(1) Trust expenses relating to the retirement of CAPREIT's former Chief Financial Officer (see Trust Expenses on page 28) of $1,642 include $122 of compensation costs related to the accelerated vesting of previously-awarded LTIP and SELTIP Units.

NFFO for the year ended December 31, 2010 increased by 9.8% compared to the same period last year primarily due to the contribution from recent acquisitions, higher average monthly rents and 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 – Basic increased during the year ended December 31, 2010 by 8.0% compared to the same period last year.

Comparing distributions declared to NFFO, the NFFO payout ratios for the year ended December 31, 2010 improved to 82.5% compared to 88.5% for the same period last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid to Unitholders, improved significantly for the year ended December 31, 2010, to 69.3% from 75.5% for the same period last year primarily due to higher NFFO during the current year period as well as higher participation in the DRIP. Management believes NFFO will be sufficient to fund CAPREIT's distributions on an annualized basis.

Management expects payout ratios to be negatively affected in the near term as a result of the equity offering completed in December 2010 until such time as the capital raised in the offering is redeployed through acquisitions.

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 4, 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 MD&A.

CAPREIT calculates AFFO by deducting from NFFO an industry-based estimate for maintenance property capital investments (see discussion under Section 4, Productive Capacity) and adding back the non-cash compensation costs for LTIP, SELTIP, Unit Option Plan ("UOP"), DUP and the RUR Plan. 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:

Year Ended December 31, ($ Thousands, except per Unit amounts)		2010		2009
NFFO	$	91,592	$	83,380
Adjustments:				
Provision for Maintenance Property Capital Investments (1)		(11,835)		(11,907)
Non-Cash Compensation under Incentive Plans		1,696		1,709
AFFO	$	81,453	$	73,182
AFFO per Unit – Basic	$	1.213	$	1.109
AFFO per Unit – Diluted	$	1.205	$	1.107
Distributions Declared	$	75,526	$	73,805
AFFO Payout Ratio		92.7%		100.9%
Net Distributions Paid	$	63,517	$	62,962
Excess AFFO over Net Distributions Paid	$	17,936	$	10,220
Effective AFFO Payout Ratio		78.0%		86.0%

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

The AFFO payout ratios improved for the year ended December 31, 2010 to 92.7% from 100.9% for the same period last year. The effective AFFO payout ratios for the year ended December 31, 2010 improved as a result of higher NFFO as well as higher DRIP participation rates period over period.

Section 4 Property Capital Investments

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

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

To achieve its property capital investment objectives, taking into account CAPREIT's acquisition history, the soft economic conditions and the availability of competitive pricing from construction trades, in 2009, CAPREIT formulated and 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, many of which were anticipated at the time of such acquisitions and were included in the acquisition analysis, 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 their 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 year ended December 31, 2010, CAPREIT made property capital investments of $81.6 million as compared to $85.6 million for the same period last year. Property capital investments were lower compared to the prior year primarily due to the timing of building improvement programs, partially offset by higher investments in suite improvements, common areas and high-efficiency boilers, all of which tend to increase NOI more quickly. 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 and R&M 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

Year Ended December 31, ($ Thousands)	2010	%	2009	%
Building Improvements	$ 43,512	53.3	$ 55,978	65.4
Suite Improvements	18,317	22.5	15,462	18.1
Common Area	7,764	9.5	4,573	5.3
Energy-Saving Initiatives	3,318	4.1	1,903	2.2
Equipment	5,233	6.4	5,395	6.3
Boiler and Elevators	2,194	2.7	1,232	1.5
Appliances	1,249	1.5	1,030	1.2
	$ 81,587	100.0	$ 85,573	100.0

As a result of a change in the availability of trades, in the third quarter of 2010, Management revised its property capital investments target for the year to between $85.0 million and $90.0 million. However, due to a continued lack of availability of trades during the fourth quarter, CAPREIT incurred property capital investments of $81.6 million for the year. The change in the timing of capital investments has led CAPREIT to adjust its multi-year capital investment programs to increase the anticipated investment levels for 2011. Based on a revised multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments of approximately $100 million to $110 million during 2011, including approximately $10.5 million in investments in high-efficiency boilers and other energy-saving initiatives.

Set out in the table below is Management's current estimate of CAPREIT's investments in building improvements for 2011 through 2014 for properties owned as of February 22, 2011. These estimates were established through consultations with an independent engineering firm, and include the effects of the delays in the completion of projects previously scheduled for 2010. Building improvements represent the most significant category of property capital investment at present, but are expected to decline significantly in the coming years.

Future Investments in Building Improvements

Year Ended December 31, ($ Thousands)	Estimated Range
2011	$ 58,000 – $ 62,000
2012	$ 37,000 – $ 39,000
2013	$ 32,000 – $ 37,000
2014	$ 12,000 – $ 15,000

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

Management believes CAPREIT has sufficient liquidity and access to top up financing opportunities (see discussion of Liquidity and Financial Condition) to execute the above property capital investment strategy, which is intended to enhance productive capacity over the long term.

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 R&M costs, which have historically averaged 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:

Year Ended December 31, ($ Thousands)	2010	2009
Total Property Capital Investments [(1)]	$ 81,587	$ 85,573
Less: Estimated Maintenance Property Capital Investments [(2)]	(11,835)	(11,907)
Stabilizing and Value-Enhancing Capital Investments	$ 69,752	$ 73,666

(1) Excludes capital investments for head office assets, discontinued operations, 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 year.

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, increasing average monthly rents and reducing operating costs. These positive results are demonstrated below.

The following table presents the average NOI growth from 2007 through 2010, reflecting a segregation of the portfolio based on the amount of capital investment per suite. For example, for each year, properties with the highest capital investment per suite were included in the first quartile, and properties with the lowest capital investment per suite were included in the fourth quartile. NOI growth was measured for those properties, by quartile, for the year following the year in which the capital investments were made, with the assumption that capital investments are undertaken throughout the year and the impact on NOI could reasonably be measured in the following year. A simple average was calculated covering each of the last four years. To compute the results on a stabilized basis, only those properties owned prior to 2006 and held as at December 31, 2010 (excluding co-ownerships) were included in the analysis.

Average NOI Growth By Level of Property Capital Investment Per Suite

Quartile	Number of Properties	Average Number of Suites	% of Total Capital Investments [(1)]	Average NOI Growth
1st	28	5,657	62.1%	6.6%
2nd	28	5,834	21.1%	6.4%
3rd	28	4,985	11.2%	4.3%
4th	29	5,611	5.6%	3.7%
	113	22,087	100.0%	5.2%

(1) As a percentage of total property capital investments over the four-year period to December 31, 2009.

The analysis indicates a strong positive relationship between capital investments and higher NOI growth rates, which supports Management's assertion that continued reinvestment of capital is a fundamental component of CAPREIT's growth strategy. The analysis demonstrates the success of CAPREIT's capital investment programs, which increases the earnings potential of the property portfolio.

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 distributions to Unitholders, to retain a portion to meet 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 its 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 as 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)		December 31, 2010	December 31, 2009 [1]
Mortgages Payable		$ 1,633,861	$ 1,545,315
Bank Indebtedness		39,358	146,891
Unitholders' Equity		595,848	457,184
Total Capital		$ 2,269,067	$ 2,149,390
	Threshold		
Total Debt to Gross Book Value [2]	Maximum 70.00%	58.87%	62.75%
Tangible Net Worth [3]	Minimum $700,000 [4]	$ 1,072,978	$ 511,243
For the four quarters ended [1]		December 31, 2010	December 31, 2009
Debt Service Coverage Ratio (times) [5]	Minimum 1.20	1.35	1.28
Adjusted Debt Service Coverage Ratio (times) [6]	Minimum 1.20	1.42	1.37
Interest Coverage Ratio (times) [7]	Minimum 1.50	2.12	2.06

(1) Not adjusted for the effects of discontinued operations.

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

(3) Tangible net worth is generally represented by Unitholders' equity and is defined as the sum of: i) Units issued; ii) contributed surplus; and iii) retained earnings after adding back the provision for future income taxes payable to a maximum limit of $100 million. As at December 31, 2010, this definition includes the sum of accumulated depreciation and amortization and, to a maximum of $50 million, deferred taxes payable on any capital stock-based investment transactions.

(4) Effective June 30, 2010 ($400,000 as at December 31, 2009).

(5) Debt service 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.

(6) Adjusted debt service coverage ratio is defined as NOI of CAPREIT's residential suite portfolio held as at the balance sheet date divided by principal and interest payments related to such properties.

(7) 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 year ended December 31, 2010, CAPREIT's NFFO payout ratio was 82.5% compared to 88.5% for the same period last year and the effective NFFO payout ratio was 69.3% compared to 75.5% for the prior year. Historically, CAPREIT has targeted a long-term annual NFFO payout ratio in the 85% to 90% range.

ii) Management believes CAPREIT is well-positioned to meet its mortgage renewals and refinancing goals in 2011 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages maturing during 2011 of approximately $229.9 million, which have an effective interest rate of approximately 5.11%, and refinancing a significant portion of the approximately $49.6 million principal repayments through 2011 with new mortgages at lower interest rates.

iii) Management renewed and amended its Credit Facilities aggregating to $280 million effective June 30, 2010, which comprise a revolving three-year Acquisition and Operating Facility of $270 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 renewed for a one-year term maturing on June 30, 2011. The renewal agreement includes amendments to debt covenants to incorporate the effects that IFRS may have on CAPREIT's financial position and also reduces the overall cost of borrowings. The amended Credit Facilities also contemplate converting floating rate charge debentures on certain of CAPREIT's income properties, which have been pledged as security, into fixed charges.

iv) On November 22, 2010, CAPREIT announced it had agreed to sell, subject to regulatory approval, 7,250,000 Units for $17.30 per Unit for aggregate gross proceeds of $125.4 million on a bought-deal basis with an over-allotment option. The transaction closed on December 10, 2010, and under the over-allotment option, 350,000 additional Units were issued on December 23, 2010. CAPREIT used the total net proceeds of the offering to repay a large portion of the borrowings under its Acquisition and Operating Facility. The additional capital will be used to finance future acquisitions and property capital investments.

In order to maintain and enhance its CMHC-insured financing program, and consistent with CMHC's risk management practices involving large borrowers, CAPREIT entered into an agreement with CMHC (the "Large Borrower Agreement" or "LBA") during the third quarter. The LBA has not materially affected the manner in which CAPREIT conducts its business or its approach to mortgage financing. The LBA provides for, amongst other things:

i) enhanced disclosure to CMHC;
ii) certain financial covenants and limitations on indebtedness, none of which are inconsistent with CAPREIT's current operating policies;
iii) the posting of a revolving letter of credit with respect to certain capital expenditures on a portfolio, rather than an individual property basis; and
iv) cross collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

The available borrowing capacity under CAPREIT's Acquisition and Operating Facility at December 31, 2010 was $223.5 million ($94.4 million as at December 31, 2009). The increase in the borrowing capacity under CAPREIT's Acquisition and Operating Facility is primarily attributable to the repayment of a large portion of the facility from funds raised in the equity offering completed in December 2010. The available borrowing capacity under CAPREIT's Land Lease Facility as at December 31, 2010 was $8.6 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 December 31, 2010 are as follows:

($ Thousands)	2011	2012–2013	2014–2015	2016 onward
Mortgages Payable	$ 279,493	$ 445,425	$ 382,838	$ 530,640
Bank Indebtedness	1,358	38,000	–	–
Mortgage Interest (1)	68,300	102,534	62,744	82,176
Bank Indebtedness Interest (1)	1,529	2,243	–	–
Accounts Payable and Accrued Liabilities	57,103	877	–	–
Security Deposits	19,227	–	–	–
Distributions Payable	6,932	–	–	–
	$ 433,942	$ 589,079	$ 445,582	$ 612,816

(1) Based on current interest rates.

Mortgages Payable

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

The key liquidity metrics are summarized in the table below:

As at December 31,	2010	2009
Mortgage Debt to Gross Book Value	57.48%	57.30%
Total Debt to Gross Book Value	58.87%	62.75%
Total Debt to Total Capitalization	55.85%	63.61%
Debt Service Coverage Ratio (times) (1)	1.35	1.28
Interest Coverage Ratio (times) (1)	2.12	2.06
Weighted Average Mortgage Interest Rate (%) (2)	4.82	5.07
Weighted Average Mortgage Term to Maturity (years)	4.9	5.1

(1) For the four quarters ended December 31.

(2) Effective weighted average interest rate including deferred financing costs and fair value adjustments but excluding CMHC premiums. Additionally, including the amortization of the realized component of the loss on settlement of $9.9 million included in AOCL, the effective portfolio weighted average interest rate at December 31, 2010 would be 4.90% (December 31, 2009 – 5.15%).

As at December 31, 2010, the overall leverage represented by the ratio of total debt to gross book value improved to 58.87%, as compared to 62.75% last year, mainly as a result of the repayment of a large portion of the Acquisition and Operating Facility with capital raised from the equity offering completed in December 2010. Due to the rise in CAPREIT's Unit price since December 31, 2009 and overall market capitalization, combined with the equity offering, as at December 31, 2010, CAPREIT's total debt improved to 55.85% of total market capitalization compared to 63.61% last year. In addition, CAPREIT's coverage ratios, represented by debt service and interest coverage tests, improved for the trailing four quarters ended December 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 5.07% as at December 31, 2009, to 4.82% as at December 31, 2010, which Management expects 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 medium term. Management is also focused on ensuring the portfolio weighted average term to maturity remains in the five-year range or longer and expects to gradually extend the term.

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

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

At December 31, 2010, 95.5% (December 31, 2009 – 96.2%) of CAPREIT's mortgage portfolio is CMHC-insured (excluding the mortgage on the MHC land lease sites portfolio).

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

As at December 31, ($ Thousands)		2010	2009
Balance, Beginning of the Year		$ 1,545,315	$ 1,472,822
Add:			
New Borrowings		47,745	–
Assumed		23,438	–
Refinanced		280,278	304,577
Less:			
Mortgage Repayments		(48,625)	(49,182)
Mortgages Matured		(182,895)	(182,027)
Mortgages Repaid on Disposal		(31,696)	–
Deferred Financing Costs and Fair Value Adjustments, net		301	(875)
Balance, End of the Year		$ 1,633,861	$ 1,545,315
Represented by:			
Mortgages Payable	- Continuing Operations	$ 1,633,861	$ 1,512,715
	- Discontinued Operations	–	32,600
		$ 1,633,861	$ 1,545,315

In light of the revised target for property capital investments for 2010, an increase in the borrowing capacity under the Credit Facilities in the second quarter, higher cash flow from operating activities compared to last year and proceeds generated from the disposition of properties, in the third quarter, Management revised its total mortgage renewal and refinancing plan for 2010 to between $250 million and $275 million. Total refinancings for 2010 were $280.3 million.

The revised targets excluded the $47.7 million in new borrowings used to fund acquisitions during 2010. For the year ended December 31, 2010, total financings of $280.3 million, including $182.9 million for renewals of existing mortgages and $97.4 million for additional top up financing were completed at a weighted average rate of 3.57%, significantly below the weighted average interest rate of mortgages matured in 2010 of 4.89%. Management expects to raise between $250 million and $275 million in total mortgage renewals and refinancings for 2011 at rates significantly below the weighted average interest rate of mortgages maturing in 2011 of 5.11%.

The following table summarizes refinancings for the year, and the weighted average interest rates obtained. At December 31, 2010, 97.9% (December 31, 2009 – 100.0%) of CAPREIT's mortgage portfolio bears fixed rates of interest.

($ Thousands)	Original Mortgage Amount	Original Interest Rate (1)	New Mortgage Amount	New Interest Rate (1)	Weighted Average Term on New Mortgage (Yrs.)	Top Up Financing Amount
First Quarter	$ –	–	$ –	–	–	$ –
Second Quarter	28,014	4.34%	69,734	3.58%	3.5	41,720
Third Quarter	46,062	4.75%	60,334	3.03%	4.5	14,272
Fourth Quarter	108,819	4.82%	150,210	3.78%	8.2	41,391
Total and Weighted Average	$ 182,895	4.45%	$ 280,278	3.57%	6.2	$ 97,383

(1) Weighted average.

For purposes of estimating top up financing potential, the following table provides the NOI for those properties with mortgages maturing over the next five years and beyond. 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 mortgage renewal and refinancing plan for 2011.

As at December 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)
2011	$ 229,861	$ 58,375	$ 288,236	$ 36,613
2012	200,047	2,764	202,811	22,928
2013	164,717	33,153	197,870	29,384
2014	215,299	(10,809)	204,490	28,480
2015	110,557	6,930	117,487	13,872
2016 onward	416,985	(90,413)	326,572	56,432
Total	$ 1,337,466	$ –	$ 1,337,466	$ 187,709

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

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

($ Thousands)

Year	Principal Repayments	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) (1)
2011	$ 49,632	$ 229,861	$ 279,493	17.1	5.11
2012	42,337	200,047	242,384	14.8	5.29
2013	38,324	164,717	203,041	12.4	4.78
2014	30,592	215,299	245,891	15.0	4.23
2015	26,390	110,557	136,947	8.3	3.94
2016	21,619	47,094	68,713	4.2	4.96
2017	18,192	101,575	119,767	7.3	4.75
2018	17,559	52,234	69,793	4.3	4.69
2019	15,292	82,760	98,052	6.0	5.15
2020	12,448	54,647	67,095	4.1	4.66
2021 – 2025	27,038	74,980	102,018	6.2	5.23
2026 onward	1,507	3,695	5,202	0.3	5.15
Total	$ 300,930	$ 1,337,466	$ 1,638,396	100.0	4.82 (2)
Deferred financing costs and fair value adjustments			(4,535)		
Mortgages Payable			$ 1,633,861		

(1) Effective weighted average interest rates for maturing mortgages only.
(2) Effective weighted average interest rate including deferred financing costs and fair value adjustments but excluding CMHC premiums. Additionally, including the amortization of the realized component of the loss on settlement of $9.9 million included in AOCL, the effective portfolio weighted average interest rate at December 31, 2010 would be 4.90% (December 31, 2009 – 5.15%).

Over the last two years, Management has refinanced and topped up approximately $585 million of mortgages, representing roughly one-third of CAPREIT's mortgage portfolio at highly accretive weighted average interest rates of 3.77%. Additionally, 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 2011, total debt repayments (including maturing mortgages) will be approximately 17.1% 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 acquisitions and its capital investment plan, and to 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 December 31, 2010, $38.0 million (December 31, 2009 – $144.8 million) was outstanding on the Acquisition and Operating Facility. In addition, at December 31, 2010, letters of credit in the amount of $9.7 million (December 31, 2009 – $6.0 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 an interest rate swap instrument, was $223.5 million (December 31, 2009 – $94.4 million).

The Land Lease Facility of $10 million, established to fund operating, development and acquisition costs for the Bowmanville and Grand Bend manufactured home communities, matured on June 30, 2010 and was renewed for one year as explained in note 9 to the audited consolidated annual financial statements. As at December 31, 2010, $1.4 million (December 31, 2009 – $2.1 million) was outstanding on this facility. In addition, letters of credit in the amount of $0.1 million (December 31, 2009 – $0.1 million) were outstanding, which reduce the maximum amount available under the facility.

Refer to the Liquidity and Capital Resources section and Capital Structure section for discussion regarding the renewal of and amendments to the Credit Facilities.

Unitholders' Equity

On December 10, 2010, CAPREIT issued 7,250,000 Units at $17.30 per Unit on a bought-deal basis for aggregate gross proceeds of $125.4 million. On December 23, 2010, the over-allotment option was exercised and 350,000 additional Units were issued at $17.30 per Unit for aggregate gross proceeds of $6.1 million. The net proceeds of $125.3 million were used to repay a large portion of the borrowings on the Acquisition and Operating Facility.

The total market value of CAPREIT's equity as at December 31, 2010 was $1,323 million and the total number of Units outstanding as at December 31, 2010 was 77,172,310 (including 74,103 DUP Units, 72,887 RURs and 411,311 exchangeable CAPLP Units), of which trustees, officers and other senior managers owned approximately 4.7%. As of December 31, 2010, 541,000 options to acquire Trust Units were outstanding and exercisable.

For the year ended December 31, 2010, total compensation costs related to the DUP, which gives non-executive trustees the right to receive a percentage of their annual retainer in the form of Deferred Units (see note 13(h) to the audited consolidated annual financial statements) of $0.7 million (December 31, 2009 – $0.4 million) were expensed in relation to new awards under the DUP.

During the first quarter of 2010, CAPREIT introduced the RUR plan as the primary plan through which future long-term incentive compensation will be awarded. 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, "Participants"). The purpose of the RUR plan is to provide Participants with additional incentive and to further align the interests of Participants with Unitholders. Upon vesting, RURs are exercisable for Units issued from treasury.

On February 24, 2010, subject to approval by Unitholders, which was obtained on May 19, 2010, 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.

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 Participants. The Distribution RURs are credited to the Participants only when the underlying RURs upon which the Distribution RURs are earned become vested. In the fourth quarter of 2010, 743 RURs were cancelled and during the year ended December 31, 2010, total net compensation costs of $0.3 million were expensed in relation to awards granted under the RUR plan.

In February 2010, the President and CEO's employment agreement was amended such that options are to be awarded to acquire three percent (3%) of the number of Units issued by CAPREIT pursuant to any equity offering or acquisition transaction at the then market price and in accordance with the terms of the UOP. In December 2010, in connection with the equity offering and the exercise of the over-allotment option, 228,000 Unit Options under the UOP were granted to the President and CEO at an exercise price of $17.30 with an expiration of December 2020.

Normal Course Issuer Bid

On June 22, 2010, CAPREIT announced that the TSX had approved its normal course issuer bid ("NCIB") to acquire up to 6,425,179 Units, representing 10% of the public float at the time, at market prices over the 12-month period ending June 24, 2011. 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 December 31, 2010.

On June 19, 2009, CAPREIT announced that the TSX had approved its 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. No Units were acquired under this NCIB.

On June 20, 2008, CAPREIT announced that the TSX had approved its NCIB to acquire up to 6,309,967 Units, representing 10% of the public float at the time, at market prices over the 12-month period ending June 24, 2009. For the first six months of 2009, CAPREIT acquired a total of 13,500 Units for cancellation under this NCIB at market prices aggregating to $0.2 million.

Unitholder Taxation

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

For Year Ended December 31,	2010	2009
Taxable to Unitholders as Other Income	24.97%	0.00%
Taxable to Unitholders as Capital Gain Income	5.00%	0.22%
Tax Deferral	70.03%	99.78%
Total	100.00%	100.00%
Total Effective Non-taxable Portion of Distributions	72.53%	99.89%

The portion of CAPREIT's distribution to Canadian resident Unitholders treated as taxable for the year ended December 31, 2010 increased over the prior year due to the adverse tax affects resulting from the disposition of properties during the year, including a recapture of capital cost allowance and capital gains. During 2009, the loss realized on the settlement of derivative financial instruments offset any non-capital gain income subject to tax.

Section 5 Selected Consolidated Quarterly Information

($ Thousands, except per Unit amounts)		Q4 10	Q3 10	Q2 10	Q1 10	Q4 09	Q3 09	Q2 09	Q1 09
Overall Portfolio AMR (1)		$ 979	$ 976	$ 962	$ 952	$ 952	$ 952	$ 938	$ 933
Operating Revenues (1)		$ 85,519	$ 84,490	$ 82,430	$ 81,026	$ 81,329	$ 80,521	$ 79,557	$ 79,752
NOI (1)		$ 46,511	$ 49,615	$ 48,973	$ 42,610	$ 43,790	$ 46,437	$ 45,359	$ 38,846
NOI Margin (1)		54.4%	58.7%	59.4%	52.6%	53.8%	57.7%	57.0%	48.7%
Income (Loss) from Continuing Operations (1)		$ 48,698	$ 2,980	$ 3,550	$ (4,856)	$ 10,069	$ 674	$ 8,669	$ (4,401)
Net Income (Loss)		$ 49,875	$ 12,693	$ 5,543	$ (4,790)	$ 10,192	$ 950	$ 9,073	$ (4,499)
FFO		$ 20,591	$ 24,787	$ 24,664	$ 15,047	$ 20,639	$ 21,059	$ 28,630	$ 15,623
NFFO		$ 21,120	$ 25,130	$ 25,320	$ 20,022	$ 20,178	$ 23,581	$ 23,153	$ 16,468
Total Debt to Gross Book Value		58.87%	63.54%	63.84%	63.22%	62.75%	62.97%	62.42%	61.84%
Income (Loss) from Continuing Operations Per Unit	– Basic	$ 0.709	$ 0.045	$ 0.053	$ (0.073)	$ 0.152	$ 0.010	$ 0.131	$ (0.067)
	– Diluted	$ 0.702	$ 0.044	$ 0.053	$ (0.073)	$ 0.152	$ 0.010	$ 0.131	$ (0.067)
Net Income (Loss) Per Unit	– Basic	$ 0.726	$ 0.190	$ 0.083	$ (0.072)	$ 0.154	$ 0.014	$ 0.138	$ (0.068)
	– Diluted	$ 0.719	$ 0.189	$ 0.083	$ (0.072)	$ 0.153	$ 0.014	$ 0.137	$ (0.068)
FFO Per Unit	– Basic	$ 0.300	$ 0.371	$ 0.370	$ 0.227	$ 0.311	$ 0.319	$ 0.434	$ 0.238
NFFO Per Unit	– Basic	$ 0.307	$ 0.376	$ 0.380	$ 0.301	$ 0.305	$ 0.357	$ 0.351	$ 0.250
Weighted Average Units	– Basic	68,729	66,762	66,585	66,423	66,262	66,086	65,938	65,770
	– Diluted	69,380	67,287	66,921	66,665	66,416	66,208	66,002	65,854

(1) Restated for discontinued operations.
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.

Fourth Quarter

Operating revenues in the fourth quarter of 2010 increased by 5.2% over the same quarter in 2009, while NOI increased by a significant 6.2% driven by higher revenue and lower utility costs, which were partly offset by higher realty taxes and R&M costs compared to the prior year period. Net income for the fourth quarter of 2010 also increased over the same period last year due to the recovery of future income taxes payable as discussed earlier but partly offset by higher depreciation and mortgage interest expenses than the prior year period. Higher NFFO was the result of higher NOI during the fourth quarter of 2010.

Selected Consolidated Financial Information

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

Year Ended December 31, ($ Thousands, except per Unit amounts)	2010	2009	2008
Income Statement Data			
Operating Revenues From Continuing Operations	$ 333,465	$ 321,159	$ 310,563
Net Income (Loss) From Continuing Operations	$ 50,372	$ 15,011	$ (21,247)
Net Income (Loss)	$ 63,321	$ 15,716	$ (3,477)
Net Income (Loss) per Unit – Basic	$ 0.943	$ 0.238	$ (0.053)
Distributions			
Distributions Declared	$ 75,526	$ 73,805	$ 72,754
Distributions per Unit	$ 1.080	$ 1.080	$ 1.080
Balance Sheet Data			
Income Properties – Continuing Operations	$ 2,267,859	$ 2,148,761	$ 2,135,921
Total Assets	$ 2,353,420	$ 2,279,779	$ 2,243,294
Mortgages Payable – Continuing Operations	$ 1,633,861	$ 1,512,715	$ 1,440,299
Bank Indebtedness	$ 39,358	$ 146,891	$ 121,029

Section 6 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 year ended December 31, 2010.

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

Accounting Estimates

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

Management believes the nature of the business and CAPREIT's 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 year ended December 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. The estimates deemed by Management to be more significant, due to subjectivity, relate to the testing for impairment and marking-to-market of derivative financial instruments and are discussed below.

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

Derivative Financial Instruments – The fair values of derivative assets and liabilities are based on assumptions of future events and involve significant estimates. The basis of valuation for CAPREIT's derivatives is set out in the notes to the audited consolidated annual financial statements for the year ended December 31, 2010; however, the fair values of derivatives reported as at the reporting date may differ from how they are ultimately recognized if there is volatility in interest rates or energy prices in future periods.

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 publicly accountable enterprises 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 ending March 31, 2011, with comparative information.

In May 2008, the Canadian Securities Administrators ("CSA") 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, below is a discussion of the status of the key elements and timing of CAPREIT's changeover plan, as well as illustrative and entity-specific implications of the transition.

As of February 22, 2011, CAPREIT has completed its plan for transitioning from Canadian GAAP to IFRS. In 2008, a project team, led by the finance group and including representatives from other departments, was established 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.

The changeover plan encompassed 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, and the second phase in the fourth quarter of 2010, and as of February 22, 2011, CAPREIT has substantially completed the third and final phase.

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

CAPREIT finalized this phase in 2008 and identified certain standards that may have a significant financial statement impact including International Accounting Standard ("IAS") 40, Investment Property; IAS 32, Financial Instruments: Presentation; and IFRS 1, First-Time Adoption of IFRS. CAPREIT also identified certain material agreements that may be affected as a result of the changeover, such as the DOT, 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*** **–** to outline key changeover milestone dates, establish internal training and external resource requirements, institute procedures and processes to accommodate the changeover, examine material agreements of CAPREIT, review internal control requirements, and assign responsibility to various departments within CAPREIT. A more detailed assessment of the impact of IFRS was undertaken during this phase of the changeover plan, with many preliminary conclusions formulated. These assessments resulted in recommendations on the implementation of the standards, while taking into account implications to various areas of the business, including the impact of the changeover to KPIs and performance measurements of CAPREIT.

In early 2009, CAPREIT formulated a comprehensive internal 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 included both internal resources 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 were led and co-ordinated by CAPREIT's finance group. As policies were developed in relation to IFRS, internal controls, financial reporting and disclosure considerations were evaluated as well.

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

i) Research and analysis of the standards: All standards have been analyzed for potential impact to CAPREIT and those expected to have a significant impact are described below. However, Management's conclusions on certain standards are subject to change as a result of the impact of new or amended standards effective for years ending December 31, 2011. CAPREIT continues to monitor guidance issued and remains in discussions with its advisors as to any impact on CAPREIT.

ii) 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 was 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.

As of February 22, 2011, Management has substantially completed its strategic training within CAPREIT while, additionally, increasing its IFRS technical resource competencies at the senior management level through targeted hiring and training over the last 18 months.

iii) Information technology systems: CAPREIT has completed its 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 CAPREIT's general ledger and fixed asset modules completed in anticipation of the comparative financial information required under IFRS demonstrated that the current information technology systems were readily adaptable in a timely and cost-efficient manner, and that the changes would not be significant.

iv) Investment property valuation: CAPREIT has also finalized its planning of systems and processes to accommodate quarterly fair value assessments of its investment properties under IFRS. Fair value assessments have been completed by a qualified independent appraiser for the January 1, 2010 and December 31, 2010 balance sheets and will continue to be performed on an annual basis, which will provide additional assurance over the valuation process. These assessments have been reviewed by the valuation task force, presented to the Board of Trustees and are disclosed below. In the first quarter of 2010, the task force also put into practice a fair value assessment process for interim reporting purposes. As such, key underlying assumptions and estimates to be employed in the quarterly fair value assessment have also

been established. These assumptions are to be tested against market information obtained from independent industry experts. Using this approach, fair value assessments of investment properties held as at transitional interim reporting dates have been substantially completed.

Management has also designed an adequate and appropriate controls framework for the fair value assessment process to ensure that values reported accurately reflect market conditions. These controls include a comprehensive review of the assumptions and estimates used by the independent appraiser on an annual basis, as well as multiple levels of reviews of such key assumptions and data within CAPREIT by a qualified and experienced Management team and final approval by the Board of Trustees on an interim and annual basis.

v) *Unit-based compensation financial liabilities valuation:* CAPREIT has also completed its planning of processes to accommodate quarterly fair value assessments of its Unit-based compensation financial liabilities under IFRS. Management, with the assistance of qualified consultants, determined a framework appropriate for the intended purpose of establishing quarterly fair value assessments of Unit-based compensation financial liabilities under IFRS. This framework will, for certain plans, incorporate the use of the Black-Scholes model adapted for continuous distributions to take into account the monthly distributions made by CAPREIT. The model requires certain assumptions and estimates, which have also been established by Management and agreed to by external expert resources. Management has completed the fair value assessments as of the transition date and the transitional interim reporting dates. The methodology employed and the fair value assessments developed have been presented to the Board of Trustees.

vi) *Financial statement presentation and disclosure requirements:* In the third quarter of 2010, CAPREIT completed the compilation of draft consolidated financial statements for the first quarter of 2010, which included an opening balance sheet under IFRS as of the transition date. The draft consolidated financial statements include reconciliations necessary between current GAAP and IFRS. The draft consolidated financial statements and excerpts from a draft MD&A under IFRS were presented to the Board of Trustees during the third quarter.

iii) ***Implementation/Monitoring Phase*** – this phase involved the implementation of the recommendations formulated during the assessment/design phase. This phase included 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 involves the collection of all financial information necessary, enabling CAPREIT to work toward an effective and efficient transition to IFRS.

Standards

CAPREIT has identified certain standards that will 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: Presentation; (iii) IFRS 2, Share-based Payments; and (iv) IFRS 1, First-Time Adoption of IFRS. A detailed discussion of and the impact expected in connection with these standards is summarized below.

IAS 40, Investment Property:

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

CAPREIT considers its income properties to be investment properties under IAS 40. In 2009, CAPREIT's Board of Trustees approved a resolution to adopt the fair value model to account for its income properties. Management and the Board of Trustees are of the opinion that the fair value model is the most relevant standard of reporting for real estate, that the cost model is becoming increasingly irrelevant, and that industry organizations with more experience on IFRS matters, such as the European Public Real Estate Association, are directing preparers toward the fair value basis of accounting for investment property. Thus, CAPREIT will use the fair value model when preparing its consolidated financial statements under IFRS.

Through the engagement of a qualified independent appraiser, Management has quantified and disclosed below the impact of IAS 40-related differences on its January 1, 2010 opening balance sheet under IFRS compared to its December 31, 2009 balance sheet under GAAP as well as fair values as of December 31, 2010.

Prospective application will be utilized pursuant to IFRS 1 exemptions and, as a result, CAPREIT's opening balance sheet, including opening retained earnings, will reflect the revaluation of substantially all income properties to fair value. Marking-to-market will result in a carrying value for its investment properties of approximately $2,901 million as at January 1, 2010, which is approximately $694 million greater than the depreciated cost of $2,207 million reported under current GAAP. As at December 31, 2010, marking-to-market will result in a carrying value for the investment properties of approximately $3,050 million, or approximately $782 million greater than the depreciated cost of $2,268 million reported under current GAAP.

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

Under IFRS, straight-line rent, direct leasing costs and incentive balances will be included in the carrying amounts of income properties and the intangible assets and liabilities established under GAAP in connection with business combinations are no longer separately recognized under IFRS.

The increase in the carrying value of CAPREIT's investment properties by approximately $694 million under IFRS results in an associated tax liability increase as at January 1, 2010. As discussed under the Net Income section, CAPREIT satisfied the REIT Exception from the SIFT Rules and thus will not be liable for income tax under Part I of the Tax Act and the tax liability calculated as at January 1, 2010 under IFRS has been reversed during the fourth quarter of 2010. There is expected to be no tax impact in the first quarter of 2011 onward as Management expects CAPREIT to meet the REIT Exception on an ongoing basis (See Taxation discussion in the Risks and Uncertainties section).

Management values each investment property based on the most probable price that a property should be sold for in a competitive and open market as of the specified date under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. This does not contemplate the potential for general declines in the real estate markets or sale of assets by CAPREIT under financial or other hardship. Each investment property has been valued on a highest and best use basis, but specifically does not include any portfolio premium that may be associated with economies of scale from owning a large portfolio or the consolidation value of having compiled a large portfolio of properties over a long period of time, many through individual property acquisitions.

Market assumptions applied for valuation purposes do not necessarily reflect the specific history or experience related to CAPREIT, and in many cases, the stabilized cash flows or NOI used for appraisal purposes may not reflect the results ultimately realized during future periods.

The total debt to gross book value leverage ratio as of January 1, 2010 is expected to decrease to below 60% based on IFRS carrying values compared to CAPREIT's stated leverage ratio of 62.75% based on historical cost under current GAAP. Similarly, the leverage ratio as of December 31, 2010 is also expected to decrease to below 55% based on IFRS carrying values compared to 58.87% based on historical cost under current GAAP. These ratios are well below the borrowing restrictions under CAPREIT's Declaration of Trust, which requires that the debt to gross book value ratio not exceed 70%.

The fair value of investment properties will be determined by a qualified, independent appraiser annually. Each quarter, CAPREIT will utilize market assumptions for capitalization and discount rates provided by the external appraiser to determine the fair value of the investment properties for interim reporting purposes. To the extent that the externally provided capitalization rates or results of operations change from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly.

Investment properties have been valued using the following methods and key assumptions:

i) ***Fee Simple and MHC Land Lease Sites –*** CAPREIT utilizes the Direct Income Capitalization ("DC") method. Under this method, capitalization rates are applied to a stabilized NOI representing market based NOI assumptions (property revenue less property operating expenses). The most significant assumption is the capitalization rate for each specific property.

ii) ***Operating Leasehold Interests –*** CAPREIT utilizes the Discounted Cash Flow ("DCF") method. Under this method, discount rates are applied to the forecasted cash flows reflecting market-based leasing assumptions for that specific property as well as assumptions as to renewal and new leasing activity. The most significant assumption is the discount rate applied over the initial term of the lease. In the case of one property, the forecasted cash flow is adjusted for contractual air rights payments and the discount rate is adjusted for uncertainty regarding the renegotiation of the air right lease at the end of the term.

iii) ***Options to purchase the related operating leases –*** CAPREIT utilizes the DC method at the reversion date to estimate the future value, which is then discounted to a present value. Under this method, the stabilized income is adjusted to a projected NOI as at the end of the operating lease term and the capitalization rate is adjusted to a "Reversionary Capitalization Rate" reflecting the incremental risk associated with future uncertainty. The value of the option is then determined based upon the difference between the estimated fair value of the property at such date and the option buyout price, discounted back to present value using a risk adjusted discount rate (the "Option Discount Rate").

iv) ***Land Leasehold Interests –*** CAPREIT utilizes the DCF method for properties that are subject to land or air rights leases. Under this method, discount rates are applied to the forecasted cash flows reflecting market-based leasing assumptions for that specific property as well as assumptions as to renewal and new leasing activity. The most significant assumption is the discount rate applied over the initial term of the lease. Forecasted cash flows are adjusted for contractual land lease payments as well as the adjustment of discount rates for uncertainty regarding the renegotiation of land leases at the end of the term.

A summary of the market assumptions and ranges for each type of property interest along with their fair market values are presented below as at January 1, 2010 and December 31, 2010:

As at January 1, 2010 **Type of Interest**	**Fair Market Value ($ millions)**	**Rate Type**	**Max**	**Min**	**Weighted Average**
Fee Simple Interests – Apartments and Townhomes	$ 2,304	*Capitalization rate*	7.75%	5.00%	6.27%
MHC Land Lease Sites	88	*Capitalization rate*	6.25%	6.25%	6.25%
Operating Leasehold Interests (1),(2)	384	*Discount rate* (3)	9.00%	7.63%	7.91%
Land Leasehold Interests	125	*Discount rate*	8.00%	7.75%	7.83%
Total Fair Market Value	$ 2,901				

As at December 31, 2010 **Type of Interest**	**Fair Market Value ($ millions)**	**Rate Type**	**Max**	**Min**	**Weighted Average**
Fee Simple Interests – Apartments and Townhomes	$ 2,436	*Capitalization rate*	7.50%	4.65%	6.06%
MHC Land Lease Sites	89	*Capitalization rate*	6.25%	6.25%	6.25%
Operating Leasehold Interests (1),(2)	393	*Discount rate* (3)	8.50%	7.25%	7.56%
Land Leasehold Interests	132	*Discount rate*	8.00%	7.75%	7.80%
Total Fair Market Value	$ 3,050				

(1) The Operating Leasehold Interest subject to a contractual air rights lease and Land Leasehold Interests subject to land leases have been reflected at fair market value net of the present value of minimum land lease or air rights payments over the term of the leases. Under IFRS, these specific properties will be reflected at gross fair market value and the present value of the related land lease or air rights payments will be set up as liabilities.

(2) The fair market values of Operating Leasehold Interests include the fair values of the Options to purchase the related operating leases of $14.3 million as at January 1, 2010 and $16.6 million December 31, 2010.

(3) Represents the discount rates to determine the fair value for Operating Leases using the DCF method. A weighted average stabilized NOI growth of 2.5% has been assumed as at January 1, 2010 and December 31, 2010.

For all Options, an Option Discount Rate of 12.75% has been applied to determine their respective fair values. This Option Discount Rate has been estimated through an analysis of other high-risk real estate investment returns with consideration given to the long investment horizon of the remaining lease terms.

The following table summarizes changes in CAPREIT's investment property portfolio during the year:

As at December 31, 2010 ($ millions)		
Total Fair Market Value, Beginning of Year	$	2,901
Additions:		
Acquisitions		119
Property Capital Investments		83
Capitalized Leasing Costs (1)		–
Dispositions		(75)
Unrealized Gain on Remeasurement of Investment Properties		22
Total Fair Market Value, End of the Year	$	3,050

(1) Capitalized leasing costs of $0.2 million are comprised of tenant inducements, straight-line rent adjustments and other costs.

IAS 32, Financial Instruments Presentation:

Presentation

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

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

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

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

Classification

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

Hedges

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

IFRS 2, Share-Based Payments:

IFRS 2, which provides guidance on the issuance of shares, or rights to shares, in return for services and goods, is expected to significantly affect CAPREIT in a number of ways:

i) By virtue of the redemption clause associated with CAPREIT's Trust Units, and in accordance with the requirements of IFRS 2 and IAS 32, the Units issued under CAPREIT's Unit-based compensation plans that remain unsettled must be classified as financial liabilities. As a result, Management expects CAPREIT to re-measure all prior Units issued but not settled under such plans at fair value at each reporting date and any distributions earned/reinvested on these Units to be accounted for as compensation expense.

ii) IFRS 2 also requires that each tranche of a Unit-based award be considered a separate grant with a different vesting date and fair value, and that each tranche is accounted for separately. Under current GAAP, the fair value of a Unit-based award with graded vesting is recognized on a straight-line basis over the vesting period. This change in measurement methodology will likely significantly increase the amount of Unit-based compensation expense recognized in the initial year of grant and in the earlier portion of the vesting period compared to current GAAP.

iii) IFRS 2 requires forfeitures to be estimated and recognized in the current period, with revisions for actual forfeitures in subsequent periods, however, under current GAAP award forfeitures may be recognized as they occur. Based on historical trends, Management does not expect estimates of forfeitures to have a significant impact on Unit-based compensation expense.

IFRS 1, First-Time Adoption of IFRS:

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

Business Combinations – Under both the revised GAAP standard and the revised IFRS standard, acquisition-related transaction costs will be charged to Net Income, which differs from current GAAP. Under IFRS, transitional provisions allow for the choice of retroactive or prospective adoption, but require full application to all business combinations as at or after the transition date to IFRS. The adoption of the GAAP equivalent standard is required for January 1, 2011, however, early adoption is permitted. Management has adopted IFRS on a prospective basis from the transition date, January 1, 2010, which eliminates the requirement to restate past business combinations. Management did not early adopt the revised GAAP standard and therefore adoption will coincide with IFRS. As no business combinations, as defined under IFRS, occurred during the year ended December 31, 2010, no IFRS adjustment will be required for the comparative periods.

A first-time adopter may elect to not restate opening retained earnings for share-based payments vested and settled before the date of transition to IFRS. As a result, IFRS 2 is not required to be applied to such instruments. Management has utilized this exemption for Units already vested and settled before the date of transition, where applicable, thus re-measurement for prior periods was not required for Unit-based compensation plans such as: i) CAPREIT's Unit Option Plan where options have been exercised; ii) Unit Purchase Plan where loans have been repaid; and iii) Deferred Units where units have been withdrawn and Trust Units have been issued. This eliminates the impact of such changes to Cumulative Capital and Cumulative Net Income as those instruments will not be required to be settled retroactively through opening balances.

IFRS 1, which provides guidance for an entity's initial adoption of IFRS, generally requires that an entity apply all standards effective at the end of its first IFRS reporting year retrospectively. However, IFRS 1 does include certain mandatory exceptions and limited optional exemptions in specified areas of certain standards from this general requirement. In addition to the discussion of the exemptions related to business combinations and Unit-based payments above, the following are additional significant optional exemptions available under IFRS 1 that Management expects to apply in preparing CAPREIT's first consolidated financial statements under IFRS:

i) IFRS 1 allows either retrospective or prospective application of IAS 23, Borrowing Costs, which would require the capitalization of borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to ready for its intended use or sale. Consistent with current CAPREIT's accounting policy under current GAAP, Management does not intend to capitalize borrowing costs related to its property capital investments under IFRS; and

ii) IFRS 1 provides a choice between measuring property, plant and equipment at its fair value at transition date and using those amounts as deemed cost, or using the historical valuation under the current GAAP. CAPREIT will continue applying the cost model for property, plant and equipment and will not restate property, plant and equipment to fair value under IFRS.

Management continues to monitor developments in standards that are expected to change subsequent to the mandatory transition date of January 1, 2010. Summarized below are developments in those standards that could have an impact on CAPREIT's financial reporting if in effect or available to early adopt for the year ending December 31, 2011 and are based on the latest exposure drafts and proposed amendments as of February 22, 2011.

IAS 1, Presentation of Financial Statements

The amendment to IAS 1 is expected to require presentation of a single continuous statement comprising both Net Income and OCI for the reporting period and the current option of presenting a separate statement of Net Income and a separate statement of OCI would be eliminated. Alternatively, the presentation of two separate but consecutive statements of Net Income and OCI would be permitted. The amendment is also expected to require presentation of items of OCI that will be reclassified to Net Income in subsequent periods separately from items of OCI that will not be reclassified to Net Income. The change is not expected to have a significant impact on CAPREIT's financial reporting for 2011.

IAS 12, Income Taxes

An amendment to IAS 12 will require, in effect, the measurement of deferred tax assets and deferred tax liabilities arising from investment properties measured at fair value on the presumption that the carrying amount will be recovered entirely through sale. The amendment is to be applied retrospectively for annual periods beginning on or after January 1, 2012 with early application permitted. CAPREIT does not intend to early adopt the amendment.

IAS 31, Interests in Joint Ventures

Under the amended standard, a joint operation, as defined by the standard, would be recognized by the contractual rights to assets and contractual obligations in accordance with other IFRS. A joint venture, as defined by the standard, would be recognized by the investor's right to a share of the outcome expected to be generated from a group of assets and liabilities subject to joint control using the equity method of accounting. At present, one of CAPREIT's co-ownership arrangements would be defined as a joint venture, that is, joint control is attained through indirect ownership of the underlying net assets. As a result, the co-ownership will need to be accounted for using the equity method instead of proportionate consolidation as currently permitted under IAS 31. The change is not expected to have a significant impact on CAPREIT's financial reporting for 2011.

Fair Value Measurement

The objective of this project is to establish a single source of guidance for all fair value measurements when required by IFRS, to clarify the definition of fair value, to enhance disclosures about fair value and to increase convergence with United States generally accepted accounting principles. The guidance addresses how to measure fair value but not when to measure it. The guidance is not expected to impact the fair value reported by CAPREIT at present, however, additional disclosure may be required. A final standard is expected to be issued in the first quarter of 2011.

Other Considerations

Management has completed certain key modifications to borrowing agreements and finalized certain changes to CAPREIT's DOT at the Annual General Meeting held on May 20, 2009, so as to accommodate both current and evolving IFRS requirements.

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 warrant review of this ratio and possible amendment. As a result of CAPREIT's election of the fair value model, Management expects the current debt ratio to decline under IFRS.

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 DOT). It is expected that the Adjusted Unitholders' Equity will be materially impacted by the IFRS changes noted above. Currently, Management does not expect negative implications in its ability to invest further in accretive investments as a result of this change, but the definition of Adjusted Unitholders' Equity or the threshold applied to the ratio may require further clarification or amendment in the future.

Credit Facilities

Management has determined that the current definition of EBITDA incorporates all significant impacts of IFRS as noted above and, therefore, that no amendments are needed to the definition of EBITDA in the Credit Facilities Agreement. At present, the fair value adjustment associated with revaluing CAPREIT's investment property as well as certain financial liabilities and other non-cash or unusual items are currently excluded from the definition of EBITDA per the Credit Facilities' Agreement. In light of expected changes resulting from IFRS, the Tangible Net Worth definition has been amended in the renewed Credit Facilities Agreement to add back the sum of accumulated depreciation and amortization and taxes payable on Unit-based investment transactions with a required minimum Tangible Net Worth of $700 million. However, adjustments expected under IFRS are not expected to have an impact on Debt Service and Interest Coverage ratios due to their respective definitions in the renewed Credit Facilities Agreement. (See note 23 to the audited consolidated annual financial statements.)

Other Developments

The CSA has issued an amended National Instrument ("NI") 52-107, Acceptable Accounting Principles and Auditing Standards, and its Companion Policy, as well as related amendments to other national instruments and policies, including continuous disclosure, prospectus, certification, and registration requirements. The rule changes were necessary as a result of the adoption of IFRS. Management does not expect a significant impact to disclosure requirements for CAPREIT as a result of the rule changes. The review of NI 52-107 and related amendments by Management identified the following notable impacts to CAPREIT: (i) the amended NI 51-102, Continuous Disclosure Obligations, provides for a 30-day extension for reporting issuers to file the first interim financial report in the year of adoption (but not for any subsequent interim or annual filings), which CAPREIT does not currently expect to use, and (ii) the NI 51-102 also provides for presenting a statement of cash flows only for the year-to-date periods in accordance with the requirements under IFRS, whereas under current GAAP, it must be presented for the current interim three month period and the year to date period.

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 CAPLP Units and those Trust Units issued under CAPREIT's Unit-based compensation plans being classified as financial liabilities in accordance with the requirements of IAS 32, and thus would not be ncluded 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, have been impacted by other accounting differences between IFRS and current GAAP, which would make many of the non-GAAP measures less comparable or could require an increased number of adjustments to achieve comparability with prior periods. For example, non-GAAP measures such as FFO and NFFO will need to add back: (i) the fair value adjustment associated with the fair value model, as applied under IAS 40; (ii) the fair value adjustments and distributions on CAPLP Units and (iii) certain components of the Unit-based compensation expense, among other adjustments.

In addition to the impact of IFRS on non-GAAP measures such as FFO and NFFO, Management expects the applicable payout ratios to also be affected as a result of the possible reclassification of certain types of Units outstanding, such as those noted earlier, from equity under current GAAP to financial liabilities under IFRS. Management will aim to make the additional adjustments necessary for CAPREIT's non-GAAP measures to be comparable with prior periods.

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.

Disclaimer

The information above is provided to allow investors and others to obtain a better understanding of CAPREIT's IFRS changeover plan and the resulting possible effects on, for example, CAPREIT's financial statements and performance measures. Readers are cautioned, however, that it may not be appropriate to use such information for any other purpose. This information also reflects Management's most recent assumptions and expectations; circumstances may arise, such as changes in IFRS, regulations or economic conditions, which could change these assumptions or expectations.

Controls and Procedures

Disclosure Controls and Procedures

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

As at December 31, 2010, Management evaluated the effectiveness of the disclosure controls and procedures against the rules adopted by the CSA as defined under NI 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation using the Committee of Sponsoring Organizations of the Treadway Commission control framework, CAPREIT's President and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as at December 31, 2010.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management assessed the effectiveness of the internal controls over financial reporting as at December 31, 2010, and based on that assessment determined that the internal controls over financial reporting were designed and operating effectively.

In the fourth quarter of 2010, Management established additional internal controls that ensure compliance with SIFT Rules on an ongoing basis thereby allowing CAPREIT to maintain its qualification under the REIT Exception (see Taxation under the Risks and Uncertainties section). Having performed a comprehensive assessment during 2010 of CAPREIT's existing business activities, additional controls were established by Management to ensure continued compliance with SIFT Rules. These additional controls encompass training of key staff with respect to entering into any new business activities, including any new vendor and commercial leasing arrangement.

CAPREIT did not make any changes to the design of internal controls over financial reporting during the year ended December 31, 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 on certain assumptions about the likelihood of future events, and there can be no assurances that any design will succeed in achieving its stated goals under all potential conditions.

Section 7 Risks and Uncertainties

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

Related to Ownership and Operation of Real Property

Real Property Ownership

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

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

Leasehold Interests

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

In connection with certain long-term leases, CAPREIT is responsible for payment of all taxes, utilities, insurance, maintenance, repairs and replacements in respect of all of the leased premises. Upon the transfer of such a long-term

lease by CAPREIT, CAPREIT will be released from liability thereunder only if the transferee meets certain tests. The lessor under any such long-term lease may terminate such long-term lease only if there is a substantial event of default (as defined in the leases) by CAPREIT, which remains uncured after a cure period.

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

Co-ownerships

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

Investment Restrictions

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

Operating Risk

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

While CAPREIT strives to achieve geographic and asset class diversification of its portfolio, changes in general economic conditions will also affect the performance of the portfolio. Additionally, the portfolio is currently weighted with 68% of the overall portfolio (by number of suites) in Ontario (50% in the GTA), making CAPREIT's performance particularly sensitive to its performance in, and changes affecting, Ontario and, in particular, the GTA.

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

Energy Costs and Hedging

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.

In the third quarter of 2010, CAPREIT entered into a floating-to-fixed natural gas financial instrument covering the period from Winter 2011 and in the fourth quarter of 2010, a second floating-to-fixed natural gas financial instrument was entered into covering the same period (see note 24 to the audited consolidated annual financial statements). The two financial instruments fix the price of natural gas at $4.32 and $3.58 per gigajoule for 2,700 and 500 gigajoules per day, respectively, which combined, represent approximately 85% of CAPREIT's anticipated Winter 2011 natural gas delivery requirements. These fixed prices compare favourably to the average price per gigajoule at which CAPREIT converted its fixed price natural gas commitments to spot pricing arrangements effective March 1, 2010, of $5.05 per gigajoule and the average price paid by CAPREIT for natural gas from November 2009 through March 2010 of $6.49 per gigajoule.

As at December 31, 2010, approximately 85% of CAPREIT's natural gas requirements for the period covering January 1, 2011 to March 31, 2011 are subject to fixed price contracts having an average price of $4.20 per gigajoule. No fixed price contracts for natural gas are in place for the remainder of 2011.

Environmental Matters

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

Insurance

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

Capital Investments

For prudent management of its property portfolio, CAPREIT makes significant property capital investments throughout the period of ownership of its properties (for example, to upgrade and maintain building structure, balconies, parking garages and electrical and mechanical systems). CAPREIT has prepared building condition reports and has committed to a multi-year property capital investment plan. CAPREIT must continuously monitor its properties to ensure appropriate and timely capital repairs and replacements are carried out in accordance with its property capital investment programs. CAPREIT requires sufficient capital to carry out its planned property capital investment and repair and refurbishment programs to upgrade its properties and avoid exposure to operating business risks arising from structural failure, electrical or mechanical

breakdowns, fire or water damage, etc., which may result in significant loss of earnings to CAPREIT. A significant increase in capital maintenance requirements or difficulties securing financing or the availability of financing on reasonable terms could adversely impact the cash available to CAPREIT and its ability to pay distributions.

Related to Financing

Indebtedness

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

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

CAPREIT's Land Lease Facility of $10 million matures on June 30, 2011, and the three-year revolving Acquisition and Operating Facility of $270 million matures on June 30, 2013. CAPREIT's Acquisition and Operating Facility and Land Lease Facility are at floating interest rates and, accordingly, changes in short-term borrowing rates will affect CAPREIT's costs of borrowing. CAPREIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing or cost-effective financing. As at the date hereof, it is difficult to forecast the future state of the commercial loan market. If, because of CAPREIT's level of indebtedness, the level of cash flows, lenders' perceptions of CAPREIT's creditworthiness or other reasons, Management is unable to renew, replace or extend the Credit Facilities on acceptable terms, or to arrange for alternative financing, CAPREIT may be required to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding could be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring property capital investments, dispositions of one or more properties on unfavourable terms, reducing or eliminating future cash distributions or other discretionary uses of cash, or other, more severe actions. Also, disruptions in the credit markets and uncertainty in the economy could adversely affect the banks that currently provide the Credit Facilities, could cause the banks or a bank to elect not to participate in any new Credit Facilities sought, or could cause other banks that are not currently participants in the Credit Facilities to be unwilling or unable to participate in any such new facility.

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

Interest Rate Hedging

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

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

Related to Taxes and Regulations

Taxation-Related Risks

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

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

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

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

On December 16, 2010, the Department of Finance released proposed amendments to the tax provisions that relax certain requirements under the original SIFT Rules and reduce the likelihood of REITs such as CAPREIT being treated as a SIFT in a given year. The most significant changes under the proposed amendments are to allow a REIT to hold non-portfolio property that is not qualified REIT property of up to 10% of the total fair market value of all the trust's non-portfolio property and to reduce to 90% the amount of the trust's revenues that must be derived from rent from real or immovable properties, interest, capital gains from disposal of real or immovable properties, dividends and royalties.

On December 24, 2010, based on the REIT Exception guidelines, CAPREIT completed the necessary restructuring to qualify as a REIT commencing for the 2011 taxation year and became exempted from taxation as a SIFT. Accordingly, CAPREIT will continue to be able to flow income through to Unitholders on a tax effective basis. CAPREIT's assets and operating activities were largely unaffected by the restructuring. All noncompliant assets were either disposed of or restructured as necessary. As a result of the completion of its restructuring, the non-cash future income tax liability of $53.2 million recorded at September 30, 2010 that arose primarily as a result of the introduction of the SIFT Legislation in 2007, reversed in the fourth quarter of 2010 through the consolidated statement of income and comprehensive income as a one-time non-cash future income tax recovery.

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

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

Harmonization of Federal Goods and Services Tax ("GST") and Provincial Sales Tax ("PST")

Both Ontario and British Columbia harmonized their respective PST with the federal GST into HSTs effective July 1, 2010. Currently, there is generally no HST on residential rents (i.e. they are generally HST exempt). As input tax credits for HST paid can only be claimed if the payments are in respect of commercial activities and as renting residential properties is not a commercial activity, CAPREIT is not able to claim input tax credits for HST paid. In the future, the effect of increasing the HST rate or extending its application to a variety of new business input costs presently not subject to HST, means landlords will have to absorb the additional tax costs on business inputs.

Government Regulations

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

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

Controls over Financial Reporting

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

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

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

International Financial Reporting Standards

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

current GAAP to IFRS may materially affect CAPREIT's reported financial position, FFO, NFFO and other financial measures (see also International Financial Reporting Standards discussion under Section 6).

Other Legal and Regulatory Risks

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

Related to CAPREIT's Securities, Organization and Structure

Nature of CAPREIT Units

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

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

Unitholder Liability

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

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

Liquidity and Price Fluctuation of Units

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

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

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

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

Dilution

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

Distributions

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

DRIP Participation

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

Potential Conflicts of Interest

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

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

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

Dependence on Key Personnel

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

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

Related to the Real Estate Industry

General Economic Conditions

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

Competition for Residents

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

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

Competition for Real Property Investments

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

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

Continued Growth

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

Acquisitions

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

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

Related Party Transactions

For the year ended December 31, 2010, CAPREIT paid construction management fees of $1.5 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 year ended December 31, 2010 was $0.7 million including property operating costs, and has been expensed as trust expenses. The lease agreement expires on October 31, 2014 and yearly minimum rental payments are $0.4 million before HST.

Commitments and Contingencies

CAPREIT has entered into commitments for fixed price natural gas, hydro and land lease agreements as outlined in note 24 to the audited consolidated annual financial statements.

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

Natural gas is a key input to CAPREIT's heating costs. CAPREIT's income properties consume an estimated 1.5 million gigajoules of natural gas per year. CAPREIT has contracted with various utility companies to supply 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 24 to the audited consolidated annual financial statements).

Subsequent Event

On January 31, 2011, CAPREIT completed the acquisition of a mid-tier townhome complex comprising 83 suites, located in Burlington, Ontario. The purchase price of $8.9 million, excluding closing and transaction costs, was funded with a new CMHC-insured mortgage of $6.8 million at an interest rate of 4.26%, maturing on March 1, 2021, and the balance from CAPREIT's Acquisition and Operating Facility

Section 8

Future Outlook

With an improving national economy, Management believes the multi-unit residential rental business will continue to strengthen 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. 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 particular regions, CAPREIT may have to account for an increase in bad debt, experience a reduction in occupancy levels in some markets and 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.

In July 2010, the provinces of Ontario and British Columbia harmonized the Federal GST with their respective PST into one HST applied to the majority of goods and services sold in each province. HST has resulted 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 the higher costs, 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 Risks and Uncertainties).

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.

A significant part of managing CAPREIT's annual rental increases is determined by the annual guideline increases established by certain provincial governments under rent control legislation that CAPREIT must adhere to in setting annual rental rates for renewing tenants. In the Province of Ontario, the guideline increase for 2011 is 0.7%, which compares unfavourably to the 2.1% guideline increase for 2010. The Ontario rent control legislation provides that landlords may apply to the Landlord and Tenant Board (the "Board") to raise rents by more than the approved annual guideline. The Board can allow such an above guideline increase ("AGI") for: (i) eligible capital expenditures, (ii) unusually high increases in property taxes and/or utility costs, and (iii) increases in eligible security costs. The maximum AGI permitted in connection with eligible capital expenditures is three percent per year to a maximum of nine percent over a three-year period. These same limitations do not apply to AGI applications related to unusually high increases in property taxes and/or utilities, or increases in eligible security costs.

In line with its focus to maximize average monthly rents, CAPREIT has begun pursuing above guideline increases where appropriate and to this effect, has filed 65 applications as of December 31, 2010 for completed property capital investments and/or unusually high increases in realty taxes as well as one application relating to an unusually high increase in water costs. In addition, CAPREIT is assessing the viability of a number of additional AGI applications for 2011. The impact of these AGI applications could be significant at the property level, however, it is presently indeterminable due to the inherent uncertainties associated with the adjudication process and the impact of tenant turnover at the affected properties.

The following table summarizes the status of AGI applications filed by CAPREIT as of December 31, 2010:

	Number of Applications	Number of Impacted Suites and Sites	Weighted Average Annual AGI (%) (1)	Weighted Average Number of Years (1), (2)
Filed	66	10,065	1.9%	1.5
Withdrawn	(7)	(1,290)	0.5%	1.0
Settled	(26)	(3,066)	1.5%	1.6
Outstanding	33	5,709	2.1%	1.6

(1) Weighted by number of impacted suites and sites.
(2) Represents the number of years over which the AGI application is expected to apply.

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.

Management's Responsibility for Financial Statements

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

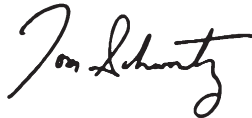
To assist management in the discharge of these responsibilities, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing financial statements and other financial information, transactions are properly authorized and recorded,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

As at December 31, 2010, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

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

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

February 22, 2011



Thomas Schwartz
President and Chief Executive Officer

Richard J. Smith
Chief Financial Officer

Independent Auditors' Report

February 22, 2011

To the Unitholders of Canadian Apartment Properties Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Canadian Apartment Properties Real Estate Investment Trust (CAPREIT) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CAPREIT and its subsidiaries as at December 31, 2010 and December 31, 2009 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Consolidated Balance Sheets

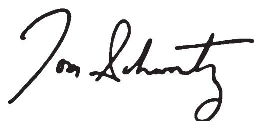
($ Thousands)

As at December 31,	2010	2009
Assets		
Income properties (note 5)		
Cost	$ 2,728,903	$ 2,526,779
Less: accumulated depreciation	(461,044)	(378,018)
Net book value	2,267,859	2,148,761
Sundry assets (note 6)	80,621	70,817
Intangible assets (note 7)	590	492
Cash and cash equivalents	4,350	–
Assets held for sale (note 18)	–	59,709
	$ 2,353,420	$ 2,279,779
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages payable (note 8)	$ 1,633,861	$ 1,512,715
Bank indebtedness (note 9)	39,358	146,891
Accounts payable and other liabilities (notes 17(b) and (c))	57,980	49,732
Security deposits	19,227	18,067
Distributions payable	6,932	6,191
Intangible liabilities (note 7)	214	192
Future income taxes (note 10)	–	53,133
Liabilities related to assets held for sale (note 18)	–	35,674
	1,757,572	1,822,595
Unitholders' Equity	595,848	457,184
	$ 2,353,420	$ 2,279,779

See accompanying notes to consolidated annual financial statements.

Contingencies (note 25)

Signed on behalf of the Trustees:



Thomas Schwartz
Trustee

Michael Stein
Trustee

Consolidated Statements of Income and Comprehensive Income

($ Thousands, except per Unit amounts)

Year Ended December 31,	2010	2009
Operating Revenues		
Revenue from income properties	$ 333,465	$ 321,159
Operating Expenses		
Realty taxes	42,621	41,236
Property operating costs	103,135	105,491
	145,756	146,727
Income Before the Undernoted	187,709	174,432
Depreciation (note 14)	82,765	76,252
Amortization (note 15)	4,123	3,503
Trust expenses	14,012	16,834
Mortgage interest	77,211	74,772
Interest on bank indebtedness	6,102	3,838
Net loss on natural gas contracts (note 17(c))	4,497	–
Other income	(1,854)	(1,853)
Severence and other employee termination costs (note 16)	736	–
Income From Continuing Operations Before Gains (Losses) and Income Taxes	117	1,086
Unrealized (loss) gain on derivative financial instruments (note 17(b))	(174)	742
Realized gain on derivative financial instruments (note 17(a))	–	4,063
Recovery of future income taxes (note 10)	50,429	9,120
Income From Continuing Operations	50,372	15,011
Income From Discontinued Operations (note 18)	12,949	705
Net Income	$ 63,321	$ 15,716
Other Comprehensive Income (note 13(b))	$ 11,269	$ 16,046
Comprehensive Income	$ 74,590	$ 31,762
Basic Net Income Per Unit		
Continuing operations	$ 0.750	$ 0.227
Discontinued operations	$ 0.193	$ 0.011
Basic Net Income Per Unit	$ 0.943	$ 0.238
Diluted Net Income Per Unit		
Continuing operations	$ 0.745	$ 0.227
Discontinued operations	$ 0.192	$ 0.011
Diluted Net Income Per Unit	$ 0.937	$ 0.238

See accompanying notes to consolidated annual financial statements.

Consolidated Statements of Unitholders' Equity

($ 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 income		–	63,321	–	–	63,321
Distributions declared and paid		–	–	(68,404)	–	(68,404)
Distributions payable		–	–	(6,932)	–	(6,932)
New Units issued	13 (a)	125,729	–	–	–	125,729
Distribution Reinvestment Plan ("DRIP")	13 (c)	8,544	–	–	–	8,544
Unit Option Plan ("UOP")	13 (d)	1,151	–	–	–	1,151
Employee Unit Purchase Plan ("EUPP")	13 (e)	276	–	–	–	276
Long-Term Incentive Plan ("LTIP")	13 (f)	1,404	–	1,050	–	2,454
Senior Executive Long-Term Incentive Plan ("SELTIP")	13 (g)	252	–	631	–	883
Deferred Unit Plan ("DUP")	13 (i)	226	–	(126)	–	100
Restricted Units Rights ("RUR") Plan	13 (j)	337	–	(64)	–	273
Other comprehensive income	13 (b)	–	–	–	11,269	11,269
Unitholders' Equity, December 31, 2010		$ 1,027,156	$ 161,190	$ (581,413)	$ (11,085)	$ 595,848

	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 income		–	15,716	–	–	15,716
Distributions declared and paid		–	–	(67,614)	–	(67,614)
Distributions payable		–	–	(6,191)	–	(6,191)
DRIP	13 (c)	8,583	–	–	–	8,583
EUPP	13 (e)	229	–	–	–	229
LTIP	13 (f)	1,785	–	1,005	–	2,790
SELTIP	13 (g)	661	–	642	–	1,303
Costs related to accelerated vesting of LTIP and SELTIP	13 (h)	122	–	–	–	122
DUP	13 (i)	436	–	–	–	436
Units cancelled	13 (k)	(169)	–	–	–	(169)
Other comprehensive income	13 (b)	–	–	–	16,046	16,046
Unitholders' Equity, December 31, 2009		$ 889,237	$ 97,869	$ (507,568)	$ (22,354)	$ 457,184

See accompanying notes to consolidated annual financial statements.

Consolidated Statements of Cash Flows

($ Thousands)

Year Ended December 31,	2010	2009
Cash Provided By (Used In):		
Operating Activities		
Net income	$ 63,321	$ 15,716
Items not affecting cash:		
Gain on sale of assets (note 18)	(11,688)	–
Unrealized loss (gain) on derivative financial instruments (note 17(b))	174	(742)
Realized gain on derivative financial instruments (note 17(a))	–	(4,063)
Net loss on natural gas contracts (note 17(c))	4,497	–
Recovery of future income taxes (note 10)	(51,355)	(9,568)
Depreciation (note 14)	83,999	78,648
Amortization (note 15)	4,137	3,528
Amortization of above and below market leases	(82)	(120)
Amortization of loss on derivative financial instruments in AOCL	1,096	592
Fair value adjustment of utility contracts (note 2(g))	(38)	208
Straight-line rent adjustment	(102)	(116)
Costs related to accelerated vesting of LTIP and SELTIP (note 13(h))	–	122
Compensation component of LTIP, SELTIP, UOP, DUP and RUR Plan awards granted	1,696	1,709
	95,655	85,914
Changes in non-cash operating assets and liabilities (note 19(a))	(5,850)	(9,866)
Cash Provided By Operating Activities	89,805	76,048
Investing Activities		
Acquisition of income properties (note 19(e))	(94,458)	(1,389)
Capital investments (note 19(d))	(78,359)	(86,683)
Disposition of income properties (note 19(f))	68,789	–
Change in restricted cash	(345)	379
Cash Used In Investing Activities	(104,373)	(87,693)
Financing Activities		
Mortgage financings	328,023	304,577
Mortgage principal repayments	(48,625)	(49,182)
Mortgages repaid on maturity	(214,591)	(182,027)
Mortgage financing costs	(1,595)	(1,878)
Settlement of derivative financial instruments (note 17(a))	–	(23,472)
Bank indebtedness, net	(107,533)	25,862
Proceeds on issuance of Units (notes 13(a), (d) and (e))	126,513	229
Net cash distributions to Unitholders (note 19(b))	(63,388)	(62,295)
Cancellation of Units	–	(169)
Proceeds from repayment of LTIP instalment receipts	114	–
Cash Provided By Financing Activities	18,918	11,645
Changes in Cash and Cash Equivalents During the Year	4,350	–
Cash and Cash Equivalents, Beginning of Year	–	–
Cash and Cash Equivalents, End of Year	$ 4,350	$ –

See accompanying notes to consolidated annual financial statements.

Notes to Consolidated Financial Statements

December 31, 2010 ($ Thousands, except Unit and Per Unit amounts)

Note 1 Organization of the Trust

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

Note 2 Significant Accounting Policies

a) Basis of presentation

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

b) Principles of consolidation

The consolidated 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 revenue 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 consolidated balance sheet date and the difference between the fair value of the asset and its cost basis is included in other comprehensive income ("OCI"). Differences recorded in accumulated other comprehensive loss ("AOCL") are transferred to net income when the asset is removed from the consolidated 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 value 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 income and comprehensive income in property operating costs or OCI, except for those contracts that are designated for its own use. At December 31, 2010, the change in fair value for those contracts not designated for its own use was an unrealized gain of $38 (December 31, 2009 – unrealized loss of $208).

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 income and comprehensive income.

As at December 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 22(a) to the 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 OCI, while the ineffective portion is recognized in net income. Should the cash flow hedging relationship become ineffective and/or hedge accounting no longer appropriate, previously unrealized gains and losses remain within AOCL and are amortized to mortgage interest expense or gains (losses) on derivatives 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 income and comprehensive income.

i) Comprehensive income

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

j) Accumulated Other Comprehensive Loss (“AOCL”)

AOCL is included in the consolidated balance sheet as a separate component of Unitholders’ Equity and includes the unrealized gains and losses in changes in the fair value of cash flow hedges, derivatives and investments. The components of AOCL are disclosed in note 13(b).

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 income and comprehensive income.

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 held-for-sale to total net assets.

n) Stock-based compensation

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

Deferred Units granted under the Deferred Unit Plan ("DUP") are recognized in compensation expense based on the closing market price of CAPREIT's Units on the date of grant (see note 13(i)). The Deferred Units are considered to be outstanding Units from the date of grant for basic and diluted net income 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 13(j)). The Restricted Units are not considered to be outstanding Units for basic net income per Unit calculations but are considered to be outstanding Units from the date of grant for diluted net income per Unit calculations.

o) Co-ownerships

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

p) Use of significant estimates

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

q) Cash flow statements

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

r) Income taxes

CAPREIT is taxed as a Mutual Fund Trust for income tax purposes. CAPREIT has 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 net 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. All three sections must be adopted concurrently. Early adoption of these sections is permitted but CAPREIT has elected not to early adopt.

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public entities will have to adopt International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011 (the "changeover date"). CAPREIT will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ending March 31, 2011, with comparative information. The impact of the adoption of IFRS on the consolidated financial statements of CAPREIT will be significant and, as such, CAPREIT is in the process of executing its convergence plan to transition its financial statement reporting, presentation and disclosure to IFRS. 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.

Note 3 Significant Matters

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

During the year ended December 31, 2010, CAPREIT entered into an agreement with CMHC (the "Large Borrower Agreement" or "LBA"). The LBA provides for, amongst other things: (i) additional financial covenants and limitations on indebtedness, none of which are inconsistent with CAPREIT's current operating policies; (ii) the posting of a revolving letter of credit with respect to a portfolio rather than an individual property; and (iii) cross collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

Note 4 Recent Property Acquisitions

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

For the year ended December 31, 2010:

Acquisition Date	Suite or Site Count	Region(s)	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
December 20, 2010 [1]	9	Bowmanville and Grand Bend	$ 488	$ – [2]	[2]	[2]
July 29, 2010 [3]	307	Victoria	47,194	26,366 [4]	[4]	[4]
May 14, 2010	199	Mississauga	31,653	22,165	3.37%	June 1, 2015
April 12, 2010	162	Vancouver	38,425	22,652 [5]	4.59%	April 5, 2017
February 22, 2010 [6]	14	Bowmanville and Grand Bend	912	– [2]	[2]	[2]
	691		$ 118,672	$ 71,183		

(1) The December 20, 2010 manufactured home community ("MHC") land lease sites acquisition was comprised of seven sites in Bowmanville and two sites in Grand Bend.
(2) The acquisitions of MHC land lease sites are funded from CAPREIT's Land Lease Facility (see note 9(b)).
(3) The acquisition was comprised of two affordable, four mid-tier and two luxury properties.
(4) Comprised of new mortgage financing of $25,580 at 3.67% maturing December 1, 2020 and an assumed mortgage of $786 at a stated rate of 4.73% maturing on February 1, 2016.
(5) The mortgage was assumed from the vendor at acquisition.
(6) The February 22, 2010 MHC land lease sites acquisition was comprised of 13 sites in Bowmanville and one site in Grand Bend.

For the year ended December 31, 2009:

Acquisition Date	Suite or Site Count	Region(s)	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
August 14, 2009 [1]	14	Bowmanville and Grand Bend	$ 841	$ – [2]	[2]	[2]
February 10, 2009 [3]	10	Bowmanville and Grand Bend	548	– [2]	[2]	[2]
	24		$ 1,389	$ –		

(1) The August 14, 2009 MHC land lease sites acquisition was comprised of 11 sites in Bowmanville and three sites in Grand Bend.
(2) The acquisitions of MHC land lease sites are funded from CAPREIT's Land Lease Facility (see note 9(b)).
(3) The February 10, 2009 MHC land lease sites acquisition was comprised of eight sites in Bowmanville and two in Grand Bend.

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

	December 31, 2010	December 31, 2009
The consideration paid was funded through:		
New mortgages payable	$ 47,745	$ –
Assumed mortgages payable	23,438	–
Fair value adjustment on assumed mortgages payable	776	–
Bank indebtedness	46,713	1,389
	$ 118,672	$ 1,389
The allocation of consideration paid was as follows:		
Income properties		
Land	$ 34,412	$ 1,059
Buildings and improvements	83,279	330
Equipment	354	–
	118,045	1,389
Intangible assets		
Value of tenant in-place leases	724	–
Value of above market leases	24	–
	748	–
Intangible liabilities		
Value of below market leases	(121)	–
	$ 118,672	$ 1,389

Note 5 Income Properties

	December 31, 2010	December 31, 2009
Fee Simple Interest		
Land	$ 388,262	$ 353,850
Buildings and improvements		
Cost	1,784,560	1,637,583
Accumulated Depreciation	(331,825)	(272,133)
Net Book Value – Buildings and improvements	1,452,735	1,365,450
Net Book Value – Fee Simple Interest	1,840,997	1,719,300
Leasehold Interest		
Buildings and improvements		
Cost	488,234	475,610
Accumulated Depreciation	(108,853)	(90,426)
Net Book Value – Buildings and improvements	379,381	385,184
Options to purchase	10,830	10,830
Net Book Value – Leasehold Interest	390,211	396,014
Equipment		
Cost	57,017	48,906
Accumulated Depreciation	(20,366)	(15,459)
Net Book Value - Equipment	36,651	33,447
Total Cost	2,728,903	2,526,779
Total Accumulated Depreciation	(461,044)	(378,018)
Net Book Value - Income Properties	$ 2,267,859	$ 2,148,761

Leasehold interest – buildings and improvements represents 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, with the exception of underlying air rights payments in the case of one property, all rents were prepaid.

Leasehold interest – options to purchase represents 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. In the case of one of the properties, the purchase option entitles CAPREIT to acquire a prepaid operating leasehold interest in the property maturing in 2072.

Note 6 Sundry Assets

	December 31, 2010	December 31, 2009
Prepaid CMHC premiums – net of amortization of $6,680 (2009 – $5,843)	$ 30,834	$ 27,613
Prepaid expenses	2,406	2,765
Tenant inducements	606	509
Other receivables	6,301	4,771
Restricted cash	2,891	2,546
Deposits on purchases (a)	245	824
Deposits	660	633
Investments	34,388	28,739
Leasehold improvements – net of amortization of $613 (2009 – $530)	611	663
Other assets – net of amortization of $2,662 (2009 – $1,534)	1,679	1,754
Total	$ 80,621	$ 70,817

a) Under the terms of the development agreements entered into concurrently with the acquisition of MHC land lease sites on July 10, 2007, CAPREIT 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 CAPREIT. The Agreements are for a ten-year term and can be extended for an additional ten years.

Note 7 Intangible Assets and Liabilities

	December 31, 2010	December 31, 2009
Intangible assets		
Value of tenant in-place leases		
Cost	$ 15,653	$ 14,929
Accumulated amortization	(15,113)	(14,519)
Net Book Value	540	410
Value of tenant relationships		
Cost	1,571	1,571
Accumulated amortization	(1,536)	(1,497)
Net Book Value	35	74
Value of above market leases		
Cost	1,267	1,243
Accumulated amortization	(1,252)	(1,235)
Net Book Value	15	8
Total Cost	18,491	17,743
Total Accumulated amortization	(17,901)	(17,251)
Net Book Value – Intangible assets	$ 590	$ 492
Intangible liabilities		
Value of below market leases		
Cost	$ 2,029	$ 1,908
Accumulated amortization	(1,815)	(1,716)
Net Book Value – Intangible liabilities	$ 214	$ 192

Note 8 Mortgages Payable

Mortgages payable bear interest at a weighted average effective rate of 4.90% (December 31, 2009 – 5.15%), and mature between 2010 and 2027. The effective interest rate as at December 31, 2010 includes 0.08% (December 31, 2009 – 0.08%) for the amortization of the realized component of the loss on settlement of derivative financial instruments included in AOCL. All but $33,720 or 2.06% 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
2011	$ 279,493	17.1
2012	242,384	14.8
2013	203,041	12.4
2014	245,891	15.0
2015	136,947	8.4
Subsequent to 2015	530,640	32.3
	1,638,396	100.0
Deferred financing costs and fair value adjustments	(4,535)	
	$ 1,633,861	

As at December 31, 2010, unamortized deferred financing costs of $5,518 and fair value adjustments of ($983) are netted against mortgages payable.

Note 9 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, 2010, the Credit Facilities were renewed and amended as summarized below. As part of the renewal, certain aspects of covenants were amended and restated, as further discussed in note 23 – Capital Management. The terms governing the Credit Facilities also contemplate converting floating charge debentures on certain of CAPREIT's income properties, which have been pledged as security, into fixed charges.

a) Acquisition and Operating Facility

The maximum amount available is $270,000, comprising one facility for a three-year term maturing on June 30, 2013, 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 income properties have been provided as security, however, the current agreement provides for converting these floating charges into fixed charges. At December 31, 2010, the weighted average floating interest rate for amounts drawn under this credit facility is 3.95% (December 31, 2009 – 3.39%) and the borrowings outstanding were $38,000 (December 31, 2009 – $144,816). In addition, letters of credit in the amount of $9,687 (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 4 and 6) to fund operating, development and acquisition costs associated with the MHC land lease portfolio. The maximum amount of the facility is $10,000 for a one-year term maturing on June 30, 2011. Floating charge debentures on the MHC land lease properties have been provided as security, however, the current agreement provides for converting these floating charges into fixed charges. At December 31, 2010, the weighted average floating interest rate for amounts drawn under this facility is 4.17% (December 31, 2009 – 3.38%) and the borrowings outstanding were $1,358 (December 31, 2009 – $2,075). In addition, letters of credit in the amount of $84 (December 31, 2009 – $106) were outstanding, which reduce the maximum available under the facility.

Note 10 Future Income Taxes

Prior to June 22, 2007, no provision for income taxes was recorded in the consolidated financial statements. On June 22, 2007, amendments to the Tax Act were substantively enacted (as a result of tax legislation included in Bill C-52, the *Budget Implementation Act, 2007*), which modified the tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships ("SIFTs"). Under the SIFT Rules, a SIFT will generally be taxed in a manner similar to a corporation 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"), including a condition that the trust not exceed the Normal Growth Guidelines, are excluded from the SIFT definition and therefore will not be subject to taxation under the SIFT Rules. As CAPREIT did not meet the REIT Exception prior to December 31, 2009, a future income tax liability in the amount of $54,059 was recorded at December 31, 2009 based on the temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes. As at December 31, 2010, CAPREIT qualified for the REIT Exception and is therefore not subject to taxation as a SIFT. As a result, the non-cash future tax liability at December 31, 2009 was reversed at December 31, 2010. The change in the future income tax liability has been recorded as a recovery to the consolidated statements of income and comprehensive income in the amount of $51,355 for the year ended December 31, 2010 (December 31, 2009 – recovery of $9,568) and a recovery to other comprehensive income for $2,704 (December 31, 2009 – provision for $406) relating to the unrealized loss on derivative financial instruments and interest rate swap agreements. CAPREIT is not currently taxable and accordingly, no current income taxes have been recorded for 2010 and 2009.

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

	2010	2009
Current income taxes at Canadian statutory tax rate	$ –	$ –
(Recovery of) provision for future income taxes relating to OCI (note 13(b))	(2,704)	582
Recovery of future income taxes for changes in substantively enacted tax rates for OCI (note 13(b))	–	(176)
Recovery of future income taxes for changes in substantively enacted tax rates	–	(4,949)
Recovery of future income taxes related to timing differences that are expected to reverse [(1)]	(51,355)	(4,619)
Future income tax (recovery) expense	$ (54,059)	$ (9,162)

(1) Includes impact of acquisitions and dispositions (note 18).

The future income tax liability is as follows:

	2010	2009
Future income tax liability, beginning of year	$ 54,059	$ 63,221
Future income tax (recovery) expense relating to OCI (note 13(b))	(2,704)	406
Future income tax recovery [(1)]	(51,355)	(9,568)
Future income tax liability, end of year	$ –	$ 54,059

(1) Includes impact of acquisitions and dispositions (note 18).

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

	2010	2009
Net book value in excess of tax value of income properties	$ –	$ 47,960
Future income taxes relating to OCI (note 13(b))	–	2,704
Other	–	3,395
Future income tax liability, end of year	$ –	$ 54,059

The net differences between the carrying value for tax purposes and the financial statement carrying value of CAPREIT's assets and liabilities as at December 31, 2010 and 2009 were $199,080 and $209,986, respectively.

Note 11 Distributions

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

	2010	2009
Distributions declared (note 19(b))	$ 75,526	$ 73,805
Distributions Per Unit	$ 1.080	$ 1.080

Note 12 Per Unit Calculations

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

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

	2010	2009
Weighted average number of total Units or Unit Rights	69,663,550	68,341,787
Less:		
Weighted average LTIP Units	(1,655,922)	(1,508,187)
Weighted average SELTIP Units	(817,914)	(817,914)
Weighted average RURs	(59,614)	–
Weighted average number of basic Units	67,130,100	66,015,686

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

	2010	2009
Weighted average number of basic Units	67,130,100	66,015,686
Effect of dilutive Unit options, LTIP and SELTIP Units and RURs	439,977	106,102
Weighted average number of diluted Units or Unit Rights	67,570,077	66,121,788

Note 13 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, cancelled or granted during the period:				
New Units issued	7,626,855	–	–	7,626,855
Distribution Reinvestment Plan ("DRIP")	574,197	–	–	574,197
Unit Option Plan ("UOP")	74,200	–	–	74,200
Employee Unit Purchase Plan ("EUPP")	17,599	–	–	17,599
Long-Term Incentive Plan ("LTIP")	(53,740)	–	–	(53,740)
Deferred Unit Plan ("DUP"), net	–	–	13,479	13,479
Restricted Unit Rights ("RUR") Plan, net	–	–	72,887	72,887
Units or Unit Rights outstanding, December 31, 2010	76,614,009	411,311	146,990	77,172,310

	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	670,711	–	–	670,711
EUPP	17,085	–	–	17,085
LTIP	508,183	–	–	508,183
DUP	–	–	31,952	31,952
Units cancelled	(13,500)	–	–	(13,500)
Units or Unit Rights outstanding, December 31, 2009	68,374,898	411,311	60,624	68,846,833

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 UOP, 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 December 31, 2010 is 575,151 Units (December 31, 2009 – 853,376 Units).

a) New Units Issued

On December 10, 2010, CAPREIT issued 7,250,000 Units at $17.30 per Unit (the "Equity Offering") for aggregate gross proceeds of $125,425. On December 23, 2010, CAPREIT issued 350,000 Units at $17.30 under an over-allotment option granted in connection with the Equity Offering, for aggregate proceeds of $6,055. The net proceeds of both issuances after Underwriters' fees and issue costs were $125,321.

On June 21, 2010, 25,585 Units were issued at $15.16 for a value of $388 (net of $118 withholding taxes) and on July 14, 2010, 1,270 Units were issued at $15.63 for a value of $20 (net of $2 withholding taxes) pursuant to the terms of the DUP.

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

	2010	2009
AOCL balance, beginning of year	$ (22,354)	$ (38,400)
Other comprehensive income:		
Amortization of AOCL to mortgage interest or gain on disposal of assets [(1)]	1,272	592
Gain on interest rate swap agreements	1,905	1,622
Recovery of (Provision for) future income taxes (note 10)	2,704	(406)
Loss on natural gas derivatives	(141)	–
Loss on amounts designated as cash flow hedges settled in prior years and transferred to mortgage interest expense	(120)	(231)
Unrealized gain on the change in fair value of investments	5,649	14,469
Other comprehensive income	11,269	16,046
AOCL balance, end of year	$ (11,085)	$ (22,354)

	2010	2009
AOCL comprised of:		
Loss on derivative financial instruments [(1)]		
Cumulative realized loss	$ (9,908)	$ (9,908)
Accumulated amortization to mortgage interest	1,864	592
Loss on interest rate swap agreements	(3,687)	(5,592)
Provision for future income taxes (note 10)	–	(2,704)
Loss on natural gas hedge	(141)	–
Unamortized balance of loss on amounts designated as cash flow hedges settled in prior years	(89)	31
Unrealized gain (loss) on the change in fair value of investments	876	(4,773)
AOCL balance, end of year	$ (11,085)	$ (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 income and comprehensive income over periods ending in December 2014 to September 2022, being the original terms of the hedged contracts. The estimated amount of the amortization that is expected to be reclassified to net income from AOCL in the next 12 months is $1,071. For the year ended December 31, 2010, $1,096 was amortized to mortgage interest expense and $176 was amortized to gain on sale of assets.

c) 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.

d) Unit Option Plan ("UOP")

Under the terms of the UOP, 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. In February 2010, the President and CEO's employment agreement was amended to provide that during his term, the President and CEO is to be awarded options to acquire three percent (3%) of the number of Units issued by the Trust pursuant to any equity offering or acquisition transaction (not including pursuant to any compensation arrangements) at the market price of the Units at the time of completion of each such treasury issuance, in accordance with the terms of the UOP, as amended from time to time. In connection with the Equity Offering, on December 10, 2010, 217,500 options were granted to the President and CEO at an exercise price of $17.30 with an expiration date of December 9, 2020. In connection with the exercise of the over-allotment option, on December 23, 2010, 10,500 options were granted to the President and CEO at an exercise price of $17.30 with an expiration date of December 22, 2020. The fair value compensation cost of $235 for these options has been expensed to trust expenses in the consolidated statement of income and comprehensive income. There were no options granted during 2009.

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

	December 31, 2010		December 31, 2009	
	Number of Units	Weighted Avg. Exercise Price	Number of Units	Weighted Avg. Exercise Price
Options outstanding, beginning of year	387,200	$ 13.42	387,200	$ 13.42
Options granted	228,000	17.30	–	–
Options exercised	(74,200)	12.35	–	–
Options outstanding, end of year	541,000	$ 15.20	387,200	$ 13.42

The following Unit Option Plan grants are outstanding:

Exercise Price	Expiry Date	December 31, 2010 Number of Units	December 31, 2009 Number of Units
$ 11.85	December 17, 2010	–	57,700
$ 14.10	November 14, 2011	134,500	151,000
$ 13.73	April 4, 2012	40,000	40,000
$ 13.25	November 17, 2012	138,500	138,500
$ 17.30	December 9, 2020	217,500	–
$ 17.30	December 22, 2020	10,500	–
		541,000	387,200

e) Employee Unit Purchase Plan ("EUPP")

The EUPP grants employees the right to receive an additional amount equal to 10% of the Units they acquire, paid in the form of additional Units. This additional amount is expensed as compensation upon issuance of the Units. The amount expensed for the years ended December 31, 2010 and December 31, 2009 was $25 and $21, respectively.

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. During the year ended December 31, 2010, 53,740 Units previously issued to former trustees were cancelled at a value of $901 to settle instalment receipts owing on such Units.

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

Number of Units	2010	2009
Balance, beginning of year	1,672,927	1,164,744
Issued during the year	–	508,183
Cancelled during the year	(53,740)	–
Balance, end of year	1,619,187	1,672,927
Value of LTIP Units granted during the year	$ –	$ 6,578
Value of LTIP Units cancelled during the year	$ (901)	$ –

The details of the LTIP Instalment Receipts are shown below:

Instalment Receipts	2010	2009
Balance, beginning of year	$ 23,103	$ 17,458
Amounts granted, net of initial instalment of $nil (2009 – $329)	–	6,249
Principal repayments during the year	(845)	(604)
Settlement of LTIP Units cancelled during the year	(901)	–
Balance, end of year	$ 21,357	$ 23,103

The Instalment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the years ended December 31, 2010 and 2009, interest payments in the amount of $1,050 and $1,005, respectively 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 income and comprehensive income with a corresponding amount included in Unitholders' Equity in cumulative capital.

				Year Ended December 31,	
Date Issued	Number of Units	Issue Price	Fair Value of Units Granted	2010	2009
November 19, 2009	100,683	$ 13.61	$ 173	$ 58	$ 7
March 10, 2009	407,500	$ 12.78	$ 694	210	273
February 29, 2008	380,000	$ 16.10	$ 960	291	349
August 21, 2007	190,000	$ 17.73	$ 480	–	160
March 2, 2007	377,000	$ 20.90	$ 1,260	–	141
				$ 559	$ 930

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

Grant Date	Risk-free interest rate	Expected lives (years)	Expected volatility	Distribution 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:

Number of Units	2010	2009
Balance, beginning of year	817,914	817,914
Issued during the year	–	–
Balance, end of year	817,914	817,914

The details of the SELTIP Instalment Receipts are shown below:

Instalment Receipts	2010	2009
Balance, beginning of year	$ 12,835	$ 13,075
Principal repayments during the year	(252)	(240)
Balance, end of year	$ 12,583	$ 12,835

The Instalment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the years ended December 31, 2010 and 2009, interest payments in the amount of $631 and $642, respectively, 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 years ended December 31, 2010 and 2009 were $nil and $465, respectively.

h) Costs related to accelerated vesting of LTIP and SELTIP

For the years ended December 31, 2010 and 2009, Unitholders' Equity includes $nil and $122 related to the accelerated vesting of LTIP and SELTIP Units previously awarded to the former Chief Financial Officer (note 3).

i) 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 the 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 ("Distribution Units"). The Deferred Units and Distribution 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 years ended December 31, 2010 and 2009, total compensation costs of $685 and $436, respectively, were expensed in relation to the new awards under the DUP.

On June 21, 2010, in accordance with the DUP, three retiring trustees withdrew 25,585 Deferred Units from the DUP and were issued an equivalent number of Trust Units. In addition, 7,840 Deferred Units were cancelled in consideration for the withholding taxes owed on the Units issued.

On July 14, 2010, in accordance with the DUP, one retired trustee withdrew 1,270 Deferred Units from the DUP and was issued an equivalent number of Trust Units. In addition, 152 Deferred Units were cancelled in consideration for the withholding taxes owed on the Units issued.

The details of the Units issued under the DUP are as follows:

		2010		2009
Units outstanding, beginning of year		60,624		28,672
Weighted Average Price	$	15.03	$	16.59
Units granted during the year		43,819		28,631
Weighted Average Price	$	15.62	$	13.62
Distribution Units during the year		4,507		3,321
Weighted Average Price	$	15.53	$	13.81
Units withdrawn or cancelled during the year		(34,847)		–
Weighted Average Price	$	15.18	$	–
Units outstanding, end of year		74,103		60,624
Weighted Average Price	$	15.34	$	15.03

j) Restricted Unit 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.The RUR Plan was approved by Unitholders 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.

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 Participants. The Distribution RURs are credited to the Participants only when the underlying RURs upon which the Distribution RURs are earned become vested.

Effective February 24, 2010, 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 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. On October 8, 2010, 743 RURs were cancelled at a fair value of $10. During the years ended December 31, 2010 and 2009, total net compensation costs of $273 and $nil, respectively, were expensed in relation to awards granted under the RUR Plan.

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

		2010		2009
Rights outstanding, beginning of year		–		–
Weighted Average Price	$	–	$	–
Rights granted during the year		69,552		–
Weighted Average Price	$	13.97	$	–
Distribution RURs during the year		4,078		–
Weighted Average Price	$	15.85	$	–
Rights cancelled during the year		(743)		–
Weighted Average Price	$	14.04	$	–
Rights outstanding, end of year		72,887		–
Weighted Average Price	$	14.07	$	–

k) Units Cancelled

During the years ended December 31, 2010 and 2009, nil Units and 13,500 Units, respectively were acquired for cancellation pursuant to a normal course issuer bid, at market prices aggregating $nil and $169, respectively.

Note 14 Depreciation

	2010	2009
Depreciation	$ 83,999	$ 78,648
Depreciation included in discontinued operations (note 18)	(1,234)	(2,396)
	$ 82,765	$ 76,252

Note 15 Amortization

	2010	2009
Amortization of other financing costs and CMHC premiums	$ 3,160	$ 2,169
Amortization of leasehold improvements	83	84
Amortization of tenant improvements	261	294
Amortization of intangible assets	633	981
	$ 4,137	$ 3,528
Amortization included in discontinued operations (note 18)	(14)	(25)
	$ 4,123	$ 3,503

Note 16 Severence and Other Employee Termination Costs

In the years ended December 31, 2010 and 2009, $736 and $nil, respectively, of severence and other employee costs were incurred.

Note 17 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 in 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 are recognized in the consolidated statements of income and comprehensive income. For the years ended December 31, 2010 and 2009, the realized gain for the contracts settled of $nil and $4,063, respectively, was recognized in the consolidated statements of income and comprehensive income. These settlements also resulted in the realization of a previously accumulated unrealized loss of $nil and $27,535, respectively, for the years ended December 31, 2010 and 2009 and a cumulative realized loss and cash payment of $23,472 on these contracts as at December 31, 2009. 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 years ended December 31, 2010 and 2009, $1,096 and $592, respectively, was amortized from AOCL to mortgage interest expense and $176 and $nil, respectively, was amortized to gain on sale of assets.

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

	2010	2009
Opening cumulative unrealized loss, beginning of the year	$ –	$ (27,535)
Realized gain included in net income	–	4,063
Settlement of losses on derivative financial instruments	–	23,472
Closing cumulative unrealized loss, end of the year	$ –	$ –

b) Contracts for which hedge accounting is being applied

As at December 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 years ended December 31, 2010 and 2009, an unrealized gain of $1,905 and $1,622, respectively, has been included in OCI (note 13(b)). In addition, for the years ended December 31, 2010 and 2009, an unrealized loss of $174 and an unrealized gain of $742, respectively, has been recognized in the consolidated statements of income and comprehensive income for the ineffective portion of the interest rate swap agreement. The mark-to-market cumulative unrealized loss of $3,119 and $4,850 is included in AOCL and has been set up in accounts payable and other liabilities as at December 31, 2010 and December 31, 2009, respectively.

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

	2010	2009
Opening cumulative unrealized loss, beginning of the year	$ (4,850)	$ (7,214)
Unrealized gain included in OCI	1,905	1,622
Unrealized (loss) gain included in net income	(174)	742
Closing cumulative unrealized loss, end of the year	$ (3,119)	$ (4,850)

c) Natural gas contracts

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 24) 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 income on an ongoing basis. As at December 31, 2010, a mark-to-market unrealized loss of $3,567 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 $1,360 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 years ended December 31, 2010 and 2009, the inherent net loss of $4,497 and $nil, respectively, has been crystallized and has been included in the consolidated statements of income and comprehensive income.

During the last half of 2010, through the use of floating-to-fixed derivative financial instruments, CAPREIT hedged a significant portion of its variable rate natural gas commitments (see note 24), which will be marked-to-market through OCI on an ongoing basis. As at December 31, 2010, a mark-to-market unrealized loss of $141 on the floating-to-fixed derivative financial instruments has been recorded in accounts payable and other liabilities.

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

	2010	2009
Unrealized loss included in net loss on natural gas contracts	$ (6,825)	$ –
Unrealized gain included in net loss on natural gas contracts	2,328	–
Net loss on natural gas contracts included in net income during the year	(4,497)	–
Net realized loss relating to supply arrangements for the year	2,290	–
Cumulative unrealized net loss included in net income, end of the year	(2,207)	–
Net loss on natural gas contracts included in OCI	(141)	–
Closing cumulative unrealized net loss, end of the year	$ (2,348)	$ –

	2010	2009
Unrealized gain included in sundry assets	$ 1,360	$ –
Unrealized loss included in accounts payable and accrued liabilities (1)	(3,708)	–
Closing cumulative unrealized net loss, end of the year	$ (2,348)	$ –

(1) Includes the mark-to-market unrealized loss of $3,567 on the floating-to-fixed derivative financial instrument for which hedge accounting is not being applied and the $141 unrealized loss on the mark-to-market unrealized loss on the floating-to-fixed derivative financial instrument for which hedge accounting is being applied.

Note 18 Discontinued Operations and Assets and Liabilities Held-for-sale

For the year ended December 31, 2010, CAPREIT completed the following dispositions:

Disposition Date	Suite or Site Count	Region(s)	Sales Price	Cash Proceeds	Mortgage(s) Repaid
November 24, 2010	56	Toronto	$ 6,430	$ 6,042	$ –
July 29, 2010	570	Mississauga and Kitchener	45,900	42,232	20,106
July 5, 2010	146	London	7,600	7,116	5,650
June 9, 2010	250	Montréal	11,750	10,568	4,014
June 3, 2010	88	Montréal	3,000	2,831	1,926
	1,110		$ 74,680	$ 68,789	$ 31,696

A gain of $11,688 was recognized in the year ended December 31, 2010 in connection with these property dispositions. The results of operations of these properties have been reclassified as discontinued operations:

	2010	2009
Operating revenues	$ 5,558	$ 9,873
Operating expenses	2,916	5,381
Depreciation	1,234	2,396
Amortization	14	25
Mortgage interest	857	1,629
Interest on bank indebtedness	202	185
Income from discontinued operations	335	257
Recovery of future income taxes	926	448
Gain on sale of assets	11,688	–
Income from discontinued operations	$ 12,949	$ 705

The following are the assets and liabilities of the properties classified as held-for-sale:

	2010	2009
Assets		
Income properties	$ –	$ 59,045
Sundry assets	–	664
	$ –	$ 59,709
Liabilities		
Mortgages payable	$ –	$ 32,600
Accounts payable and other liabilities	–	1,591
Security deposits	–	557
Future income tax liability	–	926
	$ –	$ 35,674

Note 19 Supplemental Cash Flow Information

a) Changes in non-cash operating assets and liabilities

	2010	2009
Prepaid CMHC premiums	$ (5,253)	$ (9,724)
Prepaid expenses	359	52
Tenant inducements	(97)	(328)
Other receivables	(30)	(30)
Other assets	(1,053)	(1,561)
Deposits on purchases	579	695
Deposits	(27)	(21)
Leasehold improvements	(31)	35
Accounts payable and other liabilities	(1,457)	1,244
Security deposits	1,160	(228)
	$ (5,850)	$ (9,866)

b) Net cash distributions to Unitholders

	2010	2009
Distributions declared to Unitholders	$ (75,526)	$ (73,805)
Add: Distributions payable at beginning of year	(6,191)	(6,084)
Less: Distributions payable at end of year	6,932	6,191
Less: Distributions to participants in the DRIP	8,544	8,583
Less: Distributions to participants in the DUP and RUR	190	–
Less: Distributions to participants in the LTIP and SELTIP	2,663	2,820
	$ (63,388)	$ (62,295)

c) Mortgages and loans

	2010	2009
Interest paid	$ (82,858)	$ (78,301)

d) Capital investments

	2010	2009
Capital investments	$ (84,350)	$ (92,414)
Change in accounts payable and other liabilities	5,991	5,731
	$ (78,359)	$ (86,683)

e) Acquisition of income properties

	2010	2009
Acquired properties (note 4)	$ (118,672)	$ (1,389)
Fair value adjustment of assumed debt (note 4)	776	–
Assumed debt (note 4)	23,438	–
Net disbursement	$ (94,458)	$ (1,389)

f) Disposition of income properties

	2010	2009
Proceeds	$ 74,680	$ –
Closing costs	(5,891)	–
Net proceeds	$ 68,789	$ –

Note 20 Co-ownerships

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

	2010	2009
Assets	$ 83,429	$ 84,484
Liabilities	70,051	71,358
Revenues	14,083	13,744
Expenses	12,333	12,264
Net Income	1,750	1,480
Cash Provided By (Used In):		
Operating Activities	$ 4,544	$ 3,576
Financing Activities	$ (3,231)	$ (447)
Investing Activities	$ (1,760)	$ (1,195)

Note 21 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 years ended December 31, 2010 and 2009 (excluding HST/GST) amounted to $1,464 and $1,580, respectively, and have been capitalized to income properties. At December 31, 2010, there were construction management fees outstanding of $72 (December 31, 2009 – $72) 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 years ended December 31, 2010 and 2009 was $730 and $653, respectively, including property operating costs and has been expensed as trust expenses. The lease agreement expires on October 31, 2014. Minimum annual rental payments for the next four years are as follows:

Year	Annual Rent
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 former trustees and officers. The total fees paid for the years ended December 31, 2010 and 2009 (excluding HST/GST) were $nil and $21, respectively, and have been expensed as trust expenses. At December 31, 2010 and 2009, there were no consulting fees outstanding in accounts payable and other liabilities.

Note 22 Financial Instruments

a) Fair value of financial instruments

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

At December 31, 2010, the fair value of CAPREIT's mortgages payable (excluding mortgages on assets held-for-sale) is estimated to be $1,705,000 (December 31, 2009 – $1,568,000). The fair value of the mortgages payable are 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 December 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 inputs	Total
Assets				
Cash and cash equivalents	$ 4,350	$ –	$ –	$ 4,350
Restricted cash	2,891 (1)	–	–	2,891
Investments	34,388 (2)	–	–	34,388
Derivative financial instruments – utilities	–	1,360 (5)	–	1,360
Liabilities				
Derivative financial instruments – interest	–	3,119 (4)	–	3,119
Derivative financial instruments – utilities	10 (3)	3,708 (5)	–	3,718
Total	$ 41,639 (4)	$ 8,187	$ –	$ 49,826

(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 December 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 years ended December 31, 2010 and 2009, a 100 basis point change in interest rates would have the following effect:

	Change in interest rates (basis points)	Increase (decrease) in net income		Increase (decrease) in OCI	
		2010	2009	2010	2009
Floating rate debt	+100	$ (1,699)	$ (1,372)	$ –	$ –
Floating rate debt	-100	$ 1,699	$ 1,372	$ –	$ –
Interest rate swap agreements	+100	$ –	$ –	$ 963	$ 1,379
Interest rate swap agreements	-100	$ –	$ –	$ (978)	$ (253)

CAPREIT's objective of managing interest rate risk is to minimize the volatility of earnings. As at December 31, 2010, interest rate risk has been minimized as all but $33,720 or 2.06% 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 95.5% 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 December 31, 2010, CAPREIT had undrawn lines of credit in the amount of $223,545 (2009 – $94,369).

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

($ Thousands)	2011	2012 – 2013	2014 – 2015	2016 onward
Mortgages payable	$ 279,493	$ 445,425	$ 382,838	$ 530,640
Bank indebtedness	1,358	38,000	–	–
Mortgage interest (1)	68,300	102,534	62,744	82,176
Bank indebtedness interest (1)	1,529	2,243	–	–
Accounts payable and accrued liabilities	57,103	877	–	–
Security deposits	19,227	–	–	–
Distributions payable	6,932	–	–	–
	$ 433,942	$ 589,079	$ 445,582	$ 612,816

(1) Based on interest rates as at December 31, 2010.

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 income and comprehensive income. Subsequent recoveries of amounts previously written off are credited in the consolidated statements of income and comprehensive income. Accordingly, no allowance for doubtful accounts is established.

Note 23 Capital Management

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

CAPREIT's Credit Facilities (note 9) require compliance with certain financial covenants. 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, the LBA and the Credit Facilities. The covenants were amended effective June 30, 2010 to incorporate changes made under the renewal of the Credit Facilities as discussed in note 9 – Bank Indebtedness.

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

($ Thousands)		2010	2009 (1)
Mortgages payable (note 8)		$ 1,633,861	$ 1,545,315
Bank indebtedness (note 9)		39,358	146,891
Unitholders' equity		595,848	457,184
Total capital		$ 2,269,067	$ 2,149,390
	Threshold		
Total debt to gross book value (2)	Maximum 70.00%	58.87%	62.75%
Tangible net worth (3)	Minimum $700,000 (4)	$ 1,072,978	$ 511,243
		2010	**2009 (1)**
Debt service coverage ratio (times) (5)	Minimum 1.20	1.35	1.28
Adjusted debt service coverage ratio (times) (6)	Minimum 1.20	1.42	1.37
Interest coverage ratio (times) (7)	Minimum 1.50	2.12	2.06

(1) Includes discontinued operations.

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

(3) Tangible net worth is generally represented by Unitholders' Equity and is defined as the sum of: i) Units issued; ii) contributed surplus; and iii) retained earnings after adding back the provision for future income taxes payable to a maximum limit of $100,000. Effective June 30, 2010, this definition includes the sum of accumulated depreciation and amortization and, to a maximum of $50,000, deferred taxes payable on any capital stock-based investment transactions.

(4) Effective June 30, 2010 (December 31, 2009 – $400,000).

(5) Debt service 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.

(6) Adjusted debt service coverage ratio is defined as residential portfolio operating revenues less operating expenses divided by principal and interest payments.

(7) 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.

Note 24 Commitments

Natural gas and hydro

Through the combination of fixed and variable price contracts, CAPREIT is committed as at December 31, 2010, in the aggregate amount of $9,726 for its natural gas and $105 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 natural 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 7.36% or $716 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 22).

During the third quarter of 2010, through the use of floating-to-fixed derivative financial instruments with a Canadian chartered bank, CAPREIT hedged a significant portion of its variable rate natural gas commitments for the period of November 2010 through March 2011 ("Winter 2011") into fixed rate commitments and elected to use hedge accounting. Rates for Winter 2011 have been fixed at $4.32 per gigajoule for 2,700 gigajoules per day.

During the fourth quarter of 2010, CAPREIT entered into a second floating-to-fixed derivative financial instrument with a Canadian chartered bank, hedging a portion of its variable rate natural gas commitments for Winter 2011 into fixed rate commitments and elected to use hedge accounting. Rates for Winter 2011 have been fixed at $3.58 per gigajoule for 500 gigajoules per day.

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 $105 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. During the years ended December 31, 2010 and 2009, total expenses under these three leases were $2,336 and $2,029, respectively.

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 during the years ended December 31, 2010 and 2009 were $19 and $27, respectively.

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
2011	$	1,290
2012	$	1,290
2013	$	1,287
2014	$	1,274
2015	$	1,273
Thereafter	$	43,965

Normal course issuer bid ("NCIB")

On June 22, 2010, CAPREIT announced that the TSX had approved its notice of intention to acquire up to 6,425,179 Units at market prices over the 12-month period ending June 24, 2011. Under this NCIB, no Units were acquired up to December 31, 2010.

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.

On June 20, 2008, CAPREIT announced that the TSX had approved its notice of intention to acquire up to 6,309,967 Units at market prices over the 12-month period ending June 24, 2009. Under this NCIB, 264,100 Units were acquired up to June 30, 2009 at market prices aggregating $3,908.

Property capital investments

Commitments primarily related to capital investments in income properties of $13,624 were outstanding as at December 31, 2010 (2009 – $3,719). In addition, under the terms of residential mortgage financing arrangements, CAPREIT is obligated to incur minimum levels of property capital investments and repairs and maintenance costs on its income properties.

Note 25 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.

Note 26 Subsequent Event

On January 31, 2011, CAPREIT completed the acquisition of an 83-suite mid-tier townhome complex located in Burlington, Ontario. The purchase price of approximately $8,875, excluding closing and transaction costs, was funded by mortgage financings in the amount of $6,818 at 4.26% for a 10-year term maturing on March 1, 2021 and the balance from the Acquisition and Operating facility.

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LEGAL COUNSEL

Stikeman Elliott LLP

STOCK EXCHANGE LISTING

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

MONTHLY DISTRIBUTION PER UNIT

January 2010 – December 2010: $0.09

ANNUAL MEETING OF UNITHOLDERS

The Annual Meeting of Unitholders will be held at 4:30 p.m. EDT on Wednesday, May 18, 2011 at
1 King West Hotel
1 King Street West
Toronto, Ontario M5H 1A1