



# **Northern Property**

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Real Estate Investment Trust

**2009**  
ANNUAL REPORT

**NPR.UN**

## Corporate Profile

Northern Property Real Estate Investment Trust owns and operates rental real estate in secondary markets in Canada. We have significant multi-family residential real estate investments in Alberta, a growing position in British Columbia and are the largest multi-family residential landlord in each of the Northwest Territories, Nunavut and the Province of Newfoundland and Labrador. NPR's income producing portfolio is primarily residential including multi-family apartment rental units, furnished executives and master leased seniors' buildings. We also have a portfolio of commercial buildings focused on government tenancies predominantly located in Canada's far north.

## Geographically Diversified

NPR works in five diverse regions of Canada: Nunavut, the Northwest Territories, Newfoundland, Alberta and British Columbia. We focus on acquiring property in regions that are naturally wealthy or have the potential of becoming so. We are engaged in northern areas where growth rates are generally higher and competition more restrained than in the metropolitan areas.

## Mainly Residential/Government Focus

Our primary business is providing rental residential property to Canadians in these carefully selected communities. Our definition of housing is broad. We own and operate rental apartments and town homes. We are a significant provider of housing to government and corporations, which sublet our units to their staff. We provide furnished executive-suite accommodation in selected locations. The REIT also owns and leases residential buildings and lands to companies which are in the business of providing accommodation and care services to seniors.

In addition NPR has a portfolio of commercial properties primarily located in its northern communities. Our commercial property most often involves government or corporate covenants and longer-term leases.

## Exposure to Canada's Natural Resource Economy

NPR's cities and towns are multi-faceted economically and often have an important natural resource component. Our properties are in communities which have leadership positions in oil, natural gas, diamonds, forestry products or agriculture. The communities in which we invest are filled with people who produce the commodities for which Canada is famous. NPR embraces the great Canadian resource economy.

## Conservatively Managed

The Trust operates on a financially prudent basis. The debt to gross book value ratio was 57.7 percent at year-end 2009. The 2009 payout ratio was 68.3 percent of distributable income.

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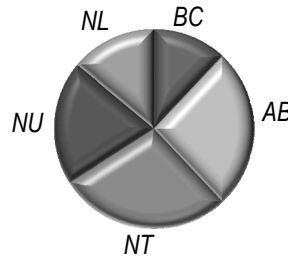
# Our Results

	2009	2008
Total revenue (\$000s)	134,232	127,759
Net operating income	86,793	84,305
Assets (\$000s)	888,367	872,922
Distributable income*	54,336	52,139
Distributable income per unit*	\$2.17	\$2.08
Distributions per unit	\$1.48	\$1.48
Payout ratio	68.3%	71.0%
Number of residential units at December 31	8,143	7,807
Total commercial square feet at December 31	901,959	907,509

\*Please refer to non-GAAP Financial Measures on page 6.

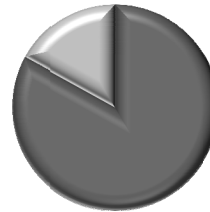
## REVENUES BY AREA

- BC .....12%
- Alberta.....26%
- NWT.....28%
- Nunavut.....20%
- Nfld .....14%

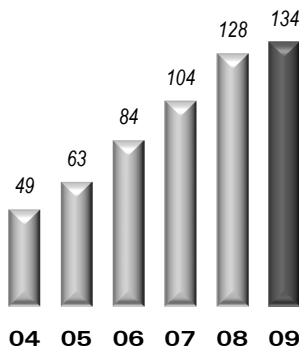


## REVENUE BY PROPERTY TYPE

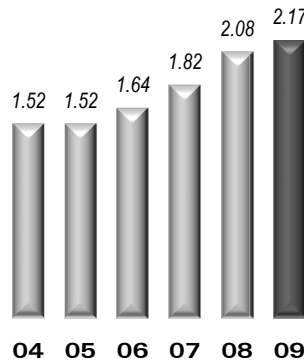
- Residential .....83%
- Commercial .....17%



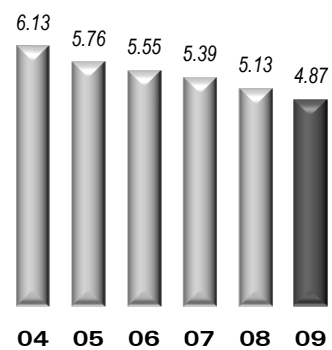
## REVENUES (\$mm)



## DISTRIBUTABLE INCOME PER UNIT (\$)



## AVERAGE INTEREST RATE (%)



# Letter to Unitholders

Dear Fellow Unitholders:

I am pleased to provide these comments respecting NPR's 2009 operations and financial results together with some thoughts about what the future may hold for our business.

## 2009 IN REVIEW

As 2009 began, Northern Property management was apprehensive about our prospects for the year. 2007 had seen the arrival of the subprime crisis, the credit crunch and a shaky economy beginning to emerge in the U.S. In the summer of 2008 oil prices began to decline rapidly as the economy took a decided turn for the worst. Stock values evaporated, commercial credit virtually disappeared and government agencies were scrambling to prop up what had become a desperate economic situation. Yet throughout 2008 Northern Property's business held fast. Apartment occupancy remained robust, rent increases were common and there was very little sign of malaise in our markets. This seemed too good to last...and it was.

In January 2009 business conditions began to decline for the REIT. It became clear that the collapse in oil prices would have an important impact on the economies in Western Canada. In January, fewer workers returned to the oil patch as the projects which had been underway were completed. Planned expansions and new oil sands and heavy oil projects were simply stopped in their tracks. Traffic in our natural gas levered areas in Northern BC was slower than normal. Vacancy in Yellowknife, a government City, with an ordinarily flourishing diamond industry increased from 3 to 7%. Our furnished executives business in Yellowknife and Inuvik declined as mineral and oil and gas activity settled to new lows.

Between January and August of 2009, NPR's total apartment vacancy increased every month, peaking at 806 vacant doors in August. Notwithstanding this negative change in business fundamentals, the REIT did pretty well financially in 2009 especially early in the year. As the oil and gas based Alberta economy was melting down, NPR experienced strong rental market conditions in its Eastern regions of Newfoundland and Nunavut. Both jurisdictions to some degree benefited from the difficulties in the West. Oil patch workers returned in number to Newfoundland where they occupied apartments, bought vehicles, purchased houses and otherwise contributed to a newly prosperous Newfoundland economy. The Nunavut Government which had experienced difficulty hiring skilled personnel in the south during the boom years suddenly was able to find candidates willing to move to the far North. Our apartment portfolios in both Nunavut and Newfoundland performed strongly throughout 2009. The low price of heating oil helped our bottom line in Yellowknife, Inuvik, Iqaluit and in the Nunavut Hamlets. At a time when commercial real estate companies had difficulty refinancing their properties, CMHC insured mortgages remained available in abundance at historically low rates. We tightened our belts relative to executive compensation. These cost savings contributed to our bottom line.

NPR's financial results for the first half of 2009 were surprisingly good in the face of a frightening economy and deteriorating business conditions.

In Q3 NPR management resolved to ramp up our apartment capex investment especially in the oil producing areas of Alberta. In Fort McMurray and Lloydminster, during the boom years it had been very difficult to keep buildings in the condition that Northern Property and its tenants expect. As apartments became vacant for the first time in years, with workers and sub-trades suddenly available because of the recession conditions, NPR set about the business of making our northern Alberta apartment buildings "Best in Class". A small army of workers renovated apartments, redecorated common areas, constructed security fencing, and carried out deferred maintenance tasks which had been impossible to do in the years of labour shortages and 'back to back' month end apartment turns. Our capex investment in the last half of 2009 was twice the normal. This explosion of investment in our buildings coupled with high vacancy did finally result in a decline in our financial performance in Q3 and Q4.

## WHERE WE ARE TODAY

I think it is important for REIT unitholders to step back and examine where the REIT is today, at the end of what has been described as the worst economic decline since the Great Depression. NPR weathered this economic catastrophe considerably better than most other REIT's. Why?

First, NPR is mainly invested in apartments. While the apartment business is certainly subject to the prevailing economic winds, it does not implode when recessionary conditions present. Our apartment vacancy increased from 6.8% in January to 12.9% at its worst in August. A change of that type represents a decline in NOI and unitholder value but certainly not destruction.

Second, NPR management and its Board of Trustees, since inception have believed in running a conservative fiscal ship. We have one of the lowest payout ratios in the rental real estate industry, the lowest debt to gross book value in the apartment asset class, and the best EBITA/interest coverage ratio. In boom times, NPR has occasionally been subject to some mild criticism for maintaining these conservative operating metrics. But in troubled times, having a conservative financial ethos is a strength. So while NPR's unit price declined somewhat during the peak of the recession, the rate of decline was much less than REITs with higher leverage and payout ratios. Northern Property was not in a position where it felt the need to "de-lever" – carry out an equity offering – as many others did during 2009. Our balance sheet very well withstood 2009 without a dilutive equity raise. NPR raises equity when we have real estate to buy, not to defend our balance sheet.

Late in 2009, NPR's apartment business began to improve. Every month between September and December of 2009, apartment occupancy began to build. This trend has continued to the present time.

Northern Property was able to exit 2009 with management feeling that business conditions were improving and that the bottom had been reached financially. Our business is doing much better with the Northwest Territories returned to its pre-recession state, Nunavut and Newfoundland doing exceptionally well, Northern BC being surprisingly steady given the importance of natural gas in its economy and the oil producing areas of Alberta showing strong signs of recovery. Our one area of weakness, a weakness we expect to continue for a few years, is in the natural gas levered city of Grande Prairie.

## LOOKING AHEAD

We started the year with the achievement of an important milestone. With the payment of the monthly distribution for January 2010, NPR unitholders that invested in our IPO in May of 2002 at \$10.00 per unit had received a full \$10.00 in distributions.

Apartment occupancy is continuing to build. NPR is beginning to seek out apartment investment and development opportunities once again. Our experience in 2009 has taught us that apartments are the most reliable real estate asset class. Most of our growth going forward will be in the further accumulation of apartment real estate.

I have been personally surprised that apartment acquisition prices after the recession, instead of declining, are at least at the levels they were prior to the recession. This will make a negotiation with apartment owners difficult as there is a price beyond which NPR is simply not prepared to pay.

In 2010 we seek to further diversify ourselves geographically. 2009 has illustrated the merits of not having all of one's eggs in a single basket. We operate in five geographic regions presently. Finding a sixth region in which to buy apartments is an important objective for Northern Property.

NPR intends to observe its financially conservative operating metrics in the year ahead. We can never be certain that the economic disruption that we have just experienced is truly behind us. Most economists are suggesting that interest rates will rise. As a result we are extending term in our financing where possible, and we will keep our debt as low as possible to lessen our exposure to interest costs should rates rise materially.

We are aware that real estate performance tends to lag the general economy. Our commercial, seniors and government tenants have all delivered positive results for us in the last couple of years. Will the weak economy of 2009 and the fiscal readjustments in 2010 affect these businesses of Northern Property? We cannot know the answer to this, but we will remain careful and vigilant. Significant expansion for NPR in commercial, industrial and seniors real estate is not very likely in the next few years because of these risks.

So we have entered 2010 in decidedly better spirits than those of a year ago. However, our optimism will be tempered with great caution as we move ahead.

Respectfully submitted,



B. James Britton,  
*President and Chief Executive Officer*

March 22, 2010

# Management's Discussion and Analysis

Management's Discussion and Analysis of financial conditions and results of operations should be read in conjunction with Northern Property Real Estate Investment Trusts ("NPR" or the "REIT") audited consolidated financial statements for the years ended December 31, 2009 and 2008.

Certain information contained in Management's Discussion and Analysis contains forward looking statements relating to the business and financial outlook of NPR. These forward looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from future results expressed, projected or implied by such forward looking statements. These forward looking statements are made as of March 17, 2010 and are based on information available to management as of that date. NPR assumes no obligation to update or revise them to reflect new events or circumstances that may arise after March 17, 2010, except as required by law.

## Portfolio Summary - December 31, 2009

	Multi-family	Execusuites	Seniors'	Total Residential (units)	Commercial (sq ft)
British Columbia	1,372	-	214	1,586	124,417
Northwest Territories	1,155	141	-	1,296	537,219
Alberta *	1,787	-	746	2,533	77,755
Nunavut	741	39	-	780	145,538
Newfoundland	1,268	140	540	1,948	17,030
<b>Total</b>	<b>6,323</b>	<b>320</b>	<b>1,500</b>	<b>8,143</b>	<b>901,959</b>

\*Includes 189 units in Grande Prairie, Alberta which are in lease-up phase at December 31, 2009.

## Financial Performance at a Glance

In \$000's except per unit amounts	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Total revenue	<b>33,200</b>	32,515	<b>134,232</b>	127,759
Net operating income ("NOI") **	<b>20,760</b>	21,424	<b>86,793</b>	84,305
Earnings before taxes	<b>5,483</b>	6,803	<b>25,929</b>	26,417
Net earnings	<b>653</b>	6,427	<b>21,316</b>	22,702
Net earnings per unit, basic	<b>\$0.026</b>	\$0.257	<b>\$0.850</b>	\$0.907
Distribution to unitholders	<b>9,286</b>	9,260	<b>37,100</b>	37,037
Distributions per unit	<b>\$0.370</b>	\$0.370	<b>\$1.480</b>	\$1.480
Distributable Income ("DI") **	<b>12,792</b>	13,560	<b>54,336</b>	52,139
DI per unit, basic	<b>\$0.510</b>	\$0.542	<b>\$2.166</b>	\$2.083
Payout ratio	<b>72.6%</b>	68.3%	<b>68.3%</b>	71.0%
Funds from operation ("FFO") **	<b>12,969</b>	13,758	<b>55,107</b>	53,079
FFO per unit, basic	<b>\$0.517</b>	\$0.550	<b>\$2.196</b>	\$2.121
FFO payout ratio	<b>71.6%</b>	67.3%	<b>67.3%</b>	69.8%

\*\*See Non-GAAP Measures below.

## Non-GAAP Financial Measures

NPR does not consider cash flows from operations as the most direct measure of the REIT's performance as it includes changes in non-cash working capital balances such as prepaid property taxes, differences in timing of collections of rents and payments of expenses incurred. Management considers Net Operating Income, Distributable Income and Funds from Operations to be key performance indicators of NPR's financial performance and its capacity to make cash distributions to unitholders. These measures are widely accepted measures of performance for Canadian real estate investment trusts, however are not defined by Canadian generally accepted accounting principles ("GAAP").

## 1. OVERVIEW

NPR is primarily a multi-family residential real estate investment trust, providing a broad spectrum of rental accommodations in Canadian secondary markets with strong economic fundamentals. Geographically, NPR operates in British Columbia, the Northwest Territories, Alberta, Nunavut and Newfoundland. The REIT's multi-family portfolio is comprised of three segments: apartments, townhomes and single family rental units; executive apartment rental units, where the rental periods range from a few days to several months; and seniors' properties where the properties are leased on a long term basis to qualified operators who provide services to individual residents.

NPR's commercial properties are located primarily in areas where NPR has residential operations. A significant portion of these properties are leased to federal and territorial governments and high quality commercial tenants under long term leases.

### Financial Highlights

- Net earnings per unit for the fourth quarter of 2009 decreased to \$0.026 compared to \$0.257 for the same period of 2008. Net earnings per unit for the year ended December 31, 2009 decreased to \$0.850 compared to \$0.907 for the same period of 2008. DI per unit for the fourth quarter of 2009 was \$0.510 compared to \$0.542 for the fourth quarter of 2008. DI per unit for the year ended December 31, 2009 increased to \$2.166 compared to \$2.083 for the same period of 2008.
- FFO per unit for the fourth quarter of 2009 was \$0.517 compared to \$0.550 for the fourth quarter of 2008. FFO per unit for the year ended December 31, 2009 increased to \$2.196 compared to \$2.121 for the same period of 2008.
- FFO payout ratio for the fourth quarter of 2009 was 71.6% compared to 67.3% for the fourth quarter of 2008. FFO payout ratio for the year ended December 31, 2009 was 67.3% compared to 69.8% for the same period of 2008.
- Same door NOI decline of 6.0% for the fourth quarter and 2.9% for the year ended December 31, 2009 compared to same door NOI growth of 6.1% and 6.1% for the same periods of 2008, respectively.
- The weighted average cost of mortgage debt decreased to 4.87% compared to 5.13% at December 31, 2008.
- Debt Service Coverage and Interest Coverage remained strong for the year ended December 31, 2008. Debt Service Coverage was 1.89 for the year ended December 31, 2009 compared to 1.93 for the year ended December 31, 2008. Interest Coverage was 3.01 for the year ended December 31, 2009 compared to 3.05 for the year ended December 31, 2008.
- Future tax expense was \$4.8 million for the fourth quarter of 2009 and an expense of \$4.2 million for the year ended December 31, 2009. \$2.3 million of the future tax expense was due to increased temporary differences arising from the accelerated CAPEX program which is capitalized and amortized for accounting purposes and expensed in the year incurred for income tax purposes. The sharply higher CAPEX investment in rental properties has been flowed through to NPR unitholders and is reflected in the return of capital on 2009 distributions which was 68% for 2009 compared to 53% for 2008.

DI & FFO per unit were lower for the fourth quarter of 2009 compared to 2008, primarily the result of the decreased rental revenue in the northern Alberta markets. Higher maintenance costs and one-time expenditures relating to the clean-up of fuel oil spills and insurance deductibles relating to fires that occurred in 2008 and 2009 also contributed to the decrease in financial results. Decreased rental revenue is the result of both increased vacancy and lower rental rates in Grande Prairie, Fort McMurray and Lloydminster. Vacancy in these markets peaked in August 2009, with a modest improvement through the remainder of 2009. Much higher maintenance expense and CAPEX investment in Fort McMurray and Lloydminster was experienced in 2009 as NPR renewed and upgraded suites which had been fully occupied for several years. For the year ended December 31, 2009 net earnings, DI and FFO were higher than the previous year, primarily due to NPR's strong financial performance for the first half of 2009 and the full years contribution of acquisitions completed in 2008. The weaker performance of NPR's northern Alberta markets during the second half of 2009 was offset by the following:

- Continued strong performance of the Nunavut and Newfoundland portfolios;
- Lower heating oil prices in the Northwest Territories;
- Reduced interest expense resulting from the decrease in the weighted average interest rate of mortgage and loans payable;
- Decreased trust administration costs.

Net earnings were impacted by the non-cash future tax expense of \$4.8 million in the fourth quarter of 2009.

## 1. OVERVIEW (continued)

### NPR in the Current Economic Environment

The current recession's impact on NPR's financial results increased during the second half of 2009. Specifically, Grand Prairie, Fort McMurray and Lloydminster are experiencing vacancy levels significantly higher than 2008 and temporarily higher costs associated with vacant suite repair and refurbishment.

Weaker crude oil and natural gas prices have had a significant impact on NPR's residential rental portfolio, in northern Alberta. The economies of both Fort McMurray and Lloydminster are highly dependent on oil related development and extraction activity. Vacancies in these two communities increased month after month through the first half of 2009, with vacancies peaking in August. A recovery in the price of crude oil in mid 2009 and the announcements of restarting previously postponed oilsands projects has recently begun to have a positive impact on NPR's vacancy in Lloydminster and to some degree in Fort McMurray.

During 2009 NPR temporarily accelerated its CAPEX program to refurbish suites and common areas in buildings where it had been impossible to do so during the economic 'boom'. Management expects to conclude the accelerated CAPEX program in Q2 2010. Management remains cautiously optimistic that the worst is behind us, however, is continuing its heightened leasing, retention and CAPEX renovation efforts.

Grande Prairie's economy depends on the natural gas, oil, forestry and agricultural industries. The vacancy levels in Grande Prairie have stabilized at current levels of approximately 19% and are expected to remain at that level until there is a significant increase in natural gas drilling programs. The 189 unit Westmore development is expected to remain in lease up phase throughout 2010.

NPR's financial results and financial position have remained in very good condition through 2009 in spite of the challenges in its northern Alberta portfolio. With its conservative balance sheet, low FFO payout ratio, strong Interest Coverage and Debt Service Coverage (among the best of Canadian REITs), NPR is poised to take advantage of opportunities in 2010.

NPR's investment in seniors' and commercial properties have reduced the negative impact of its Alberta multi-family vacancy losses by decreasing exposure to expenses, as operating costs in these portfolios are typically recovered from or paid directly by the tenants. NPR's strategy of maintaining its conservative balance sheet and low DI payout ratio were its best defense against the weakened economy. NPR was able to maintain current distribution levels and low payout ratio while increasing its capital maintenance program. There is a significant buffer between FFO and current distribution levels after allowing for capital maintenance expenditures. Management believes this buffer provides unitholders with a reasonable level of protection from the business risk attending the current economic environment.

### Acquisitions, Developments and Disposals

During the year ended December 31, 2009, NPR completed five transactions in Newfoundland which were financed through a combination of assumed mortgages, issuance of Class B Limited Partnership Units and the operating facilities. NPR curtailed its acquisition activity during 2009 in response to the economic uncertainty, completing only those transactions that it had committed to in 2008. Acquisitions completed in 2009 are summarized below:

	Units	\$000's
Residential		
Multi-family	40	2,302
Seniors'	111	9,351
	<b>151</b>	<b>11,653</b>

NPR disposed of non-core assets during the fourth quarter totaling 5,550 square foot of commercial property and four residential units in Yellowknife, NWT and in Nunavut. These properties were sold for proceeds of \$992,000 and a gain on sale of \$246,000.



## 2. YEAR-TO-DATE RESULTS AND COMPARISONS

The following section provides a comparison of the financial results for the three months and year ended December 31, 2009 compared to the three months and year ended December 31, 2008. On August 31, 2009 NPR completed the 189 unit Westmore Estates development in Grande Prairie, Alberta. Including land the cost of the project was \$23.2 million. For the year ended December 31, 2009, the financial results exclude the operations from the 189 units in Grande Prairie that are still in the lease-up phase. Revenues and expenses associated with this property are capitalized until revenue from the property exceeds operating and financing charges, in any event, no longer than 18 months.

### Earnings Before Other Items and Taxes

In \$000's	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Rental revenue	<b>32,373</b>	31,644	<b>130,767</b>	124,626
Other property income	<b>827</b>	871	<b>3,465</b>	3,133
	<b>33,200</b>	32,515	<b>134,232</b>	127,759
Operating expenses	<b>(12,440)</b>	(11,091)	<b>(47,439)</b>	(43,454)
<b>Net operating income</b>	<b>20,760</b>	21,424	<b>86,793</b>	84,305
Interest on mortgages	<b>(6,411)</b>	(6,239)	<b>(26,435)</b>	(24,499)
Amortization	<b>(7,560)</b>	(6,867)	<b>(28,789)</b>	(26,447)
<b>Earnings before other items and income taxes</b>	<b>6,789</b>	8,318	<b>31,569</b>	33,359

### Rental Revenue and Other Property Income

In \$000's	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Residential				
Rental	<b>21,069</b>	20,818	<b>85,294</b>	79,839
Execusuites	<b>1,837</b>	1,797	<b>8,398</b>	8,497
Seniors'	<b>4,452</b>	4,202	<b>17,486</b>	16,494
	<b>27,358</b>	26,817	<b>111,178</b>	104,830
Commercial	<b>5,842</b>	5,698	<b>23,054</b>	22,929
<b>Total</b>	<b>33,200</b>	32,515	<b>134,232</b>	127,759

Total revenue for the three months ended December 31, 2009 was \$33.2 million, 2.1% higher than \$32.5 million for the same period of 2008. Total revenue for the year ended December 31, 2009 was \$134.2 million, 5.1% higher than \$127.8 million for the same period of 2008. Factors impacting rental revenue are summarized below:

- Acquisitions completed in 2008 and the four quarters of 2009 contributed revenue of \$3.1 million in the fourth quarter and \$11.9 million for the year ended December 31, 2009.
- Same door revenue decline was 1.6% for the fourth quarter, primarily the result of higher vacancies and lower rental rates compared to the same period of 2008.
- For the year ended December 31, 2009, same door revenue growth was 0.1%. NPR experienced same door revenue growth for the first half of 2009. This became negative in the second half of the year as a result of higher vacancy and declining rents in northern Alberta.
- Higher vacancy in northern Alberta, some parts of northeast BC and Yellowknife was offset in part by rental increases in Newfoundland, where the rental markets remain strong and in Fort Nelson, BC where rental increases are being obtained as a result of the extensive renovation program completed in 2008.
- Revenue for the year ended December 31, 2009 includes a number of one-time items relating to the settlement of insurance claims and retroactive rental arbitrations totaling approximately \$250,000.

## 2. YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Rental revenue to be received from leases with rental rates varying over the term of the lease is recorded on a straight line basis over the terms of the associated leases. Rental revenue recorded on a straight line basis is generated from the commercial and seniors' properties portfolios. Rental revenue for the three months ended December 31, 2009 includes straight line rental revenue of \$333,000 compared to \$297,000 for the same period of 2008. Rental revenue for the year ended December 31, 2009 includes straight line rental revenue of \$1.3 million compared to \$1.2 million for the same period of 2008.

### Residential Rental Revenue

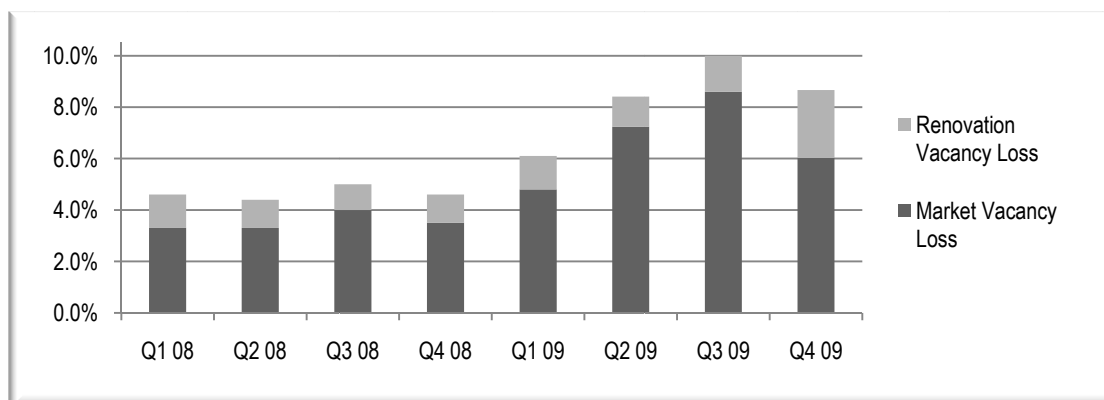
Residential rental revenue for the three months ended December 31, 2009 was \$27.4 million, 2.0% higher than \$26.8 million for the same period of 2008. Residential rental revenue for the year ended December 31, 2009 was \$111.2 million, 6.1% higher than \$104.8 million for the same period of 2008. The increase is primarily the result of additions in 2008. In total, 969 residential units have been acquired since January 1, 2008. The increase in revenue was partially offset by higher vacancy in certain regions.

### Residential Vacancy Loss – Year ended December 31

	Market vacancy loss		Renovation vacancy loss		Total	
	2009	2008	2009	2008	2009	2008
British Columbia	14.7%	12.6%	2.0%	5.0%	16.7%	17.6%
Northwest Territories	4.8%	2.0%	2.1%	1.5%	6.9%	3.5%
Alberta	9.0%	2.8%	4.1%	0.1%	13.1%	2.9%
Nunavut	0.7%	0.7%	0.2%	0.2%	0.9%	0.9%
Newfoundland	1.4%	1.7%	0.1%	0.1%	1.5%	1.8%
Overall	6.4%	3.5%	2.0%	1.2%	8.4%	4.7%

Vacancy loss is calculated by dividing potential rental revenue from vacant residential units by total potential rental revenue for all residential units. For the year ended December 31, 2009, the recently completed Westmore Estates in Grande Prairie, AB, totaling 189 units has been excluded from the vacancy loss calculation. Occupancy in this property at December 31, 2009 was approximately 30%.

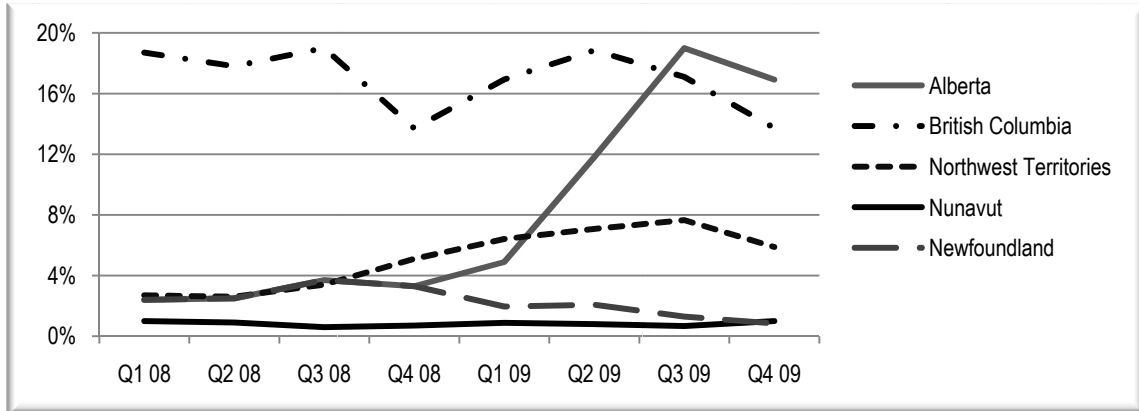
### Quarterly Residential Rental Vacancy Loss



Residential vacancy loss for the fourth quarter of 2009 declined from 10% in the third quarter. This was due to improved occupancy in Alberta, north-eastern BC and in the Northwest Territories. The following table provides the total vacancy levels for the five geographic regions NPR operates in for the last 8 quarters.

## 2. YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

### Quarterly Residential Rental Vacancy Loss

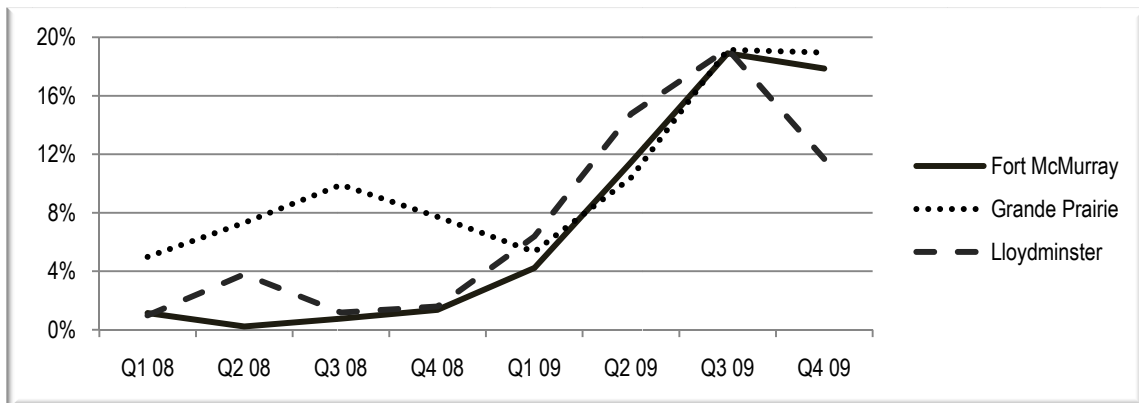


In the Northwest Territories, vacancy loss decreased for both Yellowknife and Inuvik in Q4 2009. Over the past few months, Yellowknife has received positive news with certain diamond mines cancelling planned extended shut down of operations. NPR expects this will translate into reduced vacancy loss during the first part of 2010.

Vacancy loss in Nunavut for 2009 remains consistent with 2008 at 0.9%.

Vacancy loss in Newfoundland decreased slightly from 1.8% in 2008 to 1.5% in 2009. Rental markets in both St. John's and Gander continue to be strong and vacancy levels are expected to remain at this level through 2010.

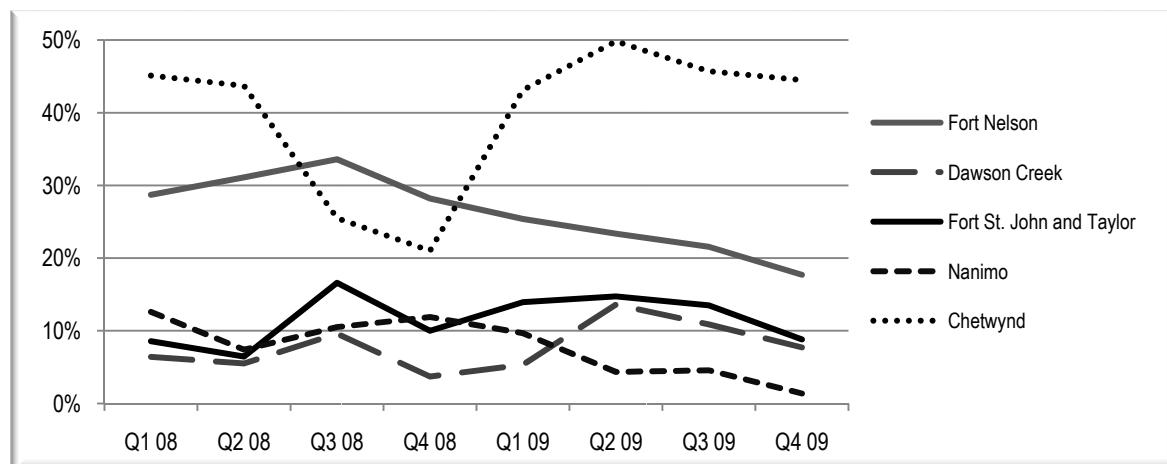
### Quarterly Residential Rental Vacancy Loss - Alberta



Total vacancy loss in Alberta was 13.1% for 2009 compared to 2.9% in 2008. Vacancy loss in Fort McMurray, Grande Prairie, and Lloydminster increased steadily through the first half of 2009, peaking in August. Higher vacancy loss in Fort McMurray and Lloydminster is mostly the result of decreased economic activity due to the lower world price of crude oil. During the fourth quarter, there were a number of indicators, including an increase in the price of crude oil and slightly improved occupancy in both Fort McMurray and Lloydminster, which may lead to improved operating results in these markets. Vacancy losses in Grande Prairie are expected to continue for the foreseeable future as the economy is more reliant on natural gas and forestry.

## 2. YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

### Quarterly Residential Rental Vacancy Loss – BC



Residential vacancy in north eastern BC historically averages 10 – 15%. Vacancy in north eastern BC remained high through 2009 with an overall vacancy loss of 16.7%, slightly improved from the 17.6% for the same period of 2008. NPR completed a number of renovation projects in 2009, which in part contributed to the reduced vacancy in the second half of the year. These rental markets traditionally operate at higher levels of vacancy as a result of the seasonality in the forestry and natural gas industries.

Management continues its heightened focus on leasing, specifically in the regions that experienced sharp increases in vacancy during 2009. Leasing initiatives include tenant retention measures, focused marketing, increased leasing incentives and adjustments to rental rates, where appropriate. The overall objective of the leasing program is to maximize net revenue in the short term and maintain the future rental potential through minimizing the amount of rental rate decreases.

### Execusuite Rental Revenue

Execusuites rental revenue for the fourth quarter was \$1.84 million, 2.2% higher than the \$1.80 million for the same period of 2008. Execusuites rental revenue for the year ended December 31, 2009 was \$8.4 million, 1.2% lower than the \$8.5 million for the same period of 2008. Throughout 2009, NPR's execusuites in St. John's, Nfld and Iqaluit, Nunavut continued their strong financial performance. The strong performance of these assets was offset by lower financial results in Yellowknife and Inuvik, NWT which experienced decreased occupancy through most of 2009.

### Seniors' Rental Revenue

Rental income from seniors' properties represents rental payments made to NPR by the operators of the facilities under long-term triple net leases ranging from 15 to 20 years, with regularly scheduled increases, generally 1% per annum. For these properties, NPR is responsible for the physical facilities and has no direct business relationship with individual residents. Rental revenue for the three months ended December 31, 2009 was \$4.5 million, 5.9% higher than the \$4.2 million for the same period of 2008. Rental revenue for the year ended December 31, 2009 was \$17.5 million, 6.0% higher than the \$16.5 million for the same period of 2008. The increase in revenue is the result of acquisitions and expansions totaling 205 units since January 1, 2008 and scheduled rent increases.

### Commercial Rental Revenue

Commercial rental revenue for Q4 2009 was \$5.8 million, 2.5% higher than \$5.7 million for the same period of 2008. Commercial rental revenue for the year ended 2009 was \$23.1 million, 0.5% higher than \$22.9 million for the same period of 2008. Increases in commercial rental revenue are primarily due to the acquisitions and developments completed in 2008 and were offset by higher vacancy due to the planned repositioning of YK Centre East in Yellowknife from retail to office tenancies.

Vacancy decreased to 34,905 square feet or 3.9% at December 31, 2009 compared to 43,000 square feet or 4.7% at December 31, 2008. The decrease in vacancy from December 31, 2008 is primarily due to decreased vacancy in Inuvik, NWT. On January 1, 2010 the Government of the North West Territories took occupancy of the renovated 20,000 square feet of space in YK Centre East, decreasing vacancy to 14,905 square feet or 1.6%. During 2010, leases totaling approximately 164,500 square feet or 18% of total commercial space mature. Management is confident that the majority of these leases will be renewed at or above current rental rates.

## 2. YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

### Operating Expenses

In \$000's	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Operating expenses:				
Utilities	3,063	3,743	12,659	13,493
Property taxes	1,740	1,692	6,837	6,420
Other expenses	7,637	5,656	27,943	23,541
	<b>12,440</b>	11,091	<b>47,439</b>	43,454

Utilities, expressed as a percentage of rental revenue, decreased to 9.5% for Q4 2009 from 11.8% for the same period of 2008. For the year ended December 31, 2009 utilities, expressed as a percentage of rental revenue, decreased to 9.7% from 10.8% for the same period of 2008. Fuel oil costs in the NWT remained lower through the fourth quarter of 2009, however, have increased slightly since the end of the second quarter of 2009 as the price of crude oil increased. The mid-2008 increase in the price of fuel oil in Nunavut, where the price is set by the territorial government, remained intact through the first half of 2009. In June 2009, the territorial government decreased the price of fuel oil by \$0.10 per litre.

Building maintenance costs were much higher than normal during the fourth quarter as NPR completed deferred maintenance, primarily on newly vacated apartments in northern Alberta.

Included in other expenses for the year ended December 31, 2009 were unplanned expenditures on heating system repairs, clean up of four minor fuel oil spills in Nunavut and insurance deductibles relating to two fires in 2008 and one in 2009, totaling \$0.8 million. Acquisitions completed in 2008 and 2009 increased operating expenses by approximately \$1.1 million for the three months ended and \$3.7 million for the year ended December 31, 2009.

### Net Operating Income

In \$000's	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Residential				
Multi-family	12,145	12,961	51,359	49,450
Execusuites	772	826	4,064	4,227
Seniors'	4,446	4,197	17,462	16,471
	<b>17,363</b>	17,984	<b>72,885</b>	70,148
Commercial	3,397	3,440	13,908	14,157
<b>Total</b>	<b>20,760</b>	21,424	<b>86,793</b>	84,305

NOI derived from residential properties was 83.6% of total NOI for Q4 2009 consistent with 83.9% for the same period of 2008. For the year ended December 31, 2009, NOI derived from residential properties was 84.0% of total NOI compared to 83.2% for the same period of 2008. The increase is due to the acquisition of multi-family and seniors' properties in 2008 and 2009, which accounted for approximately 92.6% of the total \$92.0 million in acquisitions completed in 2008 and 2009. The increase in total NOI was offset by same door NOI decline for the year ended December 31, 2009 of 2.9%.

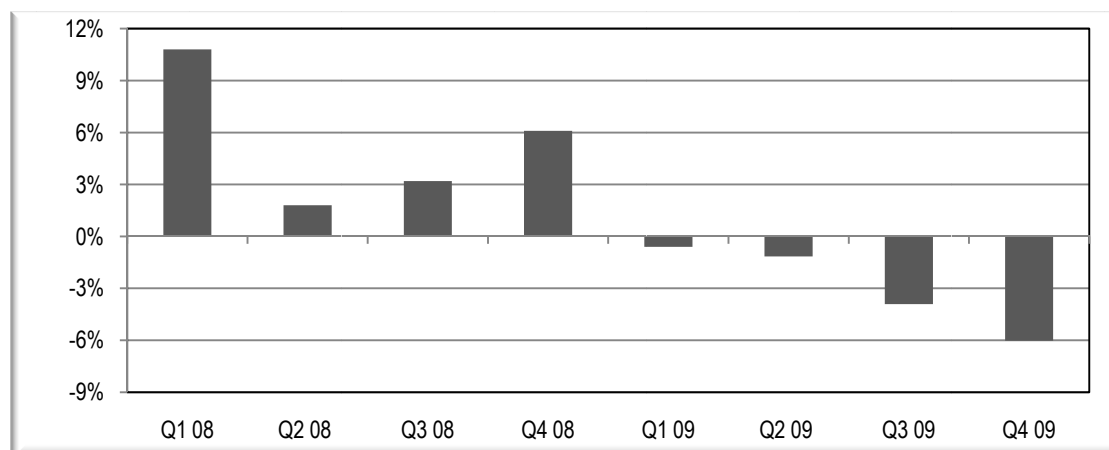
The seniors' and commercial properties provide stability to the REIT's financial results, reducing NPR's overall exposure to apartment tenancy risk, volatile utility prices and severe winter temperatures in Nunavut and the Northwest Territories. In these two business segments, the majority of operating costs are either recovered from or paid directly by the tenants. For the year ended December 31, 2009, approximately 36.1% of NOI was derived from commercial and seniors' properties where tenants are primarily responsible for operating costs.

## 2. YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

### Same Door NOI

NPR defines same door NOI growth / decline as the annual change in net operating income from properties that have been owned by the REIT for both the current and previous reporting periods. For the purposes of this discussion properties that were owned by NPR on or before January 1, 2008 are included in the calculation. For Q4 2009, NPR experienced same door NOI decline of 6.0% compared to same door NOI growth of 6.1% for the same period of 2008. For the year ended December 31, 2009, NPR experienced same door NOI decline of 2.9% compared to same door NOI growth of 6.1% for the same period of 2008. Same door NOI decline is the result of decreased rental revenue in northern Alberta and expense growth related to temporary higher maintenance costs on newly vacant units in northern Alberta and unplanned expenditures on clean up of fuel oil spills and insurance deductibles. The impact was offset in part by lower fuel costs in the NWT and same door NOI growth in NPR's other geographic regions.

### Quarterly Same Door Net Operating Income Growth / Decline



### Interest on Mortgages

Interest on mortgages for Q4 2009 increased to \$6.4 million compared to \$6.2 million for the same period of 2008. Interest on mortgages for the year ended December 31, 2009 increased to \$26.4 million compared to \$24.5 million for the same period of 2008. The increase is primarily the result of the increased mortgage debt from refinancing activities and acquisitions completed in 2008 and 2009. The increase in interest expense resulting from higher mortgage debt was partially offset by the continued decline in the weighted average interest rates of mortgages to 4.87% at December 31, 2009 from 5.13% at December 31, 2008.

### Amortization

Amortization for Q4 2009 increased to \$7.6 million compared to \$6.9 million for the same period of 2008. Amortization for the year ended December 31, 2009 increased to \$28.8 million compared to \$26.4 million for the same period of 2008. The increase in amortization is primarily the result of acquisitions completed in 2008. In addition, during the fourth quarter, NPR fully amortized certain capital assets that have reached the end of their useful lives.

## 2. YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

### Net Earnings

In \$000's except per unit amounts	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
<b>Earnings before the undernoted</b>	<b>6,789</b>	8,318	<b>31,569</b>	33,359
Trust administration	(1,448)	(1,317)	(5,619)	(6,796)
Interest on operating facilities	(201)	(260)	(755)	(1,286)
Interest and other income	128	96	458	509
Gain (loss) on settlement of debt	-	(29)	130	558
Gain on sale of rental properties	246	-	246	136
Non-controlling interest	(31)	(5)	(100)	(63)
<b>Earnings before income taxes</b>	<b>5,483</b>	6,803	<b>25,929</b>	26,417
Current	(50)	(103)	(373)	(409)
Future	(4,780)	(273)	(4,240)	(3,306)
<b>Net earnings</b>	<b>653</b>	6,427	<b>21,316</b>	22,702
Other comprehensive earnings (loss)	-	118	(123)	68
<b>Comprehensive earnings</b>	<b>653</b>	6,545	<b>21,193</b>	22,770
<b>Net earnings per unit</b>				
<b>Basic:</b>	<b>\$0.026</b>	\$0.257	<b>\$0.850</b>	\$0.907
<b>Diluted:</b>	<b>\$0.026</b>	\$0.256	<b>\$0.847</b>	\$0.906
<b>Weighted average number of units outstanding – basic (000's)</b>	<b>25,104</b>	25,034	<b>25,089</b>	25,028
<b>Weighted average number of units outstanding – diluted (000's)</b>	<b>25,174</b>	25,081	<b>25,155</b>	25,061

### Interest on Operating Facilities

Interest on the operating facilities for the three months ended December 31, 2009 was \$201,000 compared to \$260,000 for the same period of 2008. Interest on the operating facilities for the year ended December 31, 2009 was \$755,000 compared to \$1.3 million for the same period of 2008. The operating facilities loan balance was \$33.7 million at December 31, 2009 compared to \$26.6 million at December 31, 2008. Interest on the operating facilities decreased as a result of a lower average balance outstanding and the decrease in the prime rate from 3.50% at January 1, 2009 to 2.25% in April, 2009.

### Trust Administration

Trust administration costs for Q4 2009 were \$1.4 million compared to \$1.3 million for the same period of 2008. Trust administration costs for the year ended December 31, 2009 were \$5.6 million compared to \$6.8 million for the same period of 2008. The decrease in trust administration compared to 2008 relates to lower executive performance pay and unit based compensation, offset in part by higher fees associated with the REIT's credit facilities and costs associated with the IFRS implementation project. In addition, trust administration costs for 2008 included non-recurring items of approximately \$400,000.

### Gain on Sale of Rental Properties

NPR disposed of non-core assets during the fourth quarter totaling 5,550 square foot of commercial property and four residential units in Yellowknife, NWT and in Nunavut. These properties were sold for proceeds of \$992,000 and a gain on sale of \$246,000.

### Income Taxes

Current cash taxes arise from a taxable subsidiary and are consistent with 2008. Current income taxes for Q4 2009 are \$50,000 compared to \$103,000 for the same period of 2008. Current income taxes for the year ended December 31, 2009 are \$373,000 compared to \$409,000 for the same period of 2008.

## 2. YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

Future income tax expense for the fourth quarter was \$4.8 million compared to \$273,000 for the same period of 2008. Future income tax expense for the year ended December 31, 2009 was \$4.2 million compared to \$3.3 million expense for the same period of 2008. \$2.3 million of the future tax expense was due to increased temporary differences arising from the accelerated CAPEX program which is capitalized and amortized for accounting purposes and expensed in the year incurred for income tax purposes. Acquisitions of rental properties, deferred financing costs and refinements to the calculation of future income taxes payable accounted for the remainder of the future tax expense. The sharply higher CAPEX investment in rental properties has been flowed through to NPR unitholders and is reflected in the return of capital on 2009 distributions which was 68% for 2009 compared to 53% for 2008. The additional expense was offset in part by a decrease in federal income tax rates in the first quarter of 2009.

Management expects that approximately \$34.5 million of the non-cash future income tax liability will be reversed in 2010 when NPR executes the action plan to ensure NPR qualifies for the REIT Exemption under current tax legislation

### Net Earnings

Net earnings for Q4 2009 were \$0.7 million compared to \$6.4 million for the same period of 2008. Net earnings for the year ended December 31, 2009 were \$21.3 million compared to \$22.7 million for the same period of 2008. The decrease in net earnings reflects the impact of the above noted items.

### Other Comprehensive Earnings (Loss)

NPR has financial instruments relating to fixed-price utility contracts. The remaining obligation under these contracts is recorded at the current market price. Currently, the fixed-price utility contract is "out-of-money" as a result of the decrease in natural gas prices since July 1, 2008. The adjustment to the financial liability is included in other comprehensive earnings (loss). NPR recorded other comprehensive income of \$nil for Q4 2009 compared to earnings of \$118,000 for the same period of 2008. For the year ended December 31, 2009 NPR recorded other comprehensive loss of \$123,000 compared to earnings of \$68,000 for the same period of 2008. Effective July 1, 2009 the change in the fair value of the fixed price utility contract has been included in operating costs.

### Distributable Income

DI is calculated in accordance with NPR's declaration of trust (the "Trust Declaration") and as such, may not be comparable to similar measures presented by other Canadian real estate investment trusts.

Cash retained by the REIT represents the difference between DI and distributions made to unitholders. Cash retained is used in part to fund capital improvements and sustaining CAPEX, leasing costs and tenant improvements in the commercial portfolio, capital acquisitions and regularly scheduled principal repayments on mortgages and loans payable. Capital improvements and sustaining CAPEX are incurred by the REIT to maintain the productive capacity of its properties, or their potential to maximize returns. NPR's goal is to maintain the productive capacity of its real estate assets to enable the REIT to maintain unitholder distributions at sustainable levels.

In accordance with CSA Staff Notice 52-306 (Revised) Non-GAAP Financial Measures, NPR is required to reconcile DI to cash flow from operating activities. The following table outlines this reconciliation:

In \$000's except per unit amounts	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Cash flows from operating activities	14,785	12,539	56,193	53,634
Adjustments:				
Net change in non-cash working capital	(1,788)	1,140	(679)	(885)
Amortization of deferred financing fees	(174)	(114)	(1,078)	(547)
Non-controlling interest	(31)	(5)	(100)	(63)
<b>DI</b>	<b>12,792</b>	<b>13,560</b>	<b>54,336</b>	<b>52,139</b>
Cash retained	(3,506)	(4,300)	(17,236)	(15,102)
Distributions to unitholders	9,286	9,260	37,100	37,037
Distributions to unitholders per unit	\$0.370	\$0.370	\$1.480	\$1.480
DI per unit – basic	\$0.510	\$0.542	\$2.166	\$2.083
DI per unit – diluted	\$0.508	\$0.541	\$2.160	\$2.080
DI payout ratio	72.6%	68.3%	68.3%	71.0%



## 2. YEAR-TO-DATE RESULTS AND COMPARISONS (continued)

DI for Q4 2009 was \$12.8 million or \$0.510 per unit compared to \$13.6 million or \$0.542 per unit for the same period of 2008. DI for the year ended December 31, 2009 was \$54.3 million or \$2.166 per unit compared to \$52.1 million or \$2.083 per unit for the same period of 2008.

The DI payout ratio remains strong at 72.6% for Q4 2009 compared to 68.3% for the same period of 2008 and 68.3% for the year ended December 31, 2009 compared to 71.0% for the same period of 2008. The REIT continues to maintain a sustainable distribution level in comparison to DI and taking into consideration sustaining CAPEX requirements.

### Funds from Operations

FFO is calculated in accordance with the Real Property Association of Canada White Paper on Funds from Operations as revised on February 1, 2007. FFO as presented may not be comparable to similar measures presented by other Canadian real estate investment trusts.

In \$000's except per unit amounts	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Cash Flow from operating activities	14,785	12,539	56,193	53,634
Adjustments:				
Net change in non-cash working capital	(1,788)	1,140	(679)	(885)
Deferred rental revenue	333	297	1,292	1,209
Amortization of fair value of debt	(181)	(158)	(681)	(560)
Amortization of above and below market leases	25	59	160	291
Amortization of deferred financing fees	(174)	(114)	(1,078)	(547)
Non-controlling interest	(31)	(5)	(100)	(63)
<b>FFO</b>	<b>12,969</b>	<b>13,758</b>	<b>55,107</b>	<b>53,079</b>
Distributions to unitholders per unit	\$0.370	\$0.370	\$1.480	\$1.480
FFO per unit – basic	\$0.517	\$0.550	\$2.196	\$2.121
FFO per unit – diluted	\$0.515	\$0.549	\$2.191	\$2.118
FFO payout ratio	71.6%	67.3%	67.3%	69.8%

Monthly distributions to unitholders for 2009 on an annual basis are \$1.48 per unit. Distributions to unitholders for the Q4 2009 were \$9.3 million or \$0.37 per unit. For the year ended December 31, 2009, distributions to unitholders were \$37.1 million or \$1.48 per unit. Distributions per unit to unitholders remained at the same level in 2008 and 2009. NPR's FFO payout ratio remains strong at 71.6% for Q4 2009 compared to 67.3% for the same period of 2008. For the year ended December 31, 2009, the FFO payout ratio was 67.3% compared to 69.8% for the same period of 2008. The REIT continues to maintain a sustainable distribution level after taking into consideration sustaining CAPEX requirements.

The increases in DI and FFO per unit were driven by acquisitions completed in 2008 and 2009, decreased trust administration expenses and lower interest rates on mortgage debt and operating facilities. These positive factors were offset by increased vacancy loss in northern Alberta and same door NOI decline of 6.0% for the three months ended December 31, 2009 and 2.9% for the year ended December 31, 2009.

### 3. SUMMARY OF ANNUAL AND QUARTERLY RESULTS

#### Three Year Summary of Annual Financial Results

In \$000's except per unit amounts	Year Ended December 31		
	2009	2008	2007
Total revenue	<b>134,232</b>	127,759	104,418
Net earnings	<b>21,316</b>	22,702	7,690
Net earnings per unit, diluted	<b>\$0.85</b>	\$0.91	\$0.34
Total assets	<b>888,367</b>	872,922	799,110
Mortgage and loans payable	<b>498,996</b>	482,800	401,909
Distributions declared per unit	<b>\$1.480</b>	\$1.480	\$1.397

#### Quarterly Summary of Financial Results

The increase in comparable operating results over the past eight quarters is the result of accretive acquisitions completed in 2007 and 2008. In 2008, NPR completed \$80.4 million of acquisitions which were funded primarily through mortgage debt and the operating facility. In addition, during 2008, NPR's financial results benefited from same door NOI growth in existing properties and decreasing weighted average interest rates on mortgages and loans payable. During 2009, the financial results have been impacted by higher vacancy losses, rental declines and temporarily accelerated maintenance CAPEX costs in northern Alberta. Occupancy in these areas improved in Q4 2009 compared to previous quarters, however, management does not expect improved financial performance until the second quarter of 2010. The impact of lower rental revenue was mitigated to some extent by lower mortgage interest rates, trust administration and utility costs.

NPR's quarterly results continue to have a seasonal component to them resulting from significantly higher fuel oil consumption in the NWT and Nunavut portfolios in the first and fourth quarters of each year.

### 3. SUMMARY OF ANNUAL AND QUARTERLY RESULTS (continued)

The table below summarizes NPR's financial results for the last eight fiscal quarters.

In \$000's, except per unit amounts	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Rental revenue	29,852	31,211	31,919	31,644	32,992	32,844	32,558	<b>32,373</b>
Other property income	658	845	759	871	1,047	867	724	<b>827</b>
	30,510	32,056	32,678	32,515	34,039	33,711	33,282	<b>33,200</b>
Operating expenses	(10,757)	(11,115)	(10,491)	(11,091)	(12,735)	(11,443)	(10,821)	<b>(12,440)</b>
	19,753	20,941	22,187	21,424	21,304	22,268	22,461	<b>20,760</b>
Interest on mortgages	(5,944)	(6,159)	(6,157)	(6,239)	(6,556)	(6,738)	(6,730)	<b>(6,411)</b>
Amortization	(6,487)	(6,489)	(6,604)	(6,867)	(7,114)	(7,130)	(6,985)	<b>(7,560)</b>
<b>Earnings before the undernoted</b>	7,322	8,293	9,426	8,318	7,634	8,400	8,746	<b>6,789</b>
Trust administration	(1,869)	(1,976)	(1,634)	(1,317)	(1,395)	(1,316)	(1,460)	<b>(1,448)</b>
Interest on operating facilities	(450)	(283)	(293)	(260)	(149)	(224)	(181)	<b>(201)</b>
Interest and other income	186	116	111	96	109	135	86	<b>128</b>
Gain (loss) on settlement of debt	577	(13)	23	(29)	-	84	46	<b>-</b>
Gain on sale of rental properties	136	-	-	-	-	-	-	<b>246</b>
Non-controlling interest	(15)	(17)	(26)	(5)	(9)	(23)	(37)	<b>(31)</b>
<b>Earnings from before income taxes</b>	5,887	6,120	7,607	6,803	6,190	7,056	7,200	<b>5,483</b>
Current taxes	(86)	(92)	(128)	(103)	(104)	(98)	(121)	<b>(50)</b>
Future tax (expense) recovery	80	(318)	(2,795)	(273)	1,015	(225)	(250)	<b>(4,780)</b>
<b>Net earnings</b>	5,881	5,710	4,684	6,427	7,101	6,733	6,829	<b>653</b>
Other comprehensive earnings (loss)	182	242	(474)	118	(143)	(42)	62	<b>-</b>
<b>Comprehensive earnings</b>	6,063	5,952	4,210	6,545	6,958	6,691	6,891	<b>653</b>
<b>Net earnings per unit:</b>								
<b>Basic</b>	\$0.235	\$0.228	\$0.187	\$0.257	\$0.283	\$0.268	\$0.272	<b>\$0.026</b>
<b>Diluted</b>	\$0.235	\$0.228	\$0.187	\$0.256	\$0.283	\$0.268	\$0.271	<b>\$0.026</b>
Distribution to unitholders	9,254	9,259	9,264	9,260	9,266	9,279	9,269	<b>9,286</b>
Distribution per unit	\$0.370	\$0.370	\$0.370	\$0.370	\$0.370	\$0.370	\$0.370	<b>\$0.370</b>
DI	11,501	12,950	14,128	13,560	13,321	14,057	14,166	<b>12,792</b>
DI per unit – basic	\$0.460	\$0.518	\$0.565	\$0.542	\$0.532	\$0.560	\$0.564	<b>\$0.510</b>
DI per unit – diluted	\$0.459	\$0.517	\$0.564	\$0.541	\$0.530	\$0.559	\$0.563	<b>\$0.508</b>
DI payout ratio	80.5%	71.5%	65.6%	68.3%	69.6%	66.0%	65.4%	<b>72.6%</b>
FFO	11,783	13,172	14,366	13,758	13,514	14,268	14,356	<b>12,969</b>
FFO per unit – basic	\$0.471	\$0.526	\$0.574	\$0.550	\$0.539	\$0.569	0.572	<b>\$0.517</b>
FFO per unit – diluted	\$0.470	\$0.525	\$0.573	\$0.549	\$0.538	\$0.567	0.570	<b>\$0.515</b>
FFO payout ratio	78.6%	70.3%	64.6%	67.3%	68.6%	65.0%	64.6%	<b>71.6%</b>
Closing trading price	\$20.79	\$22.52	\$22.71	\$16.21	\$17.25	\$18.73	\$20.50	<b>\$21.90</b>

## 4. RISK FACTORS

NPR operates under a strict set of guidelines as set out in its Trust Declaration, which covers areas such as the maximum debt leverage allowed, investment restrictions, management authorities and environmental risks. Additional risk factors are identified and discussed in NPR's Annual Information Form which can be found on NPR's website at [www.npreit.com](http://www.npreit.com) or on SEDAR at [www.sedar.com](http://www.sedar.com). Risks and uncertainties in NPR's operations include, but are not limited to the following:

### Interest Rate Risk

The REIT is exposed to interest rate risk on mortgages and loans payable and does not hold any financial instruments to mitigate that risk. The REIT utilizes both fixed and floating rate debt. Interest rate risk related to floating interest rates is limited primarily to the utilization of operating facilities. Management mitigates interest rate risk by utilizing fixed rate mortgages, ensuring access to a number of sources of funding and staggering mortgage maturities with the objective of achieving relatively even annual debt maturities. To the extent possible, the REIT maximizes the amount of mortgages on residential rental properties where it is possible to lower interest rates through Canada Mortgage and Housing Corporation mortgage insurance.

A sensitivity analysis on floating rate debt has been completed based on the exposure to interest rates at the balance sheet date. Floating rate debt includes all mortgages and loans payable which are not subject to fixed interest rates and the revolving lines of credit. If interest rates changed by 0.50% and all other variables remained constant, the REIT's net earnings for the year ended December 31, 2009 would have changed by \$228,000.

### Property Tax Risk

Over the past few years, property tax expense has increased as a result of re-evaluations of properties by municipalities and the tax rates applied to the valuations. NPR, in conjunction with outside consultants, regularly reviews these re-evaluations and appeals where warranted.

### Income Tax Risk

On October 31, 2006, a "Distribution Tax" on publicly traded investment trusts and publicly listed partnerships was announced by the federal Minister of Finance. The announcement created a new tax regime for Specified Investment Flow Throughs ("SIFTs"), which include certain publicly listed income trusts and publicly listed partnerships. In effect, these entities will be taxed as corporations (at a rate comparable to the general combined federal/provincial corporate income tax rate). Certain real estate investment trusts are excluded from the SIFT definition and therefore are not subject to the new regime.

The legislation provided for a transition period for publicly traded entities that existed prior to November 1, 2006 and is not expected to apply to NPR until 2011. The new tax regime does not apply to entities that qualify for the REIT Exemption. Where an entity does not qualify for the REIT Exemption certain distributions will not be deductible in computing income for tax purposes and will be subject to tax on such distributions at a rate comparable to the general combined federal/provincial corporate income tax rate. There are two areas of the legislation that appear to cause NPR not to qualify for the REIT Exemption:

- 1) Not less than 95% of the REIT's revenues must be derived from rent from real or immovable properties, interest, capital gains from disposition of real or immovable properties, dividends or royalties. Revenue earned from NPR's Execusuite operations appear not to meet the above definition and are in excess of 5% of NPR's total revenues.
- 2) The legislation does not appear to allow individuals to be owners of the Class B Limited Partnership units. NPR's Limited Partnership currently has a number of unitholders that are individuals.

Management is currently in the process of evaluating alternatives for reorganizing its structure and current operations to ensure it qualifies for the REIT Exemption prior to 2011. Management expects to be in a position to implement its action plan in the second half of 2010 to qualify for the REIT exemption by January 1, 2011.

### Utility Cost Risk

NPR is exposed to utility cost risk, which results from the fluctuation in retail prices for fuel oil, natural gas and electricity, the primary utilities used to heat the REITs properties. The exposure to utility cost risk is restricted primarily to the REIT's residential rental and execusuites portfolio. The leases in the remainder of the portfolio generally provide for recovery of operating costs from tenants, including utilities. Because of the northern location of a portion of NPR's portfolio, the exposure to utility price fluctuations is more pronounced in the first and last fiscal quarter of the year.

NPR manages its exposure to utility risk through a number of preventative measures, including retrofitting properties with energy efficient appliances, fixtures and windows. With the exception of a fixed price utility contract in place on certain residential rental units in Alberta, NPR does not utilize hedges or forward contracts to manage exposure to utility cost risk.

## 4. RISK FACTORS (continued)

Heating oil is the primary source of fuel for heating properties located in Nunavut and the Northwest Territories. Over the last two years, NPR converted heating systems for certain properties in Yellowknife from fuel oil based boilers to wood pellet boilers. The investment in these environmentally friendly boilers continues to reduce NPR's exposure to volatile heating oil prices. Exposure to increases in the cost of heating oil is partially offset by the ability to recover these increases from a significant proportion of its commercial and some residential tenants.

Natural gas is the main source of fuel for heating properties located in Alberta, BC and Inuvik, NWT. NPR has fixed price contracts for certain of its properties which accounts for approximately 31% of the REIT's usage in Alberta. During 2009, NPR received approximately \$40,000 in rebates under the Natural Gas Rebate Program which provided for rebates to consumers when natural gas prices exceeded \$5.50 per gigajoule from October to March. The government of Alberta did not renew the Natural Gas Rebate Program for the 2009-2010 heating season. Natural gas prices in Inuvik and BC are not subject to regulated price control and the REIT does not use financial instruments to manage the exposure to the price risk.

Management prepared a sensitivity analysis on the impact of price changes in the cost of heating oil and natural gas. A 10% change over the average price of heating oil and natural gas would impact NPR's net earnings by \$283,000 for the year ended December 31, 2009.

Electricity is the primary source of fuel for heating properties located in Newfoundland as well as parts of north eastern BC. In Newfoundland, electricity is purchased from the provincially regulated utility and is directly paid by the tenants for a significant portion of the REIT's multi-family rental units. As there is not a significant direct risk to NPR regarding the price of electricity, a sensitivity analysis has not been prepared.

### Liquidity Risk

Ultimate responsibility for liquidity risk management lies with management and the Board of Trustees. NPR manages liquidity risk by managing mortgage and loan maturities to ensure a relatively even amount of mortgage maturities in each year. At December 31, 2009 NPR has two revolving credit facilities totaling \$57.5 million. At December 31, 2009 NPR has utilized \$33.7 million of its operating facilities compared to \$26.6 million at December 31, 2008. Cash flow projections are completed on a regular basis to ensure there will be adequate liquidity to maintain operating, capital and investment activities in addition to making monthly distributions to unitholders. The Board of Trustees reviews the current financial results and the annual business plan in determining appropriate distribution levels.

NPR has been able to continue its mortgage financing program for multi-family properties at lower interest rates than were previously in place. It is not possible to predict whether the low interest rate environment will continue to enable NPR to reduce its weighted average interest rates.

### Credit Risk

NPR's credit risk primarily arises from the possibility that tenants may not be able to fulfill their lease commitments. Tenant receivables are comprised of a large number of tenants spread across the geographic areas in which the REIT operates. There are no significant exposures to single tenants with the exception of AgeCare Investments Ltd. ("AgeCare"), which leases seniors' properties in Alberta and BC from the REIT, and the Governments of Canada, the Northwest Territories and Nunavut, which lease a large number of residential units and commercial space in the Northwest Territories and Nunavut. NPR mitigates credit risk through conducting thorough credit checks on prospective tenants, requiring rental payments on the first of the month, obtaining security deposits approximating one month's rent from tenants where legislation permits, and geographic diversification in its portfolio. NPR records a specific bad debt provision on balances owed from past tenants and provides an allowance for receivables, net of security deposits, from current tenants where the expected amount to be collected is less than the actual accounts receivable.

## 5. LIQUIDITY AND CAPITAL RESOURCES

### Long-Term Debt and Operating Facilities

NPR's weighted average interest rate on mortgage debt at December 31, 2009 decreased to 4.87% compared to 5.13% at December 31, 2008. The weighted average term to maturity decreased to 6.0 years compared to 6.7 years at December 31, 2008.

During 2009, NPR completed \$77.5 million in mortgage financings, renewals and assumptions at a weighted average rate of 3.7% with a weighted average term to maturity of 4.2 years. The proceeds were used to repay existing mortgages, repay a portion of the operating facility and to fund acquisitions completed in the first quarter. During the second half of 2009, mortgage funds with terms of up to 10 years became available. NPR continues to manage its long term debt by optimizing both interest rates and terms to maturity where available.

## 5. LIQUIDITY AND CAPITAL RESOURCES (continued)

At December 31, 2009, the REIT has operating facilities totaling \$57.5 million. During the year, NPR renewed its operating facilities. Consistent with pricing seen across the real estate sector, pricing for NPR's operating facilities was increased. Interest rates have increased by 1.50% to prime plus 1.50% or Bankers Acceptances plus 3.00%. The operating facilities are secured by certain rental properties with a net book value of \$92.9 million. At December 31, 2009, NPR has utilized \$33.7 million (December 31, 2008 – \$26.6 million) of the operating facilities.

The following table outlines NPR's mortgage and loans payable maturity schedule for the next ten years:

<i>In \$000's</i>	Principal Repayments During the Year	Principal on Maturity	Total	% of Total	Weighted Average Interest Rate
2010	16,041	30,500	46,541	9.0%	4.97%
2011	14,870	30,012	44,882	8.6%	5.49%
2012	12,686	37,595	50,281	9.7%	4.80%
2013	11,006	79,997	91,003	17.5%	4.51%
2014	8,918	69,300	78,218	15.1%	4.07%
2015	8,173	8,699	16,872	3.3%	4.76%
2016	6,214	46,726	52,940	10.2%	5.17%
2017	5,644	10,771	16,415	3.2%	4.99%
2018	4,622	34,386	39,008	7.5%	4.76%
2019	4,211	10,053	14,264	2.7%	4.48%
Thereafter	9,561	58,927	68,488	13.2%	5.51%
	<b>101,946</b>	<b>416,966</b>	<b>518,912</b>	<b>100.0%</b>	<b>4.87%</b>

### Debt to Gross Book Value

NPR's Debt to Gross Book Value, as defined in the Trust Declaration, was unchanged at 57.7% at December 31, 2009 compared to 57.7% at December 31, 2008. A maximum of 70% is permitted by NPR's Trust Declaration. The calculation of Debt to Gross Book Value is shown below:

<i>In \$000's</i>	December 31, 2009	December 31, 2008
Bank indebtedness (cash)	1,820	(731)
Operating facilities	33,698	26,600
Mortgages and loans payable	518,912	502,277
<b>Debt</b>	<b>554,430</b>	<b>528,146</b>
Rental properties and other capital assets	836,251	833,967
Capital assets improvements in progress	7,046	3,773
Capital assets under development	20,423	8,996
Refundable deposits and mortgage proceeds held in trust	-	185
Accumulated amortization	118,764	90,546
Future income taxes arising on acquisitions	(21,647)	(21,625)
<b>Gross Book Value</b>	<b>960,837</b>	<b>915,842</b>
<b>Debt to Gross Book Value</b>	<b>57.7%</b>	<b>57.7%</b>

## 5. LIQUIDITY AND CAPITAL RESOURCES (continued)

### Debt Service Coverage and Interest Service Coverage

NPR is subject to financial covenants in its mortgage and loans payable and operating facilities. The significant financial covenants are defined as follows:

- Debt Service Coverage– calculated as net earnings before interest, taxes and amortization divided by the debt service payments (total interest expense and principal repayments);
- Interest Coverage– calculated as net earnings before interest, taxes and amortization divided by total interest expense.

In \$000's	Year ended December 31, 2009	Year ended December 31, 2008
Earnings before income taxes	25,929	26,417
Amortization	28,789	26,447
Interest on mortgages	26,435	24,499
Interest on operating facilities	755	1,286
<b>Net earnings before interest, taxes and amortization</b>	<b>81,908</b>	<b>78,649</b>
Interest on mortgages	26,435	24,499
Interest on operating facilities	755	1,286
<b>Total interest expense</b>	<b>27,190</b>	<b>25,785</b>
Principal repayments	16,198	14,983
<b>Debt Service Payments</b>	<b>43,388</b>	<b>40,768</b>
<b>Interest Coverage</b>	<b>3.01</b>	<b>3.05</b>
<b>Debt Service Coverage</b>	<b>1.89</b>	<b>1.93</b>

Interest Coverage for the year ended December 31, 2009 decreased slightly to 3.01 compared to 3.05 for the year ended December 31, 2008. Debt Service Coverage for the year ended December 31, 2009 decreased slightly to 1.89 compared to 1.93 for the year ended December 31, 2008. Both Interest Coverage and Debt Service Coverage continue to be among the strongest among Canadian REITs.

### Unitholders' Equity

Total unitholders' equity decreased to \$290.9 million at December 31, 2009 from \$305.1 million at December 31, 2008.

In 000's	Units	\$
Unitholders' equity – January 1, 2009	25,034	305,110
Units issued under prior year LTIP grants	37	-
Property acquisitions	4	65
Units issued under options	33	489
Units cancelled	(2)	-
Issue costs	-	(2)
Unit based compensation	-	634
LTIP Grants	-	504
Comprehensive earnings	-	21,193
Distributions to unitholders	-	(37,100)
<b>Unitholders' equity – December 31, 2009</b>	<b>25,106</b>	<b>290,893</b>

## 5. LIQUIDITY AND CAPITAL RESOURCES (continued)

As of December 31, 2009, the authorized capital of the REIT consists of an unlimited number of trust units and special voting units (collectively, the "Units") of which 23,020,538 Units are issued and outstanding and 2,085,090 Units are reserved for issuance upon the exchange of the Class "B" limited partnership units ("Class B Units") of Northern Property Limited Partnership, a subsidiary partnership of the REIT. The Class B Units can be exchanged for trust units at any time at the option of the holder of the Class B Units. Each Class B Unit has a "Special Voting Unit" attached to it, which entitles the holder to one vote, either in person or by proxy at the meeting of unitholders of the trust as if he or she were a unitholder.

### Distributions to Unitholders

Cash distributions are made to unitholders on a monthly basis. Monthly distributions for 2008 and 2009 were \$0.1233 per unit, or \$1.48 per unit on an annual basis. Distribution levels are reviewed regularly by management and Trustees. Factors considered when determining distribution levels include financial results, annual business plans, and current economic environment. Return of capital for 2009 distributions to NPR units was 68% compared to 53% in 2008. The primary reason for the increased return of capital is the deduction of the accelerated CAPEX for tax purposes on properties owned directly by NPR. For Class B units, return of capital was 42% compared to 44% in 2008.

### Unit Options

On March 12, 2009, 157,500 options with an exercise price of \$15.05 and an expiration date of March 12, 2014 were granted to trustees and officers. The options vest over a three year period with the first one-third vesting immediately and the remaining options vesting equally on March 12, 2010 and March 12, 2011. At December 31, 2009 there are 859,997 options outstanding with a weighted average exercise price of \$21.95, 510,003 of which are exercisable. During 2009, 32,503 options were exercised by officers at an exercise price of \$15.05 per unit. The following table summarized the outstanding unit options as at December 31, 2009:

Exercise Price	Number Outstanding at December 31	Weighted-Average Remaining Contractual Life In Years	Weighted-Average Exercise Price	Number Exercisable at December 31	Weighted-Average Exercise Price
\$23.12	735,000	3.4	\$23.12	489,999	\$23.12
\$15.05	124,997	4.2	\$15.05	20,004	\$15.05
	859,997	3.7	\$21.95	510,003	\$22.80

Non-cash unit-based compensation expense relating to these options included in trust administration was \$113,000 for the three months ended December 31, 2009 (2008 – \$98,000) and \$504,000 for the year ended December 31, 2009 (2008 – \$631,000).

### Working Capital Requirements

NPR requires sufficient working capital resources to fund day to day operating expenditures, sustaining CAPEX, distributions to unitholders and interest costs. NPR expects that funds generated from operations will be sufficient to cover these expenditures. Principal repayments on existing mortgages are funded in part through the funds generated from operations and through refinancing of mortgages maturing during the year.

### Capital Improvements and Sustaining CAPEX

In \$000's	Three Months Ended December 31		Year Ended December 31	
	2009	2008	2009	2008
Sustaining CAPEX	5,453	1,527	11,843	5,902
Capital improvements	3,651	1,676	9,214	6,881
	9,104	3,203	21,057	12,783

Capital improvements are expenditures made in the 18 months following the acquisition of a property to complete any deferred maintenance, capital repairs or additions and to improve the building to meet investment requirements. Capital improvements are generally funded from borrowings associated with the improvement projects.



## 5. LIQUIDITY AND CAPITAL RESOURCES (continued)

Sustaining CAPEX represents ongoing expenditures required to maintain the productive capacity of the REIT's portfolio. These include capital expenditures to maintain and renew common areas, HVAC systems, building envelopes, investments in wood pellet boilers, expenditures to reduce energy consumption and to refurbish units on tenant turnover. Sustaining CAPEX is generally funded through cash flow from operations. Sustaining CAPEX for the year ended December 31, 2009 was incurred primarily in the residential rental portfolio and on a per door basis represents approximately \$1,820 per unit (2008 – \$960 per unit). The significant increase during the fourth quarter of 2009 reflects an accelerated CAPEX program. Management expects that capital expenditures on both sustaining CAPEX and capital improvements during 2010 will temporarily be at higher than customary levels. Capital spending in what are normally traditionally low vacancy markets has not been possible in recent years due to labour shortages and high levels of back to back turnover at month-end. The current higher level of vacancy makes these CAPEX investments possible and necessary to maintain a high quality product for NPR's existing and prospective tenants.

## 6. TRANSACTIONS WITH RELATED PARTIES

A Trustee of NPR is the Chairman of AgeCare, which leases six seniors' properties from NPR. For the year ended December 31, 2009, NPR earned rental income, including rental revenue earned on a straight-line basis over the term of the lease, totaling \$12.6 million (2008 – \$12.6 million) from AgeCare. Amounts outstanding in accounts receivable pertaining to this lease were \$nil at December 31, 2009 (December 31, 2008 – \$nil). In addition, AgeCare is paid an annual fee for advisory services provided to NPR respecting prospective acquisitions of seniors' properties. For the year ended December 31, 2009, NPR paid \$120,000 for these services (2008 – \$120,000).

During 2009, the REIT completed renovations totaling \$2.15 million to a seniors' facility in BC which is leased to AgeCare. At December 31, 2009, in accordance with the lease agreement, AgeCare is repaying this amount over 15 years. Interest revenue of \$51,800 was earned for the three months ended December 31, 2009 (2008 – \$nil) relating to this receivable. Interest revenue of \$112,800 was earned for the year ended December 31, 2009 (2008 – \$nil). Amounts outstanding at December 31, 2009 totaled \$2.1 million (December 31, 2008 – \$nil).

A company owned by a Trustee of NPR leases commercial space from NPR under normal lease terms. NPR earned rental revenue of \$481,000 from that arrangement for the year ended December 31, 2009 (2008 – \$454,000). Amounts outstanding in accounts receivable pertaining to this lease were \$nil at December 31, 2009 (December 31, 2008 – \$nil).

## 7. PROPOSED AND FUTURE TRANSACTIONS

Between January 1, 2010 and March 17, 2010 NPR completed mortgage financings and renewals totalling \$22.4 million with interest rates from 2.97% to 6.05% and terms to maturity from 6 months to 10 years. Proceeds from the mortgage financings were used to repay existing mortgage debt and a portion of the operating facility.

## 8. CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies for NPR are described in Note 2 to the Annual Consolidated Financial Statements as at and for the year ended December 31, 2009. Management believes the policies which are most subject to estimation and management's judgment are those outlined below.

### Amortization

Amortization is recorded on buildings on a straight-line basis. A significant portion of the acquisition cost of each property is allocated to building. The allocation of the acquisition cost to building and the determination of the useful life are based upon estimates by management. In the event the allocation to building is inappropriate or the estimated useful life of buildings proves incorrect, the computation of amortization will not be appropriately reflected over future periods.

### Property Acquisitions

In accordance with the Canadian Institute of Chartered Accountants ("CICA") 1581 Business Combinations and CICA 3062 Impairment of Long-term Assets, Management is required to perform procedures to determine the fair value of the acquisition and the intangible value of above and below-market leases, as well as the identifiable direct benefits of tenant relationships on a discounted basis. The procedures associated with CICA 1581 and CICA 3062 are subject to estimation and management's judgment. Management allocates acquisition costs to land, building and intangible assets and liabilities based upon the best information available at the time of preparation of the financial statements. Any adjustments to these allocations will be reflected prospectively in subsequent financial statements.

## 8. CRITICAL ACCOUNTING ESTIMATES (continued)

### Future Income Taxes

The calculation of the future income tax assets and liabilities is based on estimated temporary differences between the book value and tax value of NPR's assets and liabilities that are expected to exist on January 1, 2011. At December 31, 2009, NPR has recorded a future tax liability of \$43.8 million (December 31, 2008 – \$39.5 million) using expected income tax rates between 19.13% and 28.40% (December 31, 2008 – 19.63% to 29.50%).

### Impairment of Assets

Under Canadian GAAP, management is required to write down to fair value any investments in income properties that are determined to have been permanently impaired. The fair value of investments in income properties is dependent upon anticipated future cash flows from operations over the anticipated holding period. No provision was recorded in 2008 or 2009.

### Discontinued Operations

The financial results of non-core rental properties sold in 2008 and 2009 have not been reclassified as discontinued operations as the results are not material to the financial results of NPR.

### Unit-based Compensation

The calculation of unit-based compensation is based on the fair value method using the Black Scholes method, under which compensation expense is measured at the date the options are granted and recognized over the vesting period. The following assumptions were used in calculating the fair value of the options granted in 2008; expected annual dividend rate of 6.40%, expected volatility of 18%, risk-free rate of return of 3.10% and expected life of 5 years. The following assumptions were used in calculating the fair value of the options granted on March 12, 2009; expected annual dividend rate of 9.83%, expected volatility of 28.8%, risk-free rate of return of 1.75% and expected life of 5 years. Unit-based compensation expense for the twelve month period ended December 31, 2009 was \$504,000 (2008 – \$631,000).

## 9. CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS

### Change in Accounting Policy

On January 1, 2009, NPR adopted the June 2009 amendments to the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 3862, Financial Instruments — Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendment requires a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards ("IFRS").

On January 1, 2009 NPR adopted the August 2009 amendments to CICA Handbook Section 3855, Financial Instruments — Recognition and Measurement, relating to the impairment of financial assets. Amendments to this Section have revised the guidance on the assessment of embedded derivatives on reclassification of financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category. The amendment also requires the use of the credit loss model when assessing instruments held to maturity for impairment.

On January 1, 2009, NPR adopted EIC-173, Credit risk and the fair value of financial assets and financial liabilities. This abstract requires that an entity's own credit risk (for financial liabilities) and the credit risk of the counterparty (for financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

Effective January 1, 2009, NPR adopted CICA Handbook Section 3064, Goodwill and Intangible Assets. These new pronouncements establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises.

The new standards will have no impact on the REIT's consolidated financial statements.

## **9. CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (continued)**

### **Recent Accounting Pronouncements**

On January 5, 2009, the AcSB released Handbook Section 1582 Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602 Non-Controlling interest which supersede Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. The released sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Sections are consistent with IFRS standards. Early application and adoption are permitted.

### **International Financial Reporting Standards ("IFRS")**

On February 13, 2008 the Accounting Standards Board ("AcSB") confirmed that the transition date to IFRS from Canadian GAAP would be January 1, 2011. In April 2008, the AcSB issued an exposure draft proposing to incorporate IFRS into the CICA Handbook as a replacement for current Canadian GAAP for most publicly accountable enterprises including the REIT. NPR will adopt IFRS as the basis for preparing its consolidated financial statements and will provide comparative financial information for the previous fiscal year using IFRS beginning with the quarter ending March 31, 2011. The impact of the adoption of IFRS on the consolidated financial statements of NPR will likely be significant and, as such, NPR has established and budgeted for an IFRS conversion project which began in the latter half of 2008. The project will consist of training and education of the project team; a scoping analysis of NPR's financial statements and the applicable IFRS; implementation and training of accounting and operations staff; the conversion of integrated systems and process changes if required; and a post implementation review.

The adoption of IFRS is expected to have a significant impact on NPR's consolidated financial reports, financial ratios and key Non-GAAP financial measures which are widely accepted indicators of the performance of Canadian real estate investment trusts. Management is actively involved in the transition process from Canadian GAAP to IFRS and provides the Audit Committee with regular reports on the status of the IFRS project. Management expects to complete its selection of appropriate elections under IFRS1 – First time Adoption of International Financial Reporting Standards and selection of IFRSs and obtain Audit Committee approval with sufficient lead time to prepare an opening January 1, 2010 Statement of Financial Position and quarterly comparative financial statements for the first three quarters of 2010 during 2010.

NPR's property management and data capture for financial reporting software has been proven to be sufficiently robust to provide the capability to capture the transactional information required to report under IFRS. NPR will maintain both Canadian GAAP and IFRS accounting records for the year 2010.

The Canadian Securities Administration Staff Notice 52-321, "Early Adoption of International Financial Reporting Standards", provides issuers with the option to early adopt IFRS effective January 1, 2009. NPR has determined it will not early adopt.

Because of the continuing updates to IFRS standards and the issuance of new standards, NPR will continue to identify effects on the trust's financial reporting and disclosure requirements. The following standards are expected to have the most significant impact on NPR's financial reporting.

### **International Accounting Standard "IAS 40" - Investment Property**

IAS 40 defines Investment Property as property held to earn rent, capital appreciation, or both. Under IFRS, either the fair value model or the cost model can be selected as the valuation method for investment property. Reporting Investment Property using the fair value method will have the most significant impact on NPR's financial reports from a transition and continuing valuation perspective and as an ongoing business cost. Under the fair value model, deferred costs, intangible assets and liabilities related to Investment Property would not be presented separately as their values are incorporated within the property's fair value.

NPR expects to take the IFRS 1 exemption where fair value can be elected as deemed cost at the date of transition to IFRS. Management has implemented a combined external appraisal valuation and internal calculation approach to fair value NPR's Investment Properties. Management has selected a sample of properties in each of NPR's regions of operation for independent external appraisal. Management contracted the services of three independent appraisal companies during the fourth quarter of 2009, each with expertise in the regions in which NPR operates, to perform external property appraisals. Management intends to use certain variables identified in these independent appraisals in its internal calculation process for the remainder of its Investment Properties. Due to the current economic conditions and the lack of observable market transactions in certain regions that NPR owns Investment Property, alternative fair value measurement procedures are being contemplated. The resulting adjustments of electing to use the fair value method under IFRS 1 will be recorded directly to retained earnings.

## **9. CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (continued)**

NPR has substantially completed the design of its real estate valuation process for its opening balance sheet. Implementation of the process began during the fourth quarter of 2009. The design and implementation of internal controls over this process have been considered and will be evaluated during 2010.

NPR will continue to revise internal control processes and procedures to address the changes to existing accounting policies and the requirement for dual record keeping during 2010.

NPR's financial performance and financial position presented under current GAAP may be significantly different when presented in accordance with IFRS. NPR continues to monitor the IASB's agenda to identify those standards that will affect its financial reporting and compliance activities. Management has identified a number of areas that will require a significant amount of time and effort to address in order to meet the required timelines. These areas include potential amendments to the Trust Declaration, certain debt covenants in operating facilities and compensation arrangements.

Any changes to the REIT's Declaration of Trust will not impact the REIT's current distributions paid to Unitholders. NPR currently distributes \$0.1233 per month (\$1.48 per year) per Unit. NPR has paid out all of its taxable income each year since it began paying distributions on its Units in July 2002.

After transition, either the cost or the fair value method can be used to value Investment Property. Management has not completed its analysis of the two alternatives; however, initial indications are that the fair value method is the preferred alternative. All Investment Properties will receive external appraisals on a three to five year rotating basis. Ongoing changes to the fair value of Investment Properties would be reported in profit and loss for the period in which they occur.

IFRS only allows for the capitalization of carrying costs, including interest, when properties are under active development. Costs are no longer capitalized when a property is completed for its intended use under both Canadian GAAP and IFRS. IFRS considers a property ready for its intended use when it is available for tenant possession, as compared to Canadian GAAP, which provides for the completion after a lease-up period. The carrying costs of NPR's Westmore Estates in Grande Prairie, AB will be capitalized throughout the lease-up phase under Canadian GAAP and expensed under IFRS.

### **IFRS 3 - Business Combinations**

Both IFRS and Canadian GAAP require the use of the acquisition method of accounting for all business combinations, however there are differences between the two frameworks. Under IFRS transaction costs are expensed immediately while under Canadian GAAP the costs are included in the cost of the asset. This may have a material negative impact on net income, FFO, AFFO and EBITDA in the year of acquisition. IFRS requires the purchaser to measure any non-controlling interest in the acquiree at either fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. Canadian GAAP would require the minority interest to be measured at the non-controlling interest's proportionate share of the historical carrying value of the acquiree's identifiable net assets.

The definition of a business combination is more encompassing under IFRS and may capture single asset acquisitions which would be treated as an asset acquisition under Canadian GAAP. When an investment property acquisition includes some minor ancillary processes such as a tenant laundry operation, the acquisition would be treated as an asset acquisition. When an investment property acquisition meets the definition of a business acquisition, the investment property components would be measured at the acquisition date fair value; the acquisition transaction costs would be expensed and any contingent consideration would be recognized. This could result in the recognition of goodwill where the purchase price exceeds the net asset value or a gain from a bargain purchase where the purchase price is less than the net asset value.

### **IAS 16 - Property, Plant and Equipment (PP&E)**

IAS 16 defines PP&E as tangible assets used in the production or supply of goods and services or for administrative purposes, and have expected lives of more than one year. NPR has certain staff accommodation, administrative office and warehouse properties which will be classified as PP&E under IAS 16.

Property, plant and equipment initially are measured at cost. A choice can then be made between the cost and revaluation models to measure each class of PP&E carried on the statement of changes in financial position. NPR intends to take the IFRS 1 exemption and exception from retrospective restatement of PP&E and will elect to measure certain classes of PP&E at the date of transition to IFRS using fair value as deemed cost. NPR will identify those assets which have characteristics similar to investment property and fair value them under the revaluation method. Any adjustments to the value of PP&E from the election under IFRS 1 will be recorded directly in Retained Earnings.

## 9. CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (continued)

Under the revaluation model, classes of assets will be measured at fair value less any subsequent accumulated depreciation and impairment losses. Fair value revaluations will be performed at regular intervals with revaluation gains being reported in Other Comprehensive Income and shown separately in equity. Recognized revaluation losses on an asset on which a gain had previously been recognized are reported in Other Comprehensive Income to the extent that revaluation gains exist for that class of asset and then be reported in profit and loss.

The remainder of NPR's PP&E will be measured using the cost method. Assets valued using the cost method will also be subject to depreciation and recognized impairment losses.

IFRS 16 also requires that PP&E be broken down into significant components and that depreciation be calculated on each component. Management has identified significant asset components and their applicable useful lives for the purpose of depreciating PP&E.

### IAS 17 - Leases

Paragraph 52 of IAS 17 states that, "Indirect costs incurred by lessors in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized as an expense over the term on the same basis as the lease income". For Canadian GAAP a separate intangible asset is presented on the balance sheet, whereas for IFRS, the deferred leasing costs form a component of the total fair value of the investment property and are not accounted for separately.

NPR's commercial leases can have three types of deferred leasing costs:

- 1) Tenant inducements - Where IAS 40 applies and investment properties are measured at fair value, the tenant inducements are considered in the cash inflows modeled to measure the fair value of the investment property, forming part of the in-place operating leases. In accordance with IAS 40.50(c), lease incentive assets are separated for presentation on the balance sheet by deducting this amount from the fair value of the property to avoid double counting of assets;
- 2) Tenant improvements - Tenant improvements which benefit the tenant should be treated as an incentive and netted against revenue in accordance with SIC-15 Operating Lease –Incentives. Where the tenant improvements are deemed the assets of the lessor and IAS 40 applies and the investment property is measured at fair value, the tenant improvements form part of the fair value of the property, and;
- 3) Deferred recoverable costs – The Standards eliminate any notion of deferring costs and creating an asset that does not meet the strict definition of an asset or the recognition criteria. Both Canadian GAAP and IFRS require these incentives to be amortized to rental revenue. The IFRS definition may differ from NPR's current accounting policy which may result in more costs being amortized to rental revenue.

Entities outside of North America do not defer recoverable costs as an intangible asset, as is the current practice in Canada. Under adoption of IFRS, NPR may need to derecognize any unamortized portion of deferred recoverable costs and charge opening retained earnings.

GAAP requires the prospective recognition of rental revenue from the adoption of the accounting policy, effective January 1, 2004, however, IFRS requires rental revenue to be recognized on a straight-line basis considering all rental payments from the start date of each lease. After all commercial leases have been reviewed NPR will be able to quantify the adjustment to its financial statements.

### IAS 31 - Interests in Joint Ventures

Management is assessing the effect this standard will have on NPR's financial reporting for its joint venture operations and the effect IFRSs may have on reporting those business operations to its joint venture partners. The IASB's Exposure Draft 9 made reference to the unsuitability of the proportionate consolidation method and proposes to eliminate the option to proportionately consolidate interests in jointly controlled entities. The basis for conclusions accompanying the final standard will describe when it is appropriate for an entity to account for its share of assets and liabilities and when to account for it as an investment. Management expects that the revaluation of investment property to fair value, the associated deferred tax and the changes to accounting for deferred leasing cost will not have a material effect on joint venture financial statements. The ability to continue to proportionately consolidate its joint venture operations cannot be determined at this time.

## 9. CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (continued)

### IAS 36 – Impairment of Assets

Both Canadian GAAP and IFRS require that assets be tested for potential impairment. GAAP recognizes impairment when the estimated fair value of undiscounted future cash flows from an asset is less than its carrying value. Under IFRS, an impairment charge must be recognized if the recoverable amount, measured as the higher of the estimated fair value less costs to sell or value-in-use, is less than the carrying value. Value-in-use is defined as the present value of estimated future cash flows expected to arise from the planned use of an asset and from its disposal at the end of its life. Impairment losses are recognized immediately in the profit and loss statement and the depreciation charge adjusted to allocate the revised carrying amount over the remaining useful life of the asset.

The recognition of an impairment charge will be reviewed each reporting period to determine whether an impairment loss previously recognized no longer exists. An impairment charge may be reversed to profit and loss when the recoverable amount is higher than the carrying amount of the asset, up to the original carrying value of the asset (net of depreciation), that would have been determined if no impairment charge had been recognized for the asset in prior years.

### IAS 32 - Financial Instruments: Disclosure and Presentation; IAS 39 - Financial Instruments: Recognition and Measurement, and; IAS 7 - Financial Instruments: Disclosures

These standards establish the principles for recognizing, measuring and presenting financial instruments as assets, liabilities or equity and offsetting financial assets and liabilities.

Upon initial recognition, a financial instrument should be classified as a financial liability, a financial asset or equity in accordance with the substance of the contractual arrangement applying the definitions in these sections. NPR will assess its contractual arrangements and determine whether any give rise to treatment as a financial asset, financial liability or equity.

The IASB is currently analyzing possible amendments to IAS 32, for the relaxation of certain rules regarding the treatment of puttable shares. A relaxation of the requirement to separate some puttable shares into equity and liability components may rectify the current controversy regarding the equity or debt treatment of redeemable trust units and exchangeable LP units. Canadian GAAP allows for the treatment of multiple classes of redeemable trust units or exchangeable LP units to be treated as equity. IAS 32 stipulates that classes of equity must be identical to be treated as equity. The disclosure of separate classes of equity under Canadian GAAP implies that redeemable trust units and exchangeable LP units are somehow different and therefore would be treated differently under IAS 32. The ability to exchange LP units for Trust units may imply a liability element exists because it imposes an unavoidable obligation to deliver units of the trust (i.e., a financial instrument of another entity). The requirement that equity instruments have identical features appears to be a controversial issue that may have a significant impact on NPR's financial statement disclosures. Consistent with other real estate trusts with multiple classes of equity, NPR is reviewing alternatives which would maintain the current equity treatment of its redeemable trust units and exchangeable LP units and enhance comparability among similar entities.

The IASB and FASB are holding discussions with respect to the replacement of IAS 39. No decisions have been made related to the classification and measurement of financial liabilities. The IASB is considering hedge accounting issues relating to financial hedged items and is expected to address all hedge accounting issues in the first half of 2010. The IASB will permit early adoption of the final IFRS and will require transition disclosure by all entities adopting the new IFRS.

Unit-based compensation in the form of options or deferred units is classified as equity under Canadian GAAP. Trust units that are redeemable, but meet the puttable instrument exemption would not be treated as equity under current IAS 32. Since unit-based compensation is to be settled by issuance of a financial liability itself, such unit-based compensation would be classified as a financial liability. Measurement would be based upon the fair value of the trust units, recognized over the vesting period.

### IAS 1 - Presentation of Financial Statements

The IASB and FASB tentatively decided to include the following in an exposure draft at their January joint meeting:

- An entity with more than one reportable segment must present its disaggregated by-nature information in its segmented note, and must also include its by-function information in the same note.
- An entity that disaggregates income and expense items by both function and nature in the notes to the financial statements should present its by-function information on the statement of comprehensive income.
- An entity should disaggregate its income and expense items in a manner that presents useful information for assessing the amount, timing and certainty of future cash flows. If disaggregation by function does not enhance the usefulness for that purpose of the information on the statement of comprehensive income, an entity should instead disaggregate its income and expense items by nature only.

NPR is continuing to review these requirements and identifying changes, if any, that may be required to its financial systems to obtain the required breakdown of information.

## **9. CHANGE IN ACCOUNTING POLICIES AND RECENT ACCOUNTING PRONOUNCEMENTS (continued)**

### **IAS 12 - Income Taxes**

The expected changes to NPR's opening statement of financial position as of January 1, 2010 arising from its transition to IFRS will require a corresponding tax asset or liability to be established based on the resultant differences between the carried value of assets and liabilities and their associated tax base. Management currently expects that the change to the deferred income tax liability at transition to IFRS will be significant, as substantially all of its investment property will be revalued to fair value. The deferred tax arising from fair value revaluations under IFRS 1 will be posted to retained earnings on the opening statement of financial position.

## **10. DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Disclosure Controls and Procedures ("DC&P") and internal controls over financial reporting ("ICFR") have been designed and implemented by, or under the supervision of NPR's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). DC&P ensure that material information relating to NPR is communicated to them by others in the organization as it becomes known and is appropriately disclosed as required under the continuous disclosure requirements of securities legislation. In essence, these types of controls are related to the quality and timeliness of financial and non-financial information in securities filings. ICFR provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. A control system, no matter how well designed, can provide only reasonable and not absolute assurance that the objectives of the control system are met. As a result of inherent limitation 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 evaluations of DC&P and ICFR were performed using the COSO control framework (Sponsoring Organizations of the Treadway Commission control framework) as adopted by NPR for the year ended December 31, 2009. Based on this evaluation, the CEO and CFO concluded that NPR's disclosure controls and procedures, as defined in Multilateral Instruments 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings, were effective and provided reasonable assurance that information required to be disclosed in reports that were filed or submitted under Canadian securities legislation related to NPR are recorded, processed, summarized and reported within the time periods specified in those rules and forms. The CEO and CFO also concluded that NPR's internal controls over financial reporting were operating effectively as at December 31, 2009 and provided reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external reporting in accordance with Canadian GAAP.

Management believes that the consolidated financial statements included in this report present fairly in all material respects the financial position, results of operations and cash flows for the periods presented. The presented information has been reviewed by the Disclosure Committee, the Audit Committee and the Board of Trustees, which approved it prior to its publication.

## **11. ADDITIONAL INFORMATION**

Additional information relating to NPR, including the REIT's annual information return, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Unitholders of  
Northern Property Real Estate Investment Trust (the "Trust"):

The accompanying consolidated financial statements and information included in this Annual Report have been prepared in accordance with the recommendations of the Canadian Institute of Chartered Accountants. The Management of the Trust is responsible for their integrity and objectivity. To fulfill this responsibility, the Trust maintains appropriate systems of internal control, policies and procedures to ensure that its reporting practices and accounting and administrative procedures are of high quality. The financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Deloitte & Touche 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 herein. The consolidated financial statements have been further reviewed and approved by the Board of Trustees and its Audit Committee. The Audit Committee, which is comprised of three trustees who are not officers of the Trust, reports to the Board of Trustees. The auditors have direct and full access to the Audit Committee.



**B. James Britton**  
*President and Chief Executive Officer*



Todd R. Cook  
*Chief Financial Officer*

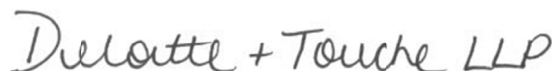
## AUDITORS' REPORT

To the Unitholders of  
Northern Property Real Estate Investment Trust:

We have audited the consolidated balance sheets of Northern Property Real Estate Investment Trust (the "Trust") as at December 31, 2009 and 2008 and the consolidated statements of earnings and comprehensive earnings, unitholders' equity, and cash flows for the years ended December 31, 2009 and 2008. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years ended December 31, 2009 and 2008 in accordance with Canadian generally accepted accounting principles.



Calgary, Alberta  
February 26, 2010

*Chartered Accountants*



# Consolidated Balance Sheets

At December 31

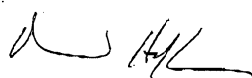
(Thousands of dollars)

	2009	2008
<b>ASSETS</b>		
Rental properties and other capital assets (Note 4)	836,251	833,967
Capital improvements in progress	7,046	3,773
Capital assets under development	20,423	8,996
Prepaid expenses and other assets (Note 5)	5,088	5,664
Cash	-	731
Accounts receivable (Note 17)	4,158	5,085
Tenant security deposits	3,555	3,575
Deferred rent receivable	4,539	3,248
Loans receivable	2,456	1,742
Intangible assets (Note 6)	4,851	6,141
	<b>888,367</b>	<b>872,922</b>
<b>LIABILITIES</b>		
Mortgages and loans payable (Note 7)	498,996	482,800
Operating facilities (Note 8)	33,698	26,600
Bank indebtedness	1,820	-
Accounts payable and accrued liabilities (Note 17)	15,555	15,111
Distributions payable	3,096	3,092
Future income tax liability (Note 11)	43,751	39,489
Intangible liabilities (Note 6)	94	279
Non-controlling interest	464	441
	<b>597,474</b>	<b>567,812</b>
<b>UNITHOLDERS' EQUITY</b>	<b>290,893</b>	<b>305,110</b>
	<b>888,367</b>	<b>872,922</b>

See accompanying notes to the consolidated financial statements.

Guarantees, commitments and contingencies (Note 14)

APPROVED BY THE BOARD



Dennis J. Hoffman  
Trustee



B. James Britton  
President and Chief Executive Officer

# Consolidated Statements of Earnings and Comprehensive Earnings

Years ended December 31

(Thousands of dollars, except per unit amounts)

	2009	2008
<b>REVENUE</b>		
Rental revenue	130,767	124,626
Other property income	3,465	3,133
	<b>134,232</b>	<b>127,759</b>
Operating expenses	(47,439)	(43,454)
	<b>86,793</b>	<b>84,305</b>
<b>OTHER EXPENSES</b>		
Interest on mortgages and loans	(26,435)	(24,499)
Amortization	(28,789)	(26,447)
	<b>(55,224)</b>	<b>(50,946)</b>
<b>EARNINGS BEFORE THE UNDERNOTED</b>	<b>31,569</b>	<b>33,359</b>
Trust administration	(5,619)	(6,796)
Interest on operating facilities	(755)	(1,286)
Interest and other income	458	509
Gain on settlement of debt	130	558
Gain on sale of rental properties	246	136
Non-controlling interest	(100)	(63)
	<b>(5,640)</b>	<b>(6,942)</b>
<b>EARNINGS BEFORE INCOME TAXES</b>	<b>25,929</b>	<b>26,417</b>
<b>INCOME TAXES (Note 11)</b>		
Current	(373)	(409)
Future	(4,240)	(3,306)
	<b>(4,613)</b>	<b>(3,715)</b>
<b>NET EARNINGS</b>	<b>21,316</b>	<b>22,702</b>
Other comprehensive earnings (loss)	(123)	68
<b>COMPREHENSIVE EARNINGS</b>	<b>21,193</b>	<b>22,770</b>
<b>Net earnings per unit (Note 13)</b>		
Basic	<b>\$0.850</b>	<b>\$0.907</b>
Diluted	<b>\$0.847</b>	<b>\$0.906</b>

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Unitholders' Equity

Year ended December 31

(Thousands of dollars)

	2009	2008
<b>TRUST UNITS (Note 12)</b>		
Balance, beginning of year	367,446	366,789
Issuance of units	65	-
Exercise of unit options	528	-
Units cancelled	(13)	-
Issue costs	(2)	(8)
Long term incentive plan units issued	666	665
<b>Balance, December 31</b>	<b>368,690</b>	<b>367,446</b>
<b>CONTRIBUTED SURPLUS</b>		
Balance, beginning of year	1,676	1,023
Unit-based compensation	504	631
Exercise of unit options	(39)	-
Long term incentive plan units granted	634	687
Long term incentive plan units issued	(666)	(665)
<b>Balance, December 31</b>	<b>2,109</b>	<b>1,676</b>
<b>CUMULATIVE DEFICIT</b>		
<b>CUMULATIVE NET EARNINGS</b>		
Balance, beginning of year	86,056	63,354
Units cancelled	13	-
Net earnings	21,316	22,702
<b>Balance, December 31</b>	<b>107,385</b>	<b>86,056</b>
<b>CUMULATIVE DISTRIBUTIONS TO UNITHOLDERS</b>		
Balance, beginning of year	(150,191)	(113,154)
Distributions declared to unitholders	(37,100)	(37,037)
<b>Balance, December 31</b>	<b>(187,291)</b>	<b>(150,191)</b>
<b>CUMULATIVE DEFICIT, December 31</b>	<b>(79,906)</b>	<b>(64,135)</b>
<b>ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS)</b>		
Balance, beginning of year	123	55
Other comprehensive (loss) earnings	(123)	68
<b>Balance, December 31</b>	<b>-</b>	<b>123</b>
<b>TOTAL UNITHOLDERS' EQUITY</b>	<b>290,893</b>	<b>305,110</b>

See accompanying notes to the consolidated financial statements.

# Consolidated Statements of Cash Flows

Year ended December 31  
(Thousands of dollars)

	2009	2008
<b>CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Net earnings	21,316	22,702
Adjustments for:		
Deferred rental revenue	(1,292)	(1,209)
Amortization	28,789	26,447
Amortization of fair value of debt	681	560
Amortization of above and below market leases	(160)	(291)
Amortization of deferred financing fees	1,078	547
Gain on settlement of debt	(130)	(558)
Gain on sale of rental properties	(246)	(136)
Non-controlling interest	100	63
Unit-based compensation	1,138	1,318
Future income tax expense	4,240	3,306
	<b>55,514</b>	<b>52,749</b>
Changes in non-cash working capital	<b>679</b>	<b>885</b>
	<b>56,193</b>	<b>53,634</b>
<b>FINANCING</b>		
Proceeds from mortgages and loans	56,563	144,603
Repayment of mortgages and loans	(41,716)	(58,659)
Proceeds from operating facilities	7,098	1,400
Payments (to) from non-controlling interest	(76)	377
Units issued under option plan	489	-
Unit issue costs	(2)	(8)
Distributions paid to unitholders	(37,096)	(37,029)
	<b>(14,740)</b>	<b>50,684</b>
<b>INVESTING</b>		
Acquisition of rental properties and other assets	(12,764)	(65,645)
Proceeds from sale of rental properties	992	395
Capital assets under development	(11,426)	(25,450)
Building capital maintenance	(11,235)	(5,902)
Capital improvements	(9,571)	(6,881)
	<b>(44,004)</b>	<b>(103,483)</b>
<b>NET (DECREASE) INCREASE IN CASH</b>	<b>(2,551)</b>	<b>835</b>
<b>CASH (BANK INDEBTEDNESS),</b>		
<b>BEGINNING OF YEAR</b>	<b>731</b>	<b>(104)</b>
<b>(BANK INDEBTEDNESS) CASH, END OF</b>		
<b>YEAR</b>	<b>(1,820)</b>	<b>731</b>
<b>SUPPLEMENTARY INFORMATION</b>		
Interest paid	25,346	24,444
Interest received	282	371
Income taxes paid	214	727

See accompanying notes to the consolidated financial statements.

# Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

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## 1. DESCRIPTION OF THE TRUST

Northern Property Real Estate Investment Trust ("NPR" or the "REIT") is an unincorporated open-ended real estate investment trust that invests in and owns a portfolio of residential and commercial income producing properties.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of presentation

NPR's consolidated financial statements are prepared in conformity with Canadian generally accepted accounting principles ("GAAP").

### Principles of consolidation

The consolidated financial statements include the accounts of NPR and its wholly-owned subsidiary, together with the proportionate share of the assets, liabilities, revenue and expenses of joint ventures.

### Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and to make disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenue and expenses for the consolidated reported period. Actual results could differ from those estimates. Estimates are used to determine amounts reported as allowance for doubtful accounts, estimated useful lives and values of rental properties, intangible and other assets, accrued liabilities and capital adequacy. Actual amounts could differ from those estimates.

### Capital assets

Rental properties, capital improvements in progress and capital assets under development are stated at the lower of cost less accumulated amortization and fair value. Cost of the properties includes the original acquisition costs of the property and other acquisition related costs. Costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance, are capitalized as project improvements. The fair value represents the undiscounted, estimated future net cash flow expected to be received from the ongoing use of the property plus its residual worth and is intended to determine recovery of an investment and is not an expression of a property's fair market value.

All capital assets are recorded at cost and are amortized using the following annual rates and methods:

Buildings	30 - 40 years	straight-line basis
Furniture, fixtures and equipment	20% - 30%	declining-balance
Vehicles	20% - 30%	declining-balance
Capital and leasehold improvements	3 - 20 years	straight-line basis

Revenue and expenses associated with properties under development are capitalized until the properties achieve a satisfactory level of occupancy.

Estimated useful lives of capital assets are periodically evaluated by management and any changes in these estimates are accounted for on a prospective basis.

NPR reviews its capital assets and, if it is determined that the carrying value of a building exceeds the undiscounted estimated future net cash flow expected to be received from the ongoing use and residual worth of the property, the carrying value of the building is reduced to its fair value. Based on this review, a provision for impairment of \$nil has been recorded for the year ended December 31, 2009 (December 31, 2008 - \$nil).

### Disposal of long-lived assets

When management considers transactions to be material, amounts related to the disposal of long-lived assets are classified as held for sale, and the results of operations and cash flows associated with the assets disposed are reported separately as discontinued operations, less applicable income taxes. A long-lived asset is classified as an asset held for sale at the point in time when it is available for immediate sale, management has committed to a plan to sell the asset and are actively locating a buyer for the asset at a sales price that is reasonable in relation to the current fair value of the asset, and the sale is probable and is expected to be completed within a one-year period. For unsolicited interest in a long-lived asset, the asset is classified as held for sale only if all the conditions of the purchase and sale agreement have been met, a sufficient purchaser deposit has been received and the sale is probable and expected to be completed shortly after the end of the current period.

# Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Land equity leases

Prepaid land equity leases are amortized over the remaining lives of the related leases ranging from 15 to 30 years.

### Deferred financing costs

Deferred financing costs are amortized using the effective interest method over the amortization period of the related mortgages and loans payable.

### Income taxes

NPR is taxed as a "mutual fund trust" for income tax purposes. Pursuant to the Declaration of Trust, the trustees of NPR will make distributions or designate all taxable income earned; including the taxable part of net realized capital gains, to unitholders and will deduct such distributions and designations for income tax purposes.

Income taxes are accounted for using the liability method. Under this method, future income taxes are recognized for the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income taxes are computed using substantively enacted corporate income tax rates for the years in which tax and accounting basis differences are expected to reverse.

Future income tax liabilities are primarily in relation to tax and accounting base differences in corporate subsidiaries of the REIT.

### Revenue recognition

Revenue from a rental property is recognized when a tenant commences occupancy of a property and rent is due. NPR retains all benefits and risk of ownership of its rental properties, and therefore, accounts for leases with its tenants as operating leases. Rental revenue includes rent and other sundry revenue recoveries. Rental revenue to be received from leases with rental rates varying over the term of the lease is recorded on a straight-line basis over the term of the associated lease. Accordingly the difference between the rental revenue recorded on a straight line basis and the rent that is contractually due from the tenant has been recorded as deferred rent receivable for accounting purposes.

### Intangible assets and liabilities

NPR allocates the purchase price of real property to land, building, and intangible assets and liabilities, such as the value of above-market and below-market leases, in-place leases and lease origination costs, if any. Intangible assets and liabilities are recorded at cost and amortized over their estimated useful lives ranging from 1 year to 18 years.

The values of above-market and below-market leases for acquired properties are determined based on the present value of the difference between the contractual base rentals under the lease and fair market lease rates for similar in-place leases, measured from the date of acquisition to the end of the remaining lease term.

The values of in-place leases are calculated as the present value of the net operating income lost during a hypothetical expected lease-up period required to replace the existing leases at the date of purchase.

Intangible assets and liabilities associated with the acquisition of real property are amortized over the remaining term of the associated lease. Above and below market leases are amortized to rental revenue. The amortization of the remaining intangible assets is included in amortization expense.

### Financial instruments

Management has determined that the majority of the NPR's financial assets are designated as loans and receivables, as defined by Section 3855 of the CICA Handbook, and are carried at amortized cost. Management has also determined that all of its financial liabilities have been designated as other financial liabilities and are carried at amortized cost utilizing the effective interest method. Financial instruments include loans receivable, accounts receivable, tenant security deposits, mortgages and loans payable, operating facilities, distributions payable, accounts payable and accrued liabilities and bank indebtedness. Except for mortgages and loans payable, the fair value of financial instruments approximated carrying values due to the short-term nature of the financial instruments. The fair value of mortgages and loans payable is disclosed in note 7.

Under NPR's Long Term Incentive Plan, the fair value of the units granted to trustees, officers and employees is recognized as compensation expense with an offsetting amount to contributed surplus based on the closing price of NPR's trust units on December 31 of the fiscal year. Upon issuance in accordance with the vesting policy, the units issued are credited to capital with an offsetting amount to contributed surplus based on the fair value of the units at the time of the grant.

# Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

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## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Unit-based compensation

Under NPR's Unit Option Plan, options to acquire units are granted to trustees, officers and employees from time to time at exercise prices not less than the market value of the shares at the date of the grant. Options granted by NPR are accounted for in accordance with the fair-value method of accounting for stock-based compensation, and as such, the calculated fair value of the option is recognized as compensation expense with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value using a Black-Scholes option-pricing model. Compensation expense is recognized over the vesting period of the related options.

Upon exercise of the options, consideration paid, which approximates the market value of the shares on grant date, is credited to capital. In addition, contributed surplus, representing the calculated fair value of the options exercised, is reclassified to capital. Forfeitures of options are accounted for as they occur.

## 3. CHANGE IN ACCOUNTING POLICY AND RECENT ACCOUNTING PRONOUNCEMENTS

### Change in accounting policy

On January 1, 2009, NPR adopted the June 2009 amendments to the Canadian Institute of Chartered Accountants ("CICA"), Handbook Section 3862, Financial Instruments — Disclosures. The amendments include enhanced disclosures related to the fair value of financial instruments and the liquidity risk associated with financial instruments. The amendment requires a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments will be effective for annual financial statements for fiscal years ending after September 30, 2009. The amendments are consistent with recent amendments to financial instrument disclosure standards in International Financial Reporting Standards ("IFRS").

On January 1, 2009 NPR adopted the August 2009 amendments to CICA Handbook Section 3855, Financial Instruments — Recognition and Measurement, relating to the impairment of financial assets. Amendments to this Section have revised the guidance on the assessment of embedded derivatives on reclassification of financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category. The amendment also requires the use of the credit loss model when assessing instruments held to maturity for impairment.

On January 1, 2009, NPR adopted EIC-173, Credit risk and the fair value of financial assets and financial liabilities. This abstract requires that an entity's own credit risk (for financial liabilities) and the credit risk of the counterparty (for financial assets) should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments.

Effective January 1, 2009, NPR adopted CICA Handbook Section 3064, Goodwill and Intangible Assets. These new pronouncements establish standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises.

The new standards had no impact on NPR's consolidated financial statements.

### Recent accounting pronouncements

On January 5, 2009, the AcSB released Handbook Section 1582 Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602 Non-Controlling Interest which supersedes Section 1581, Business Combinations and Section 1600, Consolidated Financial Statements. The released sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. The Sections are consistent with IFRS standards. Early application and adoption are permitted.

On February 13, 2008 the Accounting Standards Board ("AcSB") confirmed that the transition date to IFRS from Canadian GAAP would be January 1, 2011 for all publicly accountable enterprises. In April 2008, the AcSB issued an exposure draft proposing to incorporate IFRS into the CICA Handbook as a replacement for current Canadian GAAP for most publicly accountable enterprises including the REIT. NPR will adopt IFRS as the basis for preparing its consolidated financial statements and will provide comparative financial information for the previous fiscal year using IFRS beginning with the quarter ending March 31, 2011.

The impact of the adoption of IFRS on the consolidated financial statements of NPR is expected to be significant. NPR continues to evaluate the potential impact of IFRS to its consolidated financial statements. This is an ongoing process as the International Accounting Standards Board and the AcSB issue new standards and recommendations.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

### 4. RENTAL PROPERTIES AND OTHER CAPITAL ASSETS

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	90,906	-	90,906	90,676	-	90,676
Buildings	815,985	98,983	717,002	800,612	76,187	724,425
Furniture, fixtures and equipment	10,326	4,956	5,370	9,006	3,757	5,249
Vehicles	1,307	674	633	1,193	732	461
Capital and leasehold improvements	36,491	14,151	22,340	23,026	9,870	13,156
	<b>955,015</b>	<b>118,764</b>	<b>836,251</b>	<b>924,513</b>	<b>90,546</b>	<b>833,967</b>

NPR acquired properties and completed development projects in the year ended December 31, 2009 for a total purchase price of \$11.7 million (2008 – \$80.4 million). During the year, NPR completed the sale of three non-core assets for gross proceeds of \$992,000 (2008 – \$395,000) and a gain on sale of \$246,000 (2008 – \$136,000). Acquisitions and development projects were financed as follows:

	2009	2008
Cash paid	9,800	80,391
Mortgages payable	1,788	-
Class B LP Units issued	65	-
Total	<b>11,653</b>	<b>80,391</b>
Residential rental units	40	724
Seniors' units	111	94
Units acquired	151	818
Commercial square feet	-	40,233

### 5. PREPAID EXPENSES AND OTHER ASSETS

	2009	2008
Prepaid expenses	2,543	2,812
Prepaid equity leases	1,997	2,167
Other	548	500
Refundable deposits and mortgage proceeds held in trust	-	185
	<b>5,088</b>	<b>5,664</b>



## Notes to the Consolidated Financial Statements

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(Columnar amounts expressed in thousands of dollars except where indicated)

### 6. INTANGIBLE ASSETS AND LIABILITIES

	2009			2008		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Above-market leases	173	(139)	34	173	(114)	59
In-place leases	6,474	(2,466)	4,008	6,565	(1,588)	4,977
Lease origination costs	1,643	(834)	809	1,669	(564)	1,105
	<b>8,290</b>	<b>(3,439)</b>	<b>4,851</b>	<b>8,407</b>	<b>(2,266)</b>	<b>6,141</b>
Below-market leases	1,220	(1,126)	94	1,220	(941)	279

Intangible assets are comprised of the value of above-market leases, in-place leases and lease origination costs for rental property acquisitions completed. Intangible liabilities are comprised of the value of below-market leases for rental property acquisitions completed.

### 7. MORTGAGES AND LOANS PAYABLE

	2009	2008
Mortgages and loans payable	518,912	502,277
Fair value adjustment	(8,217)	(8,574)
Deferred financing costs	(11,699)	(10,903)
	<b>498,996</b>	<b>482,800</b>

Mortgages and loans payable bear interest at rates ranging from 2.31% to 12.13% and have a weighted average rate of 4.87% as at December 31, 2009 (December 31, 2008 – 5.13%). Mortgages and loans are payable in monthly installments of blended principal and interest of approximately \$3.5 million. The mortgages mature between 2010 and 2025 and are secured by charges against specific properties. Land and buildings with a carrying value of \$679 million have been pledged to secure mortgages and loans payable of NPR. The fair value of mortgages and loans payable at December 31, 2009 is approximately \$535.0 million (December 31, 2008 – \$517.7 million).

Minimum required future principal repayments, including maturities, are as follows:

2010	46,541
2011	44,882
2012	50,281
2013	91,003
2014	78,218
Subsequent	207,987
	<b>518,912</b>

### 8. OPERATING FACILITIES

NPR has two revolving credit facilities totaling \$57.5 million (December 31, 2008 - \$50.0 million) for acquisition and operating purposes. The \$50.0 million facility bears interest at prime plus 1.50% or bankers' acceptance plus 3.00% with a maturity date of May 21, 2010. The \$7.5 million facility bears interest at prime plus 1.50% or bankers' acceptance plus 3.00% with a maturity date of July 31, 2010. Specific properties with a carrying value of \$92.9 million have been pledged as collateral security for the operating facilities. At December 31, 2009 NPR had utilized \$33.7 million (December 31, 2008 – \$26.6 million) of the operating facilities.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

### 9. LONG-TERM INCENTIVE PLAN AND UNIT OPTION PLAN

NPR has a Long-Term Incentive Plan ("LTIP") for the executives of NPR, based on the results of each fiscal year. Units granted and issued under the LTIP are as follows:

	Number of Units
Balance – December 31, 2008	<b>56,440</b>
Units vested and issued – January, 2009	(8,408)
Units vested and issued – February, 2009	(28,509)
Units granted – December 31, 2009	28,950
Balance – December 31, 2009	<b>48,473</b>

The total amount of LTIP awards are determined at the end of each fiscal year by the Board of Trustees based on an assessment of the performance of NPR and the individual performance of the executives. The number of units issued is based on the trading price on December 31 of each year. Pursuant to the policy, rights to units generally vest in 1/3 tranches: immediately upon award, then 12 and 24 months following. As at December 31, 2009, a total of 192,136 LTIP units had vested and been issued (December 31, 2008 – 155,219).

NPR has a Unit Option Plan (the "Option Plan"), which is subject to the rules of the Toronto Stock Exchange ("TSX"). In accordance with the Option Plan, NPR may grant options to acquire units up to a total of 1,830,429 units. All options to acquire units expire after 5 years and vest as determined by the Governance and Compensation Committee of NPR. The exercise price is determined using the weighted average trading price of the units on the five days prior to the options being granted. The following table summarized the outstanding unit options as at December 31, 2009:

Exercise Price	Number Outstanding at December 31	Weighted-Average Remaining Contractual Life In Years	Weighted-Average Exercise Price	Number Exercisable at December 31	Weighted-Average Exercise Price
\$23.12	735,000	3.4	\$23.12	489,999	\$23.12
\$15.05	124,997	4.2	\$15.05	20,004	\$15.05
	859,997	3.7	\$21.95	510,003	\$22.80

On May 20, 2008, 735,000 options with an exercise price of \$23.12 and expiring on May 20, 2013 were granted to trustees and officers. 245,002 options vested immediately, 245,001 options vested on May 20, 2009 and 244,997 will vest on May 20, 2010.

On March 12, 2009, 157,500 options with an exercise price of \$15.05 and expiring on March 12, 2014 were granted to trustees and officers. 52,507 options vested immediately, 52,497 options will vest on March 12, 2010 and 52,496 will vest on March 12, 2011. During the year ended December 31, 2009, 32,503 options were exercised at an exercise price of \$15.05 per unit.

The REIT accounts for its Option Plan using the fair value method, under which compensation expense is measured at the date the options are granted using the Black-Scholes model and recognized over the vesting period. The following assumptions were used in calculating the fair value of the options granted on May 20, 2008; expected annual dividend rate of 6.40%, expected volatility of 18%, risk-free rate of return of 3.10% and expected life of 5 years. The following assumptions were used in calculating the fair value of the options granted on March 12, 2009; expected annual dividend rate of 9.83%, expected volatility of 28.8%, risk-free rate of return of 1.75% and expected life of 5 years. Compensation expense for the year ended December 31, 2009 relating to options granted was \$504,000 (2008 – \$631,000).

## Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

### 10. EMPLOYEE UNIT PURCHASE PLAN

Under the terms of the Employee Unit Purchase Plan (the "EUPP"), employees may invest a maximum of 5% of their salary in NPR trust units and NPR contributes one unit for every three units acquired by an employee. The units are purchased on the TSX at market prices. During the year ended December 31, 2009, employees invested a total of \$117,434 (2008 – \$115,562) and NPR contributed \$39,166 (2008 – \$38,555). During the year ended December 31, 2009, 8,955 units (2008 – 7,974 units) were purchased at an average cost of \$18.71 per unit (2008 – \$20.65 per unit).

### 11. INCOME TAXES

NPR has certain corporate subsidiaries which are subject to income tax on their respective taxable income at the applicable legislated tax rates.

On October 31, 2006, a "Distribution Tax" on publicly traded investment trusts and publicly listed partnerships was announced by the federal Minister of Finance. The announcement created a new tax regime for Specified Investment Flow Throughs ("SIFTs"), which include certain publicly listed income trusts and publicly listed partnerships. These entities will be taxed in effect as corporations (at a rate comparable to the general combined federal/provincial corporate income tax rate). Certain real estate investment trusts are excluded from the SIFT definition and therefore are not subject to the new regime.

The legislation provides for a transition period for publicly traded entities that existed prior to November 1, 2006 and is not expected to apply to NPR until 2011. The new tax regime, does not apply to entities that qualify for the REIT Exemption. Where an entity does not qualify for the REIT Exemption certain distributions will not be deductible in computing income for tax purposes and will be subject to tax on such distributions at a rate comparable to the general corporate income tax rate. At December 31, 2009, NPR does not appear to qualify for the REIT exemption.

GAAP requires NPR to recognize future income tax assets and liabilities based on estimated temporary differences expected as at January 1, 2011. Under the current legislation, NPR does not appear to qualify for the REIT Exemption. The future income tax provision arises from temporary differences between the estimated accounting and tax values of NPR's assets and liabilities at January 1, 2011 and has been calculated using the expected tax rates of 19.13% to 28.4% (December 31, 2008 – 19.63% to 29.5%).

The future tax liabilities arise from the temporary differences summarized below:

	2009	2008
Future tax liabilities arising from temporary differences between accounting and tax basis of:		
Rental property assets in corporate subsidiaries	9,304	9,614
Rental properties	28,868	24,963
Deferred financing costs	1,574	981
Other assets	4,005	3,931
	<b>43,751</b>	<b>39,489</b>

The provision for income taxes differs from the results which would be obtained by applying the combined federal and provincial income tax rate to net income before taxes. The provision for income taxes is comprised of the following:

	2009	2008
Current income tax expense	373	409
Future income tax expense	4,240	3,306
Total income tax expense	<b>4,613</b>	<b>3,715</b>

## Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

### 11. INCOME TAXES (continued)

The provision for income taxes differs from the results which would be obtained by applying the combined federal and provincial income tax rate to net income before taxes. The difference results from the following:

	2009	2008
Earnings from before income taxes	25,929	26,417
Less income attributable to NPR not subject to future income tax	(23,999)	(24,529)
Income in corporate subsidiaries	1,930	1,888
Income tax rate based on basic and weighted average rates	19.13%	19.63%
Expected income tax expense from statutory income tax rate	369	371
Increase (decrease) in current taxes resulting from:		
Non-deductible expenses	57	(88)
Sale of rental properties	48	9
Other	(101)	117
Current income tax expense	373	409
Increase (decrease) in future taxes resulting from:		
Future income taxes - corporate subsidiaries	(310)	(394)
Decrease in future income tax rates	(1,250)	-
Future income taxes relating to Bill-C52	5,800	3,700
Future income tax expense	4,240	3,306
Total income tax expense	4,613	3,715

### 12. UNITHOLDERS' CAPITAL

#### Trust units

The total authorized number of trust units is unlimited. The total number of trust units of the REIT outstanding as at December 31, 2009 is 23,020,538 (December 31, 2008 – 22,755,010) representing a net book value of \$343.3 million (December 31, 2008 - \$338.3 million), net of issue costs.

#### Class B exchangeable limited partnership units and special voting units

The Class B Units can be exchanged for trust units at any time at the option of the holder of the Class B units. Each Class B unit has a "Special Voting Unit" attached to it, which entitles the holder to one vote, either in person or by proxy at the meeting of unitholders of the trust as if he or she was a unitholder of the trust. Total number of Class B LP Units and special voting units of Northern Property Limited Partnership, a controlled limited partnership, outstanding as at December 31, 2009, is 2,085,090 (December 31, 2008 – 2,278,635) representing a net book value of \$25.4 million (December 31, 2008 – \$29.1 million).

#### Distributions to unitholders

Pursuant to the Trust Declaration, holders of Trust units and Class B units are entitled to receive distributions made on each distribution date as approved by the Trustees. Distributions for the year are required to be at least equal to the net income as determined in accordance with the Income Tax Act.

## Notes to the Consolidated Financial Statements

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(Columnar amounts expressed in thousands of dollars except where indicated)

### 12. UNITHOLDERS' CAPITAL (continued)

The total number of NPR Trust units and Class B units issued, as the result of an exchange of Class B limited partnership units of Northern Property Limited Partnership (the "Class B LP Units"), outstanding and eligible for distributions at December 31, 2009 is 25,105,628 (December 31, 2008 – 25,033,645), representing net proceeds of \$368.7 million, net of issue costs of \$19.6 million (December 31, 2008 - \$367.5 million, net of issue costs of \$19.6 million). The number of units issued and outstanding is as follows:

Date	Description	Trust Units	Issue Price	Class B LP Units	Issue Price	Total Units	\$(000's)
<b>December 31, 2007</b>		<b>22,536,988</b>		<b>2,467,101</b>		<b>25,004,089</b>	<b>366,789</b>
January 02, 2008	LTIP units issued	6,033	\$23.12	-	-	6,033	139
February 16, 2008	LTIP units issued	11,592	\$22.35	-	-	11,592	259
May 26, 2008	LTIP units issued	11,931	\$22.35	-	-	11,931	267
	Issue costs	-	-	-	-	-	(8)
	Class B LP units exchanged	188,466	-	(188,466)	-	-	-
<b>December 31, 2008</b>		<b>22,755,010</b>		<b>2,278,635</b>		<b>25,033,645</b>	<b>367,446</b>
January 2, 2009	LTIP units issued	8,408	\$24.20	-	-	8,408	204
January 6, 2009	Property acquisition	-	-	3,833	\$16.91	3,833	65
February 5, 2009	LTIP units issued	28,509	\$16.21	-	-	28,509	462
	Options exercised	32,503	\$15.05	-	-	32,503	528
July 24, 2009	Units cancelled	(1,270)	\$10.00	-	-	(1,270)	(13)
	Issue costs	-	-	-	-	-	(2)
	Class B LP units exchanged	197,378	-	(197,378)	-	-	-
<b>December 31, 2009</b>		<b>23,020,538</b>		<b>2,085,090</b>		<b>25,105,628</b>	<b>368,690</b>

### 13. NET EARNINGS PER UNIT

	2009	2008
Net earnings	<b>21,316</b>	22,702
Weighted average units for basic net earnings per unit	<b>25,088,584</b>	25,027,697
Dilutive effect of units to be issued under the LTIP	<b>22,280</b>	19,978
Dilutive effect of Option Plan	<b>44,264</b>	13,270
Weighted average units for diluted net earnings per unit	<b>25,155,128</b>	25,060,945
Net earnings per unit:		
Basic	<b>\$0.850</b>	\$0.907
Diluted	<b>\$0.847</b>	\$0.906

## Notes to the Consolidated Financial Statements

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### 14. GUARANTEES, COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, NPR may provide indemnification commitments to counterparties in transactions such as credit facilities, leasing transactions, service arrangements, director and officer indemnification agreements and sales of assets. These indemnification agreements may require NPR to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by counterparties as a consequence of the transaction. The terms of these indemnification agreements may vary based on the contract and do not provide any limit on the maximum potential liability. To date, NPR has not made any significant payments under such indemnifications and no amount has been accrued in the financial statements with respect to these indemnification commitments. In the normal course of operations, NPR becomes subject to various legal and other claims. Management and its legal counsel evaluate these claims and, where required, accrue the best estimate of costs relating to these claims. Management believes the outcome of claims of this nature at December 31, 2009 will not have a material impact on NPR.

During the normal course of operations, NPR provided guarantees for mortgages and loans payable relating to investments in corporations and joint ventures where NPR owns less than 100%. The mortgages and loans payable are secured by specific charges against the properties owned by the corporations and joint ventures. In the event of a default of the corporation or joint venture, NPR may be liable for 100% of the outstanding balances of these mortgages and loans payable. At December 31, 2009, NPR has provided guarantees totaling \$6.1 million (December 31, 2008 – \$10.4 million). The mortgages bear interest at rates ranging from 3.06% to 6.10% and mature July 2010 to December 2013 (December 2008 – 4.54% to 7.90% and mature June 2009 to December 2013). As at December 31, 2009, land and buildings with a carrying value of \$6.3 million have been pledged to secure these mortgage and loans payable (December 2008 – \$6.5 million).

NPR has included its proportionate share of its joint ventures' mortgages and loans payable totaling \$4.9 million at December 31, 2009 (December 31, 2008 – \$5.2 million) in these consolidated financial statements.

In connection with the acquisition of certain seniors' properties in Newfoundland, the tenants have agreed to expand certain properties purchased by NPR. NPR has entered into agreements to purchase these expansions once completed. In total, NPR has commitments totalling \$2.0 million.

### 15. SEGMENTED INFORMATION

The primary business segments used by management are geographic segments (i.e. provinces and territories). NPR operates in 5 geographic segments, British Columbia, Alberta, the Northwest Territories, Nunavut and Newfoundland. Within its geographic business segments, NPR has two business operating segments: residential and commercial income producing properties. The REIT's residential properties are comprised of three components: apartments, townhomes and single family rental units; executive apartment rental units, where the rental periods range from a few days to several months; and seniors' properties where the properties are leased on a long term basis to qualified operators who provide services to individual residents. The commercial business segment is comprised of office, industrial and retail properties in areas where NPR has residential operations. All items, except gain on sale of rental properties and gain on settlement of debt which are related only to the REIT and are included in the Consolidated Statement of Earnings, are not allocated to the defined segments. As such, NPR has not provided a reconciliation of Earnings before Other Items to Net Earnings. In 2008, gain on sale of rental properties was earned in the residential rental and commercial business segments in Nunavut and the Northwest Territories, respectively. Gain on settlement of debt was earned in the residential business segments in all geographic segments. Segmented information for NPR is provided below:

Total Assets						
December 31, 2009	BC	Alberta	NWT	Nunavut	Nfld	Total
Residential						
Multi-family	92,488	176,982	85,046	113,105	58,392	526,013
Execusuites	-	-	10,470	9,537	9,428	29,435
Seniors'	16,230	121,691	-	-	49,610	187,531
	108,718	298,673	95,516	122,642	117,430	742,979
Commercial	21,289	9,083	90,388	19,660	1,192	141,612
Trust	-	3,776	-	-	-	3,776
<b>TOTAL ASSETS</b>	<b>130,007</b>	<b>311,532</b>	<b>185,904</b>	<b>142,302</b>	<b>118,622</b>	<b>888,367</b>

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### 15. SEGMENTED INFORMATION (continued)

#### Total Assets

December 31, 2008	BC	Alberta	NWT	Nunavut	Nfld	Total
Residential						
Multi-family	90,384	161,176	86,323	115,131	56,109	509,123
Execusuites	-	-	8,019	9,853	9,495	27,367
Seniors'	15,710	123,794	-	-	40,965	180,469
	106,094	284,970	94,342	124,984	106,569	716,959
Commercial	21,409	8,912	97,868	20,992	1,222	150,403
Trust	-	5,560	-	-	-	5,560
<b>TOTAL ASSETS</b>	<b>127,503</b>	<b>299,442</b>	<b>192,210</b>	<b>145,976</b>	<b>107,791</b>	<b>872,922</b>

#### Geographic Segments

Year ended December 31, 2009	BC	Alberta	NWT	Nunavut	Nfld	Total
Rental revenue	16,169	33,963	36,364	25,812	18,459	130,767
Other income	462	943	1,106	553	401	3,465
Operating expenses	(6,292)	(9,816)	(16,495)	(8,596)	(6,240)	(47,439)
	10,339	25,090	20,975	17,769	12,620	86,793
Interest on mortgages	(3,002)	(10,978)	(5,908)	(3,867)	(2,680)	(26,435)
Amortization	(4,085)	(7,500)	(7,899)	(5,715)	(3,590)	(28,789)
<b>EARNINGS BEFORE OTHER ITEMS</b>	<b>3,252</b>	<b>6,612</b>	<b>7,168</b>	<b>8,187</b>	<b>6,350</b>	<b>31,569</b>

#### Geographic Segments

Year ended December 31, 2008	BC	Alberta	NWT	Nunavut	Nfld	Total
Rental revenue	14,082	32,875	36,556	24,861	16,252	124,626
Other income	427	830	1,097	347	432	3,133
Operating expenses	(6,145)	(6,960)	(16,851)	(7,597)	(5,901)	(43,454)
	8,364	26,745	20,802	17,611	10,783	84,305
Interest on mortgages	(2,452)	(9,814)	(5,464)	(4,397)	(2,372)	(24,499)
Amortization	(3,254)	(6,940)	(7,246)	(5,797)	(3,210)	(26,447)
<b>EARNINGS BEFORE OTHER ITEMS</b>	<b>2,658</b>	<b>9,991</b>	<b>8,092</b>	<b>7,417</b>	<b>5,201</b>	<b>33,359</b>

## Notes to the Consolidated Financial Statements

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(Columnar amounts expressed in thousands of dollars except where indicated)

### 15. SEGMENTED INFORMATION (continued)

Business Segments						
Year ended	Multi-	Execusuites	Seniors'	Total		
December 31, 2009	family			Residential	Commercial	Total
Rental revenue	82,352	8,190	17,486	108,028	22,739	130,767
Other income	2,942	208		3,150	315	3,465
Operating expenses	(33,935)	(4,334)	(24)	(38,293)	(9,146)	(47,439)
	51,359	4,064	17,462	72,885	13,908	86,793
Interest on mortgages	(16,670)	(969)	(6,130)	(23,769)	(2,666)	(26,435)
Amortization	(18,062)	(1,305)	(4,460)	(23,827)	(4,962)	(28,789)
<b>EARNINGS BEFORE OTHER ITEMS</b>	<b>16,627</b>	<b>1,790</b>	<b>6,872</b>	<b>25,289</b>	<b>6,280</b>	<b>31,569</b>

Business Segments						
Year ended	Multi-	Execusuites	Seniors'	Total		
December 31, 2008	family			Residential	Commercial	Total
Rental revenue	77,162	8,369	16,494	102,025	22,601	124,626
Other income	2,677	128	-	2,805	328	3,133
Operating expenses	(30,389)	(4,270)	(23)	(34,682)	(8,772)	(43,454)
	49,450	4,227	16,471	70,148	14,157	84,305
Interest on mortgages	(14,631)	(872)	(6,286)	(21,789)	(2,710)	(24,499)
Amortization	(16,374)	(1,035)	(4,217)	(21,626)	(4,821)	(26,447)
<b>EARNINGS BEFORE OTHER ITEMS</b>	<b>18,445</b>	<b>2,320</b>	<b>5,968</b>	<b>26,733</b>	<b>6,626</b>	<b>33,359</b>

### 16. RELATED PARTY TRANSACTIONS

Related party transactions are conducted in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties. A Trustee of NPR is the Chairman of AgeCare Investment Ltd. ("AgeCare"), which leases six seniors' properties from NPR. For the year ended December 31, 2009, NPR earned rental income, including rental revenue earned on a straight-line basis over the term of the lease, totaling \$12.6 million (2008 – \$12.6 million) from AgeCare. Amounts outstanding in accounts receivable pertaining to this lease were \$nil at December 31, 2009 (December 31, 2008 – \$nil). In addition, AgeCare is paid an annual fee for advisory services provided to NPR respecting prospective acquisitions of seniors' properties. For the year ended December 31, 2009, NPR paid \$120,000 for these services (2008 – \$120,000).

During the first quarter of 2009, NPR completed renovations totaling \$2.15 million to a seniors' facility in BC which is leased to AgeCare. At December 31, 2009, in accordance with the lease agreement, AgeCare is repaying this amount over 15 years. Interest revenue of \$112,800 was earned for the year ended December 31, 2009 (2008 – \$nil) relating to this receivable. Amounts outstanding at December 31, 2009 was \$2.1 million (December 31, 2008 – \$nil).

A company owned by a Trustee of NPR leases commercial space from NPR under normal commercial terms. NPR earned rental revenue from that arrangement of \$481,000 for the year ended December 31, 2009 (2008 – \$454,000). Amounts outstanding in accounts receivable pertaining to this lease were \$nil at December 31, 2009 (December 31, 2008 – \$nil).



## Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

### 17. FINANCIAL INSTRUMENTS

NPR's accounts and loans receivable and other financial liabilities are substantially carried at amortized cost, which approximates fair value. Such fair value estimates are not necessarily indicative of the amounts the Trust might pay or receive in actual market transactions.

The fair value hierarchy of financial instruments measured at fair value on the balance sheet is as follows:

	December 31, 2009			December 31, 2008		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets and liabilities:						
Cash	-	-	-	731	-	-
Bank indebtedness	1,820	-	-	-	-	-

The three levels of the fair value hierarchy are described as follows:

Level 1: Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2: Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3: Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

NPR had no embedded derivatives requiring separate recognition for the years ended December 31, 2009 and 2008.

#### Utility cost risk

NPR is exposed to utility cost risk, which results from the fluctuation in utility prices for fuel oil, natural gas and electricity, the primary utilities used to heat the REIT's properties. The exposure to utility cost risk is restricted primarily to the REIT's residential rental and executives portfolio. The leases in the remainder of the portfolio generally provide for recovery of operating costs, including utilities. Because of the northern location of a portion of NPR's portfolio, the exposure to utility price fluctuations is more pronounced in the first and last fiscal quarter of the year. NPR manages its exposure to utility risk through a number of preventative measures, including retrofitting properties with energy efficient appliances, fixtures and windows. With the exception of a fixed price utility contract in place for certain residential rental units in Alberta, NPR does not utilize hedges or forward contracts to manage exposure to utility cost risk.

Heating oil is the primary source of fuel for heating properties located in Nunavut and the Northwest Territories. Over the last two years, NPR converted heating systems for certain properties in Yellowknife from fuel oil based boilers to wood pellet boilers. The investment in these environmentally friendly boilers continues to reduce NPR's exposure to volatile heating oil prices. Exposure to increases in the cost of heating oil is partially offset by the ability to recover these increases from a significant proportion of its commercial and some residential tenants.

Natural gas is the significant source of fuel for heating properties located in Alberta, BC and Inuvik, NWT. NPR has fixed price contracts for certain of its properties which accounts for approximately 31% of the REIT's usage in Alberta. During 2009, NPR received approximately \$40,000 in rebates under the Natural Gas Rebate Program which provided for rebates to consumers when natural gas prices exceeded \$5.50 per gigajoule from October to March. The government of Alberta did not renew the Natural Gas Rebate Program for the 2009-2010 heating season. Natural gas prices in Inuvik and BC are not subject to regulated price control and the REIT does not use financial instruments to manage the exposure to the price risk.

Management prepared a sensitivity analysis on the impact of price changes in the cost of heating oil and natural gas. A 10% change over the average price of heating oil and natural gas would impact NPR's net earnings by \$283,000 for the year ended December 31, 2009.

Electricity is the primary source of fuel for heating properties located in Newfoundland as well as parts of north eastern BC. In Newfoundland, electricity is purchased from the provincially regulated utility and is directly paid by the tenants for a significant portion of the REIT's multi-family rental units. As there is not a significant direct risk to NPR regarding the price of electricity, a sensitivity analysis has not been prepared.

# Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

## 17. FINANCIAL INSTRUMENTS (continued)

### Liquidity risk

Ultimate responsibility for monitoring liquidity risk management lies with management and the Board of Trustees of the REIT. The REIT moderates liquidity risk by managing mortgage and loan maturities to ensure a relatively even amount of mortgage maturities in each year. At December 31, 2009 the REIT has operating facilities totaling \$57.5 million (December 31, 2008 – \$50.0 million). At December 31, 2009, \$33.7 million of the operating facilities were utilized (December 31, 2008 – \$26.6 million). Cash flow projections are completed on a regular basis to ensure there will be adequate liquidity to maintain operating and investment activities in addition to making monthly distributions to unitholders. The Board of Trustees reviews current financial results and the annual business plan in determining appropriate distribution levels.

### Credit risk

NPR's credit risk primarily arises from the possibility that tenants may not be able to fulfill their lease commitments. Tenant receivables are comprised of a large number of tenants spread across the geographic areas in which the REIT operates. There are no significant exposures to single tenants with the exception of AgeCare Investments Ltd. (See note 16), which leases seniors' properties in Alberta and BC from the REIT, and the Governments of Canada, the Northwest Territories and Nunavut, which leases a large number of residential units and commercial property in the Northwest Territories and Nunavut.

NPR mitigates this risk through conducting thorough credit checks on prospective tenants, requiring rental payments on the first of the month, obtaining security deposits approximating one month's rent from tenants where legislation permits, and geographic diversification in its portfolio. Tenants are required to pay rent on the first of each month, with the exception of certain government leases where rent is due at the end of the month and certain commercial tenants where operating cost recoveries are billed in arrears. As such, the majority of tenant receivables are past due at the balance sheet date.

The following is an aging of current tenant and other receivables:

	2009	2008
0-30 days	1,405	987
31-60 days	221	267
61-90 days	58	130
Over 90 days	730	722
Tenant receivables	2,414	2,106
Other receivables	2,094	3,329
Allowance for doubtful accounts	(350)	(350)
	4,158	5,085

NPR classifies tenants as past tenants on the date of their move out from a residential unit. NPR records a specific allowance for doubtful accounts on all balances owed by past tenants. Any subsequent recovery of balances owed from past tenants is recorded as a reduction in the bad debt provision for the period. In addition, NPR records an allowance for doubtful accounts from current tenants and other receivables where the expected amount to be collected is less than the actual accounts receivable. The amounts disclosed on the balance sheet are net of allowances for uncollectible accounts from current and past tenants and other receivables, estimated by Management based on prior experience and current economic conditions.

The reconciliation of changes in allowance for doubtful accounts is as follows:

	2009	2008
Balance, beginning of period	350	250
Accounts receivable written off	(532)	(690)
Accounts recovered	590	355
Increase (decrease) in allowance	(58)	435
Balance, December 31	350	350

## Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

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### 17. FINANCIAL INSTRUMENTS (continued)

The following is an aging of accounts payable and accrued liabilities:

	2009	2008
0-6 months	10,629	9,916
6 months to 1 year	1,193	1,251
Over 1 year	212	51
	12,034	11,218
Tenant security deposits	3,521	3,893
	15,555	15,111

Management believes that future cash flows from operations and availability under the current operating facilities provide sufficient available funds through the foreseeable future to support these financial liabilities.

#### Interest rate risk

NPR is exposed to interest rate risk on mortgages and loans payable and does not hold any financial instruments to mitigate that risk. NPR utilizes both fixed and floating rate debt. Interest rate risk related to floating interest rates is limited primarily to the utilization of operating facilities. Management mitigates interest rate risk by utilizing fixed rate mortgages, ensuring access to a number of sources of funding and staggering mortgage maturities with the objective of achieving relatively even annual debt maturities. To the extent possible, NPR maximizes the amount of mortgages on residential rental properties where it is possible to lower interest rates through Canada Mortgage and Housing Corporation mortgage insurance.

The sensitivity analysis for floating rate debt has been completed based on the exposure to interest rates at the balance sheet date. Floating rate debt includes all mortgage and loans payable which are not subject to fixed interest rates and the revolving line of credit. If interest rates changed by 0.50% and all other variables remained constant, NPR's net earnings for the year ended December 31, 2009 would have changed by \$228,000.

### 18. CAPITAL MANAGEMENT

NPR's objective when managing its capital is to safeguard its assets while maximizing the growth of its business, returns to unitholders and maintaining the sustainability of cash distributions. NPR's capital consists of mortgages and loans payable, operating and acquisition facilities, Trust Units and Class B LP Units.

Management monitors the REIT's capital structure on an ongoing basis to determine the appropriate level of mortgage debt and loans payable to be placed on specific properties at the time of acquisition or when existing debt matures. NPR follows conservative guidelines which are set out in the Trust Declaration. In determining the most appropriate debt, consideration is given to strength of cash flow generated from the specific property, interest rate, amortization period, maturity of the debt in relation to the existing debt of the REIT, interest and debt service ratios, and limits on the amount of floating rate debt. NPR has operating facilities which is used to fund acquisitions and capital expenditures until specific mortgage debt is placed or additional equity is raised.

## Notes to the Consolidated Financial Statements

Years ended December 31, 2009 and 2008

(Columnar amounts expressed in thousands of dollars except where indicated)

### 18. CAPITAL MANAGEMENT (continued)

Consistent with others in the industry, NPR monitors capital on the basis of debt to gross book value ratio. The Declaration of Trust provides for a maximum debt to gross book value ratio of 70%. The REIT does not anticipate operating above a debt to gross book value ratio of 60%. NPR's debt to gross book value is as follows:

	December 31, 2009	December 31, 2008
Bank indebtedness (cash)	1,820	(731)
Operating facilities	33,698	26,600
Mortgages and loans payable	518,912	502,277
<b>Debt</b>	<b>554,430</b>	<b>528,146</b>
Rental properties and other capital assets	836,251	833,967
Capital assets improvements in progress	7,046	3,773
Capital assets under development	20,423	8,996
Refundable deposits and mortgage proceeds held in trust	-	185
Accumulated amortization	118,764	90,546
Future income taxes on acquisitions	(21,647)	(21,625)
<b>Gross Book Value</b>	<b>960,837</b>	<b>915,842</b>
<b>Debt to Gross Book Value</b>	<b>57.7%</b>	<b>57.7%</b>

NPR is subject to three principal financial covenants in its mortgage and loans payable and operating facilities. The financial covenants are described as follows:

- Debt Service Coverage – calculated as Net earnings before interest, taxes and amortization divided by the debt service payments (total interest expense and principal repayments);
- Interest Coverage – calculated as Net earnings before interest, taxes and amortization divided by total interest expense;
- Debt to Gross Book Value as calculated above.

	2009	2008
Earnings from continuing operations before taxes	25,929	26,417
Amortization	28,789	26,447
Interest on mortgages	26,435	24,499
Interest on operating facilities	755	1,286
<b>Net earnings before interest, taxes and amortization</b>	<b>81,908</b>	<b>78,649</b>
Interest on mortgages	26,435	24,499
Interest on operating facilities	755	1,286
<b>Total Interest Expense</b>	<b>27,190</b>	<b>25,785</b>
Principal repayments	16,198	14,983
<b>Debt Service Payments</b>	<b>43,388</b>	<b>40,768</b>
<b>Interest Coverage</b>	<b>3.01</b>	<b>3.05</b>
<b>Debt Service Coverage</b>	<b>1.89</b>	<b>1.93</b>

As at and during the year ended December 31, 2009, NPR complied with all externally imposed capital requirements and all covenants relating to its debt facilities.

## **Notes to the Consolidated Financial Statements**

**Years ended December 31, 2009 and 2008**

**(Columnar amounts expressed in thousands of dollars except where indicated)**

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### **19. SUBSEQUENT EVENTS**

Between January 1, 2010 and March 17, 2010 NPR completed mortgage financings and renewals totalling \$22.4 million with interest rates from 2.97% to 6.05% and terms to maturity from 6 months to 10 years. Proceeds from the mortgage financings were used to repay existing mortgage debt and a portion of the operating facility.

# Management Team

## TRUSTEES



Douglas H. Mitchell, Q.C.  
*Chair of the Trust*



B. James Britton  
*President, Chief Executive Officer  
and Trustee*



John C. Charles, CA  
*Trustee*



Kenn Harper  
*Trustee*



Dennis J. Hoffman, CA  
*Trustee*



Kabir Jivraj, MBBS  
*Trustee*



Dennis G. Patterson, LLB  
*Trustee*



C. Donald Wilson  
*Trustee*

## OFFICERS



B. James Britton  
*President and  
Chief Executive Officer*



Todd R. Cook, CA  
*Chief Financial  
Officer*



Alan V. Vaughan  
*Vice President,  
Business Development*



Richard Anda  
*Vice President,  
Operations*



Barbara Lavery  
*Corporate Secretary*

# Corporate Information

## ANNUAL GENERAL AND SPECIAL MEETING

Tuesday, May 11, 2010, 1:30 pm  
The Ranchmen's Club  
Bennett Room  
710 – 13 Avenue SW  
Calgary, AB T2R 0K9

## STOCK EXCHANGE

Toronto Stock Exchange (TSX)  
Trading Symbol: NPR.UN

## LEGAL COUNSEL

Borden Ladner Gervais LLP

## AUDITORS

Deloitte & Touche LLP

## REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada  
Valiant Trust Company

## CORPORATE OFFICE

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Northern Property Real Estate Investment Trust owns and operates rental real estate in secondary markets in Canada. We have significant multi-family residential real estate investments in Alberta, a growing position in British Columbia and are the largest multi-family residential landlord in each of the NWT, Nunavut and the Province of Newfoundland and Labrador. NPR's income producing portfolio is primarily residential including multi-family apartment rental units, furnished executives and master leased seniors' buildings. We also have a portfolio of commercial buildings focused on government tenancies predominantly located in Canada's far north.



## **Northern Property**

Real Estate Investment Trust

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