CAPREIT 2011 Annual Report

Best Buildings + Best Team + Best Tenants = **Best Returns**

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Profile

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

Objectives

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

Operating Highlights

- Occupancies increased to 98.5% at year-end with average monthly rents up 1.2%
- Same property Net Operating Income ("NOI") rose 3.9% in 2011
- Six consecutive years of quarterly year-over-year same property NOI growth
- NFFO up 12.9%
- Strong available liquidity of $185.6 million at year-end
- Acquired 2,660 apartment suites and land lease sites for $321.5 million

Financial Performance

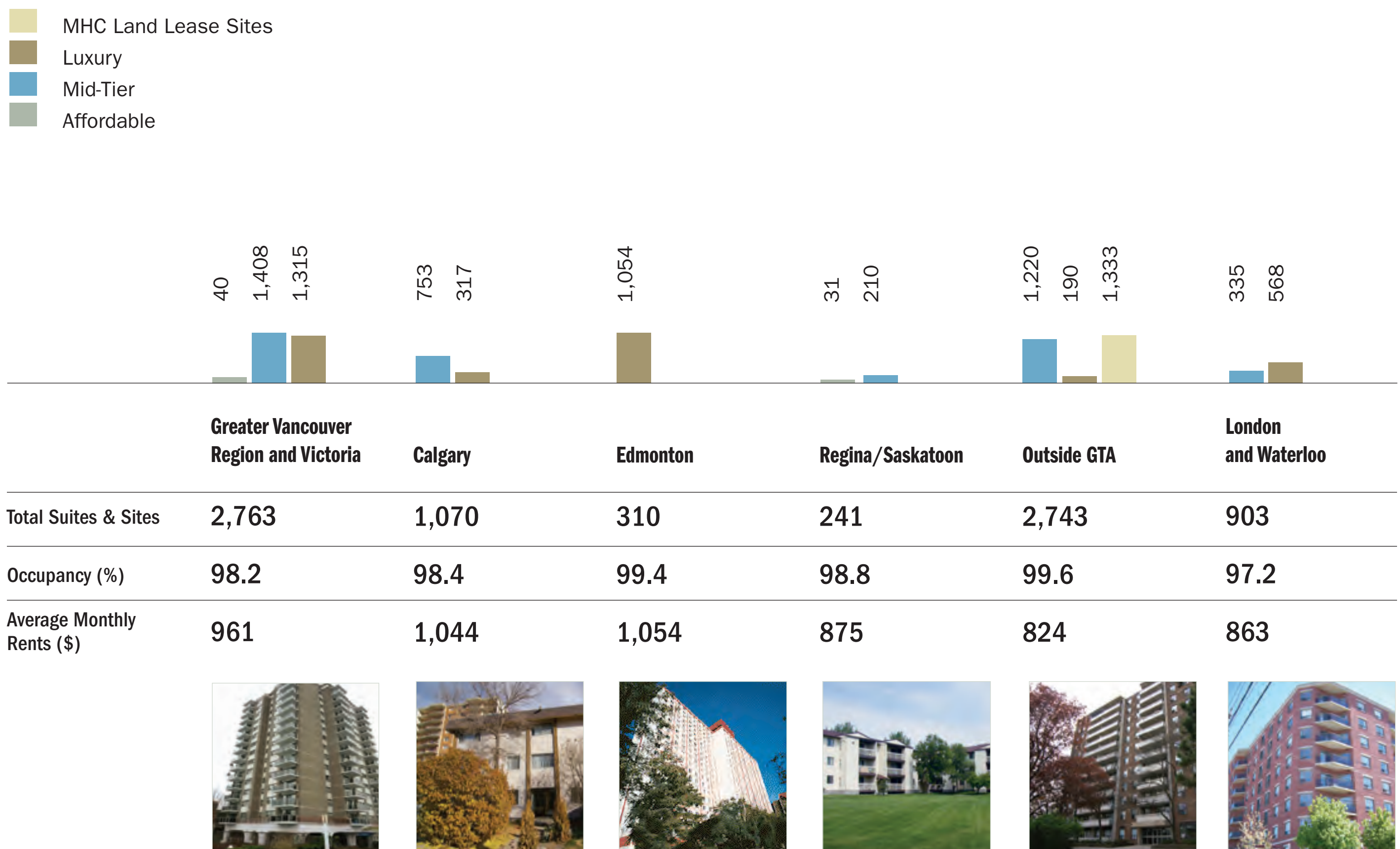
($ THOUSANDS, EXCEPT AS NOTED)

Year ended December 31,	2011	2010
Operating Revenues	$ 361,955	$ 338,959
Net Rental Revenue Run-Rate	$ 361,253	$ 326,216
NOI	$ 206,157	$ 190,339
NOI Margin (%)	57.0	56.2
NFFO	$ 103,875	$ 92,026
NFFO per Unit – Basic	$ 1.357	$ 1.371
Cash Distributions per Unit	$ 1.080	$ 1.080
NFFO Payout Ratio (%)	82.8	82.1

As at December 31,	2011	2010
Overall Portfolio Occupancy (%)	98.5	98.4
Overall Portfolio Average Monthly Rents ($)	$ 991	$ 979
Mortgage Debt to Gross Book Value (%)	48.33	51.84
Total Debt to Gross Book Value (%)	50.27	53.09
Total Debt to Total Capitalization (%)	50.11	55.85
Debt Service Coverage Ratio (times)	1.38	1.33
Interest Coverage Ratio (times)	2.20	2.07
Weighted Average Mortgage Interest Rate (%)	4.48	4.82
Weighted Average Mortgage Term to Maturity (years)	5.7	4.9
Number of Suites and Sites	31,014	28,497
Number of Suites and Sites Acquired	2,660	691
Number of Suites and Sites Disposed	143	1,110
Weighted Average Number of Units – Basic	76,537,839	67,130,100

Best Buildings + Best Team + Best Tenants = Best Returns

CAPREIT's property portfolio is well-diversified both demographically and by property type, and is strongly positioned in key Canadian urban markets from coast-to-coast.



	Greater Vancouver Region and Victoria	Calgary	Edmonton	Regina/Saskatoon	Outside GTA	London and Waterloo
Total Suites & Sites	2,763	1,070	310	241	2,743	903
Occupancy (%)	98.2	98.4	99.4	98.8	99.6	97.2
Average Monthly Rents ($)	961	1,044	1,054	875	824	863

935 9,015 5,312

1,527

437 1,468 1,298

834 1,075

1,083

1,443 16,770 11,468 1,333

	Greater Toronto Area (GTA)	Ottawa	Greater Montréal Region	Québec City	Halifax	Total
Total Suites & Sites	15,262	1,527	3,203	1,909	1,083	31,014
Occupancy (%)	98.9	100.0	97.5	96.9	97.0	98.5
Average Monthly Rents ($)	1,101	887	781	812	1,053	991

Best Buildings + **Best Team** + Best Tenants = Best Returns

Report to Unitholders

In 2012 we will be celebrating fifteen years of providing our residents with high-quality, safe and secure homes, while at the same time delivering stable monthly cash distributions and solid overall long-term returns on investment to our Unitholders. This track record of success, and our platform for future growth, is driven by a relentless focus on our proven property and asset management strategies, and a team of experienced people dedicated to meeting our long-term goals and objectives.

Another Year of Record Performance

Despite the global economic turmoil experienced during the year, the Canadian multi-unit residential rental business remained strong and resilient in 2011. Capitalizing on these solid market fundamentals, CAPREIT generated another record year of operating and financial performance, with revenues rising 6.8% over the prior year, Net Operating Income ("NOI") margin improving significantly to 57.0%, and Normalized Funds From Operations ("NFFO"), our key performance benchmark, up 12.9% to $103.9 million or $1.36 per Unit. Importantly, our payout ratio of distributions declared to NFFO remained strong at 82.8%.

There were a number of factors driving these record results. The acquisition of 2,660 suites and land lease sites during the year made a solid contribution to our revenues and cash flows. Ancillary revenues, including such sources as parking, laundry, communications services and antenna rentals, rose a very strong 16.3% in 2011 over the prior year. Our focus on keeping our buildings full resulted in average occupancies improving to nearly-full levels of 98.5% at year-end, while average monthly rents for properties owned prior to December 31, 2010 rose 1.4% to $995 per suite, with increases in all of the geographic regions in which we operate. Looking ahead, we are encouraged that provincial rent increase guidelines have increased substantially for 2012, with Ontario rising to 3.1% from 0.7% in 2011 and British Columbia increasing to 4.3% from 2.3% last year. These higher guideline increases will contribute to enhanced revenues in 2012 and recognize the significant investments we have made in our properties to improve the lifestyles of our tenants.

Left to right:

Scott Cryer
Chief Financial Officer

Maria Amaral
Chief Accounting Officer

Corinne Pruzanski
General Counsel and Corporate Secretary

Thomas Schwartz
President and Chief Executive Officer

Mark Kenney
Chief Operating Officer

During the year, one of our key objectives was to enhance our bottom line and increase cash flows from our property portfolio. Our recently introduced best-in-class purchasing systems, our sophisticated energy management strategies and our focus on working together to capture all available synergies and cost efficiencies from our growing portfolio have contributed to reduced operating costs and industry-leading NOI margins. Most importantly, much of our improved performance has been generated organically as NOI from our stabilized properties increased 3.9% in 2011. In fact, the fourth quarter of the year was the 24th consecutive quarter in which we have demonstrated stable or improved year-over-year same property NOI growth, a significant track record in our industry.

Strong Financial and Liquidity Position

Fifteen years of solid growth and superior operating performance have generated significant benefits for our Unitholders, but at the same time we have ensured that CAPREIT has maintained one of the strongest and most conservative balance sheets and liquidity positions in the Canadian apartment business. Our mortgage debt to gross book value ratio was a conservative 48.3% at year-end, well within our guidelines, while total debt to capitalization was 50.1%, with both ratios improving significantly over last year.

Our mortgage portfolio remained well balanced at year-end, with the weighted average interest rate declining to 4.48% from 4.82% and an extended term to maturity of 5.7 years, up from 4.9 years at the end of 2010. Including the impact of our hedge program, the maturity would be over seven years. To take advantage of the current low interest rate environment, during 2011 we entered into a series of hedging strategies to lock in reduced interest costs on mortgages maturing through June 2013. During 2012 we will be renewing mortgages of approximately $234.7 million and refinancing approximately $54.0 million in principal payments, and we expect to refinance this debt at substantially lower interest rates, generating further cost savings over the long term.

On October 31, 2011, we successfully raised $151.7 million in a bought-deal offering of Trust Units, with the net proceeds used to repay a large portion of the borrowings on our Acquisition and Operating Facility. As a result, once again at year-end we were in a very solid liquidity position, with available financing capacity of over $185.6 million, providing us with the resources and flexibility to act on accretive growth opportunities as they arise in the future.

Strengthening the Portfolio

2011 was one of our most active years of growth ever, as we acquired 2,660 well-located suites and land lease sites in the Greater Toronto Area, the Greater Vancouver Region, Montréal and Burlington, Ontario. Total acquisition costs in 2011 were $321.5 million. In addition to the solid contribution these acquisitions

Best Buildings + Best Team + **Best Tenants** = Best Returns

As we complete our fifteenth year in business, we are confident we can build on the significant progress and success demonstrated since CAPREIT's founding in 1997.

are making to our results, we strengthened the geographic and property type diversification of our portfolio and significantly enhanced our risk profile. As we apply our proven property management programs and invest in these new properties, we are confident that their contribution to our future performance will only increase.

Best Properties + Best Team + Best Tenants = Best Returns

With little new multi-unit residential rental construction over the last twenty years, it is no secret that the inventory of apartment properties in Canada is in need of substantial investment. Since its founding in October 1997, CAPREIT has invested more than $568 million in building and suite improvements, common area enhancements, environment-friendly and energy-saving heating and lighting systems, as well as water saving and waste recycling programs. All of these investments serve to enhance the value of our portfolio, generate increased revenues and contribute to improved operating efficiency. At the same time we have invested in our portfolio, we have also maintained strong and sustainable cash distributions to our Unitholders and solid NFFO payout ratios.

These investments also make our properties stand out as best-in-class in their neighbourhoods. CAPREIT is recognized as the Landlord of Choice in the Canadian apartment business, and as a result we attract the highest quality residents, who regularly pay their rent on time, take good care of their homes and contribute to the strong spirit of community found in all of our buildings. As a measure of our success, CAPREIT has one of the lowest levels of bad debt in the business, standing at less than 1% of revenues in 2011 compared to an estimated industry average of over 2.5%.

Looking ahead, with many of the major capital projects completed in our stabilized property portfolio, we expect the overall level of capital spending will decline significantly in the coming years. These investments continue to create the best properties in the business, attracting the best residents and generating among the best long-term returns for our Unitholders.

Apartments Make Money

As we complete our fifteenth year in business, we are confident we can build on the significant progress and success demonstrated since CAPREIT's founding in 1997. Fundamentals remain strong in our markets, and with our proven sales, marketing and property management programs, including our innovative Internet and social marketing initiatives, we believe we can maintain high occupancy levels and generate further increases in average monthly rents. Our focus on the bottom line will serve to enhance cash flows

and result in continued strong organic growth, with solid increases in year-over-year same property NOI. In addition, the Canadian apartment business remains highly fragmented, providing ample opportunity to grow and further strengthen our portfolio through accretive acquisitions that expand our market presence and enhance the geographic and demographic diversification of our portfolio.

Our business model, developed through decades of industry experience, continues to generate significant value. We acquire strategically positioned properties and portfolios, and then apply our proven operating programs to enhance cash flows and NOI. We invest in these properties to enhance the portfolio value and generate maximum returns, and with our constant portfolio review process, we divest any non-core properties and use the proceeds to reinvest in our growth.

Most importantly, the residential rental sector remains one of the best-performing segments of the Canadian real estate business. Occupancies and average monthly rents have remained strong for decades, including the challenging economic environment experienced over the last two years. Operating expenses are stable, with reduced financing costs arising from access to low-cost CMHC-insured mortgages. Growing cash flows are derived from a diverse resident group, while the short-term nature of residential leases generates solid and predictable rental increases. In addition, as we have shown over the last few years, apartments are a highly liquid asset class where acquisitions can consistently be made at a significant discount to replacement cost.

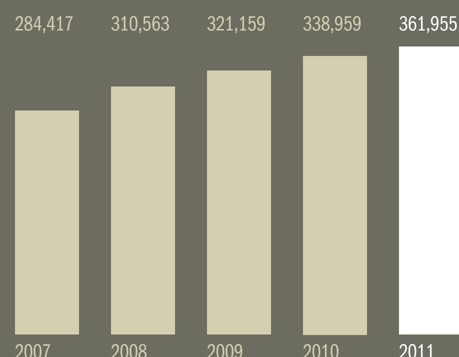
It is our people who really make the difference at CAPREIT. Today we have what we believe is one of the best teams in the Canadian apartment business, people who possess decades of industry experience and truly enjoy working together to achieve our long-term goals and objectives. As we celebrate fifteen years in business together, we look ahead more confident than ever before in our ability to build further value for our Unitholders.

Thomas Schwartz
President and Chief Executive Officer

Michael Stein
Chairman

Financial Section

Despite the global economic turmoil experienced in 2011, the Canadian multi-unit residential rental business remained strong and resilient. Capitalizing on these solid market fundamentals and our proven value-enhancing strategies, CAPREIT generated another year of record operating and financial performance.



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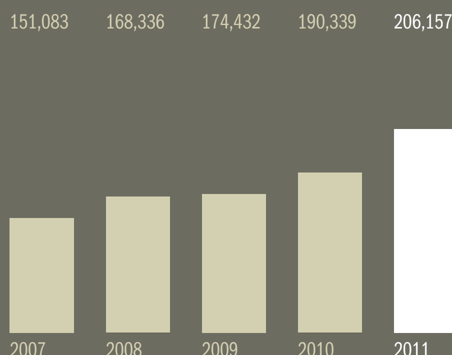


Management's Discussion and Analysis

of Results of Operations and Financial Condition
Year Ended December 31, 2011

Section 1

Forward-Looking Disclaimer

The following Management's Discussion and Analysis ("MD&A") of Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") results of operations and financial condition for the year ended December 31, 2011 should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2011.

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, projected costs, capital investments, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to acquisition and capital investment strategy and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including: that the Canadian economy will generally experience growth, however, may be adversely impacted by the global economy; that inflation will remain low; that interest rates will remain low in the medium term; that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates; that conditions within the real estate market, including competition for acquisitions, will become more favourable; that the Canadian capital markets will continue to provide CAPREIT with access to equity and/or debt at reasonable rates; that vacancy rates for CAPREIT properties will be consistent with historical norms; that rental rates will grow at levels similar to the rate of inflation on renewal; that rental rates on turnovers will remain stable; that CAPREIT will effectively manage price pressures relating to its energy usage; and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions, Management believes they are reasonable as of the date hereof, there can be no assurance actual results will be consistent with these forward-looking statements; they may prove to be incorrect. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond CAPREIT's control, that may cause CAPREIT or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: reporting investment properties at fair value, real property ownership, leasehold interests, co-ownerships,

investment restrictions, operating risk, energy costs and hedging, environmental matters, insurance, capital investments, indebtedness, interest rate hedging, taxation, harmonization of federal goods and services tax and provincial sales tax, government regulations, controls over financial accounting, legal and regulatory concerns, the nature of units of CAPREIT ("Trust Units") and of CAPREIT's subsidiary, CAPREIT Limited Partnership ("Exchangeable Units") (collectively, the "Units"), unitholder liability, liquidity and price fluctuation of Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, continued growth and risks related to acquisitions. There can be no assurance the expectations of CAPREIT's Management will prove to be correct. For a detailed discussion of risk factors, refer to the Risks and Uncertainties section. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

Non-IFRS Financial Measures

CAPREIT prepares and releases unaudited consolidated interim financial statements and audited consolidated annual financial statements in accordance with International Financial Reporting Standards ("IFRS"). In this MD&A, and in earnings releases and investor conference calls, as a complement to results provided in accordance with IFRS, CAPREIT also discloses and discusses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS, including Net Operating Income ("NOI"), Net Rental Revenue Run-Rate, Funds From Operations ("FFO"), Normalized Funds From Operations ("NFFO") and Adjusted Funds From Operations ("AFFO"), and applicable per Unit amounts and payout ratios (collectively the "non-IFRS measures"). These non-IFRS measures are further defined and discussed in Section 3 under Non-IFRS Financial Measures. Since NOI, Net Rental Revenue Run-Rate, FFO, NFFO and AFFO are not measures determined under IFRS, they may not be comparable to similarly titled measures reported by other issuers. CAPREIT has presented such non-IFRS measures because Management believes these non-IFRS measures are relevant measures of the ability of CAPREIT to earn and distribute cash returns to investors in the Units ("Unitholders") and to evaluate CAPREIT's performance. A reconciliation of non-IFRS measures is provided in Section 3 under Non-IFRS Financial Measures. These non-IFRS measures should not be construed as alternatives to net income (loss) or cash flow from operating activities determined in accordance with IFRS as indicators of CAPREIT's performance.

Adoption of IFRS

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian publicly listed entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. Accordingly, the accompanying audited consolidated annual financial statements for the year ended December 31, 2011 have been prepared in accordance with IFRS, with effect from January 1, 2010, the date of transition. For the purposes of this MD&A, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

Note 4 to the accompanying audited consolidated annual financial statements for the year ended December 31, 2011 contains a detailed description of CAPREIT's conversion to IFRS, including a reconciliation of consolidated annual financial statements prepared under Canadian GAAP to those prepared under IFRS for the year ended December 31, 2010. Additional details of the transition are disclosed in the Adoption of IFRS section of this MD&A, which also includes line-by-line reconciliations of the consolidated balance sheets at January 1, 2010 and December 31, 2010 as reported under Canadian GAAP to those reported under IFRS. Similar reconciliation of the consolidated statements of income as reported under Canadian GAAP to that reported under IFRS for the year ended December 31, 2010 is also disclosed. Reconciliations of previously reported non-IFRS financial measures to the revised figures as presently reported is provided in the Non-IFRS Financial Measures section of the MD&A.

Overview

CAPREIT is an unincorporated open-ended real estate investment trust created by a declaration of trust (the "DOT") dated February 3, 1997 under the laws of the Province of Ontario, as most recently amended and restated on November 13, 2009. CAPREIT owns interests in multi-unit residential rental properties, including apartments, townhomes and manufactured home communities located in and near major urban centres across Canada. As at December 31, 2011, CAPREIT had owning interests in 31,014 residential units, comprised of 29,681 residential suites and two Ontario manufactured home communities ("MHC"), comprising 1,333 land lease sites. As at December 31, 2011, CAPREIT had 778 employees (734 employees as at December 31, 2010).

The tables below summarize property acquisitions and dispositions for the years ended December 31, 2011 and 2010:

Acquisitions Completed During the Year Ended December 31, 2011

($ Thousands)	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Mortgage Funding	Interest Rate	Mortgage Maturity Date
January 31, 2011	Mid-tier	83	Burlington	$ 9,116	$ 6,818	4.26%	March 1, 2021
April 15, 2011	Mixed [1]	495	Greater Vancouver Region	74,562	49,369	4.38%	May 1, 2021
May 31, 2011	Mid-tier	625	Greater Toronto Area ("GTA")	81,200	45,306	3.67%	July 1, 2021
June 30, 2011	Mid-tier	224	Toronto	32,088	18,586	3.67%	July 1, 2021
July 31, 2011	Luxury	811	Greater Montréal Region	74,239 [2]	47,026	4.80% [2]	– [2]
August 10, 2011	Affordable	229	Toronto	17,382	12,926	3.88%	March 1, 2022
November 18, 2011	MHC [3]	8	Bowmanville and Grand Bend	697	– [4]	– [4]	– [4]
December 28, 2011	Luxury	185	Montréal	32,240	15,108	3.30%	January 1, 2022
Total		2,660		$ 321,524	$ 195,139		

(1) The acquisition comprised three mid-tier and two luxury properties.
(2) Mortgages assumed on acquisition were comprised of $35,256 maturing on December 1, 2026, and $11,770 maturing on December 1, 2016, at a weighted average stated rate of 4.80%.
(3) The acquisition comprised seven sites in Bowmanville and one site in Grand Bend.
(4) The acquisition was funded from CAPREIT's land lease facility (see Liquidity and Financial Condition section).

Acquisitions Completed During the Year Ended December 31, 2010

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

(1) The acquisition comprised 13 sites in Bowmanville and one site in Grand Bend.
(2) The acquisition was funded from CAPREIT's land lease facility (see Liquidity and Financial Condition section).
(3) The mortgage was assumed from the vendor at acquisition.
(4) The acquisition comprised two affordable, four mid-tier and two luxury properties.
(5) Comprised new mortgage financing of $25,580, at 3.67%, maturing on December 1, 2020, and an assumed mortgage of $786, at a stated rate of 4.73%, maturing on February 1, 2016.
(6) The MHC land lease sites acquisition comprised seven sites in Bowmanville and two sites in Grand Bend.

Dispositions Completed During the Year Ended December 31, 2011

($ Thousands)	Demographic Sector	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
March 29, 2011	Affordable	143	Hamilton	$ 5,975	$ 3,609	$ 2,117

Dispositions Completed During the Year Ended December 31, 2010

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

Objectives

CAPREIT's objectives are to:

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

Business Strategy

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

Customer Service

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

Cost Controls

While ensuring the needs of its residents are met, CAPREIT also carefully monitors operating costs to ensure it is delivering services to residents both efficiently and cost effectively. CAPREIT strives to capture potential economies of scale and cost synergies arising from past growth. CAPREIT's enterprise wide procurement system streamlines and centralizes purchasing controls and procedures and is generating reduced costs through national master sourcing contracts, improved pricing and enhanced operating efficiencies.

Capital Investments

CAPREIT strives to acquire properties at prices significantly below their current replacement costs, and is committed to improving its operating performance by incurring appropriate capital investments in order to maintain the productive capacity of its property portfolio and to sustain the portfolio's rental income-generating potential over its useful life. CAPREIT continues to invest in environment-friendly and energy-saving initiatives that improve overall net operating income. CAPREIT completes a review of its portfolio and revises its long-term capital investment plan on an annual basis, which allows Management to ensure capital investments extend the useful economic life of CAPREIT's properties, enhance life safety, maximize earnings and improve the long-term cash flow potential of its portfolio.

Portfolio Growth

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

Financial Management

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

Key Performance Indicators

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

Occupancy

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

Average Monthly Rents

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

NOI

As a measure of its operating performance, CAPREIT currently strives to achieve an annual net operating income margin that is in the range of 55% to 57% of operating revenues.

FFO and NFFO

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

Payout Ratio

To help ensure it retains sufficient cash to meet its capital investment objectives, CAPREIT has historically targeted a long-term annual payout ratio of between 85% and 90% of NFFO.

Portfolio Growth

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

Financing

CAPREIT takes a very proactive approach with its mortgage portfolio, striving to manage interest expense volatility risk by achieving the lowest possible average interest rates while mitigating refinancing risk by prudently managing the portfolio's average term to maturity and staggering the maturity dates. For this purpose, CAPREIT strives to ensure its overall leverage ratios and interest and debt service coverage ratios are maintained at a sustainable level. In addition, CAPREIT focuses on maintaining capital adequacy by complying with investment and debt restrictions in its DOT and its financial covenants in its credit agreement comprising an acquisition and operating facility ("Acquisition and Operating Facility") and a land lease facility ("Land Lease Facility") (collectively, the "Credit Facilities", as described under Liquidity and Capital Resources in Section 4).

Performance Measures

The following table presents an overview of certain key IFRS and non-IFRS financial measures and operational results of CAPREIT for the years ended December 31, 2011 and 2010. Management believes that these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. Throughout the years, monthly cash distributions declared to Unitholders remained at $0.09 per Unit.

Year Ended December 31,	2011	2010
Portfolio Performance		
Overall Portfolio Occupancy (1)	98.5%	98.4%
Overall Portfolio Average Monthly Rents (1)	$ 991	$ 979
Operating Revenues (000s)	$ 361,955	$ 338,959
NOI (000s)	$ 206,157	$ 190,339
NOI Margin	57.0%	56.2%
Operating Performance (2)		
FFO Per Unit — Basic	$ 1.322	$ 1.274
NFFO Per Unit — Basic	$ 1.357	$ 1.371
Weighted Average Number of Units — Basic (000s)	76,538	67,130
Cash Distributions Per Unit	$ 1.080	$ 1.080
FFO Payout Ratio	85.0%	88.3%
NFFO Payout Ratio	82.8%	82.1%
Liquidity and Leverage		
Total Debt to Gross Book Value (1)	50.27%	53.09% (6)
Total Debt to Gross Historical Cost (1),(3)	58.55%	58.86% (6)
Weighted Average Mortgage Interest Rate (1)	4.48%	4.82%
Weighted Average Mortgage Term (years) (1)	5.7	4.9
Debt Service Coverage (times) (4)	1.38	1.33 (6)
Interest Coverage (times) (4)	2.20	2.07 (6)
Available Liquidity — Acquisition and Operating Facility (000s) (1)	$ 185,621	$ 226,663
Other		
Number of Suites and Sites Acquired	2,660	691
Number of Suites Disposed	143	1,110
Closing Price of Trust Units (1)	$ 22.31	$ 17.14
Market Capitalization (millions) (5)	$ 1,914	$ 1,323

(1) As at December 31.
(2) NOI, FFO and NFFO are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see Non-IFRS Financial Measures).
(3) Based on the historical cost of investment properties.
(4) Based on the trailing four quarters.
(5) Defined as the closing price of the Units on the last trading date of the period times the number of Units outstanding on that date (see discussion of Unitholders' equity under the Liquidity and Financial Condition section).
(6) For information purposes, these financial ratios, previously calculated under Canadian GAAP, have been restated under IFRS.

Property Portfolio

Types of Property Interests

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

Fee Simple Interests – Apartments and Townhomes – The majority of CAPREIT's investment in its property portfolio is in the form of fee simple interests, representing freehold ownership of the properties subject only to typical encumbrances such as mortgages.
Operating Leasehold Interests – CAPREIT owns leasehold interests in 15 properties located in the Greater Toronto Area. The leases mature between 2033 and 2037. While separate lease arrangements exist for each property, the general structure is common across all leases: each lease is for a 35-year term and the rent for the entire lease term was fully paid at the time the leasehold interest was acquired. Each lease also provides CAPREIT with a purchase option exercisable between the 26th and 35th year of the lease term. In the case of one of the properties, the purchase option entitles CAPREIT to acquire a prepaid operating leasehold interest in the property maturing in 2072 (see Portfolio of Operating Leasehold Interests for additional information).
Land Leasehold Interests – CAPREIT owns leasehold interests in two land parcels in Alberta and one land parcel in British Columbia. CAPREIT acquired a residential building on each of the three land parcels and pays ground rent on an annual basis for its use of the land. These land leases mature in 2045, 2068 and 2070. CAPREIT does not have the unilateral right to acquire the land or extend the lease term at the maturity of the respective leases (see Portfolio of Land Leasehold Interests for additional information).
Fee Simple Interests – MHC Land Lease Sites – CAPREIT has fee simple interests in two MHCs, whereby CAPREIT owns sites, which it rents to residents under long-term leases of approximately 20 years.

Portfolio by Type of Property Interest

As at December 31,	2011	%	2010	%
Fee Simple Interests – Apartments and Townhomes	24,967	80.5	22,458	78.8
Operating Leasehold Interests	3,815	12.3	3,815	13.4
Land Leasehold Interests	899	2.9	899	3.2
Total Residential Suites	29,681	95.7	27,172	95.4
Fee Simple Interests – MHC Land Lease Sites	1,333	4.3	1,325	4.6
Total Residential Suites and MHC Land Lease Sites	31,014	100.0	28,497	100.0

Portfolio Diversification

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

Portfolio by Demographic Sector

As at December 31,	2011	%	2010	%
Affordable	1,443	4.7	1,357	4.8
Mid-tier	16,770	54.0	15,718	55.2
Luxury	11,468	37.0	10,097	35.4
Total Residential Suites	29,681	95.7	27,172	95.4
MHC Land Lease Sites	1,333	4.3	1,325	4.6
Total Residential Suites and MHC Land Lease Sites	31,014	100.0	28,497	100.0

Portfolio by Geography

As at December 31,	2011	%	2010	%
Ontario				
Greater Toronto Area	15,262	49.2	14,184	49.8
Ottawa	1,527	4.9	1,527	5.4
London / Waterloo	903	2.9	903	3.2
Other Ontario	1,410	4.6	1,470	5.1
Ontario Residential Suites	19,102	61.6	18,084	63.5
MHC Land Lease Sites	1,333	4.3	1,325	4.6
	20,435	65.9	19,409	68.1
Québec				
Greater Montréal Region	3,203	10.3	2,207	7.7
Québec City	1,909	6.1	1,909	6.7
	5,112	16.4	4,116	14.4
British Columbia				
Greater Vancouver Region	1,948	6.3	1,453	5.1
Victoria	815	2.6	815	2.9
	2,763	8.9	2,268	8.0
Alberta				
Edmonton	310	1.0	310	1.1
Calgary	1,070	3.5	1,070	3.8
	1,380	4.5	1,380	4.9
Nova Scotia				
Halifax	1,083	3.5	1,083	3.8
Saskatchewan				
Saskatoon	133	0.4	133	0.4
Regina	108	0.4	108	0.4
	241	0.8	241	0.8
Total Residential Suites	29,681	95.7	27,172	95.4
Total Residential Suites and MHC Land Lease Sites	31,014	100.0	28,497	100.0

Over the last few years, CAPREIT has focused on diversifying its geographic portfolio outside of Ontario by increasing its presence in markets with higher growth potential, while maintaining a strong presence in Ontario's residential market, as Management continues to believe strategic investments in Ontario will benefit Unitholders in the long run. CAPREIT continues to look for investment opportunities that meet its investment criteria and that, where possible, will further its diversification strategy. The geographic diversification of its portfolio also enables CAPREIT to mitigate the risks arising from potential downturns in specific markets.

Through the year ended December 31, 2011, CAPREIT has acquired across Ontario, Québec and British Columbia a total of one affordable, 12 mid-tier and four luxury apartment properties, and eight MHC land lease sites, comprising a total of 2,660 suites and sites. In the first quarter of 2011, CAPREIT disposed of an affordable apartment property in Ontario comprising a total of 143 suites. Management exceeded its growth objectives for 2011 with the total number of suites acquired, as historically, CAPREIT has targeted acquiring between 1,500 and 2,000 suites on an annual basis. During the year ended December 31, 2010, CAPREIT acquired a total of 691 residential suites and land lease sites across Canada.

Portfolio of Operating Leasehold Interests

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

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

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

Operating Leasehold Interests Portfolio by Lease Maturity

As at December 31, 2011 and 2010 ($ Thousands)				Option Exercise Prices		
Year of Lease Maturity	Properties	Suites	%	26th Year	35th Year	Prepaid Lease Amount [1]
2033	10	3,099	81.3	$ 202,071	$ 242,596	$ 136,101
2034	2	161	4.2	19,300	23,150	13,700
2035	1	200	5.2	14,200	17,000	9,000
2037	2	355	9.3	47,200	56,000	33,500
Total Operating Leasehold Interests Portfolio	15	3,815	100.0	$ 282,771	$ 338,746	$ 192,301

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

Portfolio of Land Leasehold Interests

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

Land Leasehold Interests Portfolio by Lease Maturity

Year Ended December 31, ($ Thousands)			Annual Ground Rent	
Year of Lease Maturity	Suites	%	2011	2010
2045	473	52.6	$ 974	$ 1,121
2068	154	17.1	210	205
2070	272	30.3	1,088	1,010
Total Land Leasehold Interests Portfolio	899	100.0	$ 2,272	$ 2,336

Investment Properties

Investment property is defined as property held to earn rental income or for capital appreciation or both. Investment property is recognized initially at cost. Subsequent to initial recognition, all investment property is measured using the fair value model, whereby changes in fair value are recognized for each reporting period in net income.

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

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

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

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

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

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

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

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

For a discussion of risk factors associated with the valuation of investment properties, refer to the Risks and Uncertainties section.

The following table summarizes the changes in the investment properties portfolio during the years:

As at December 31, ($ Thousands)		2011	2010
Balance, Beginning of the Year		$ 3,049,980	$ 2,900,985
Add:	Acquisitions	321,524	118,672
	Property Capital Investments [1]	116,579	82,777
	Capitalized Leasing Costs [2]	143	400
Less:	Dispositions	(5,732)	(69,771)
	Realized Loss on Disposition	(95)	(4,941)
	Unrealized Gain on Remeasurement at Fair Value	231,338	21,858
Investment Properties at Fair Value, End of the Year		$ 3,713,737	$ 3,049,980

(1) See Property Capital Investments section.
(2) Comprises tenant inducements, straight-line rent and direct leasing costs.

The external appraiser utilized market assumptions for stabilized NOI, capitalization and discount rates to determine the fair value of the investment properties. For the years ended December 31, 2011, and 2010, the unrealized gain on remeasurement of investment properties is primarily the result of higher stabilized NOI and lower capitalization rates offset by certain capital investments.

A summary of the fair values of CAPREIT's investment properties and changes, along with key market assumptions, is presented below:

Investment Properties by Geography

As at ($ Millions)	Dec 2010	Change Due To Change In			Dec 2011	Dec 2010	Dec 2011
	Fair Value	Rates [1]	Stabilized NOI	Acquisitions/ Dispositions	Fair Value	Rates [1]	Rates [1]
Greater Toronto Area	$ 1,606	$ 136	$ 99	$ 117	$ 1,958	6.20%	5.65%
Other Ontario	300	21	15	3	339	6.16%	5.78%
Québec	343	23	–	102	468	6.32%	6.03%
British Columbia	346	27	5	73	451	4.92%	4.62%
Alberta	205	13	2	–	220	5.83%	5.58%
Nova Scotia	139	14	7	–	160	6.72%	6.11%
Saskatchewan	22	1	1	–	24	6.85%	6.69%
MHC Land Lease Sites	89	3	2	–	94	6.25%	6.04%
Total	$ 3,050	$ 238	$ 131	$ 295	$ 3,714		

(1) Weighted average capitalization rates excluding implied capitalization rates on Operating and Leasehold Interests. See note 8 to the accompanying audited consolidated financial statements for further valuation assumption details including discount rates as at December 31, 2011 for Land and Operating Leasehold interests.

As at December 31, 2011, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of investment properties:

As at December 31, 2011 ($ Millions)	Change (basis points) [1]	Estimated (Decrease) Increase in Fair Value of Investment Properties
Weighted Average Capitalization Rate	+25	$ (156)
Weighted Average Capitalization Rate	–25	$ 170

(1) For Operating Leasehold Interests, CAPREIT applies discount rates to determine the fair value of these properties. However, for the purposes of the above sensitivity analysis, CAPREIT has utilized the implied capitalization rates for Operating Leasehold Interests to determine the impact on fair value of the total portfolio.

Section 2

Average Monthly Rents and Occupancy

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

As at December 31,	Total Portfolio				Properties Owned Prior to December 31, 2010				Properties Acquired Since December 31, 2010	
	2011		2010		2011		2010 (1)		2011	
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %
Affordable	$ 808	97.1	$ 763	97.6	$ 785	96.7	$ 784	97.4	$ 931	99.1
Mid-tier	$ 958	98.6	$ 944	98.3	$ 959	98.7	$ 944	98.3	$ 939	97.9
Luxury	$ 1,104	98.4	$ 1,107	98.6	$ 1,124	98.4	$ 1,107	98.6	$ 957	98.1
Average Residential Suites	$ 1,009	98.5	$ 997	98.4	$ 1,015	98.5	$ 1,000	98.4	$ 948	98.1
Average MHC Land Lease Sites	$ 615	99.8	$ 622	100.0	$ 615	99.8	$ 622	100.0	$ 630	100.0
Overall Portfolio Average	$ 991	98.5	$ 979	98.4	$ 995	98.6	$ 981	98.4	$ 947	98.1

(1) Prior year's comparable AMR and occupancy have been restated for a property disposed in 2011.

AMR is defined as actual residential rents, net of vacancies, divided by the total number of suites in the property and does not include revenues from parking, laundry or other sources. Average monthly rents increased in the affordable and mid-tier sectors of the residential suite portfolio, resulting in a 1.2% increase in overall average monthly rent as at December 31, 2011 to $1,009, compared to $997 in the prior year. As at December 31, 2011, the AMR of the affordable properties increased to $808 compared to $763 last year, as a result of a 2011 acquisition of an affordable property in the higher rent geographic region, and disposition of a property in the lower rent geographic region of the portfolio. In addition, the AMR of the luxury properties decreased to $1,104 compared to $1,107 last year, partially as a result of certain 2011 acquisitions in lower rent geographic regions of the portfolio. The increases in average monthly rents and occupancy levels were due to a combination of ongoing successful sales and marketing strategies and continued strength in the residential rental sector in the majority of CAPREIT's regional markets.

Average monthly rents for residential properties owned prior to December 31, 2010 also increased at December 31, 2011 to $1,015 from $1,000 at December 31, 2010, with gains of up to 1.6% in some sectors of the portfolio. As at December 31, 2011, occupancy increased to 98.5%, compared to 98.4% in the prior year. For the MHC land lease portfolio, average monthly rents decreased to $615 as at December 31, 2011, compared to $622 as at December 31, 2010. As of October 1, 2011, CAPREIT reduced the rents for residents at its Grand Bend MHC site, as effective this date the water costs will now be paid directly by the residents.

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

Suite Turnovers and Lease Renewals

For the Year Ended December 31,	2011			2010		
	Change in AMR		% Turnovers & Renewals (1)	Change in AMR		% Turnovers & Renewals (1)
	$	%		$	%	
Suite Turnovers	13.2	1.3	31.1	6.3	0.6	34.9
Lease Renewals	14.3	1.4	70.3	22.4	2.3	76.7
Weighted Average of Turnovers and Renewals	14.0	1.4		17.4	1.8	

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

Suite turnovers in the residential suite portfolio (excluding co-ownerships) during the year ended December 31, 2011 resulted in average monthly rent increasing by approximately $13 or 1.3%, compared to an increase of approximately $6 or 0.6% for last year due to strengthening market conditions.

Pursuant to Management's focus on increasing overall portfolio rents, for the year ended December 31, 2011, average monthly rents on lease renewals increased by approximately $14 or 1.4%, compared to an increase of approximately $22 or 2.3% for last year. The lower rate of growth in average monthly rents on lease renewals during the year is primarily due to the low Ontario guideline increase of 0.7% for 2011, which compares unfavourably to the permitted Ontario guideline increase of 2.1% in 2010. For 2012, the permitted guideline increase in Ontario and British Columbia has been increased to 3.1% and 4.3%, respectively (see the discussion in the Risks and Uncertainties section of the MD&A). Management is actively pursuing applications for above guideline increases to raise average monthly rents on lease renewals (see discussion in the Future Outlook section).

Portfolio Average Monthly Rents and Occupancy by Geography

As at December 31,	Total Portfolio				Properties Owned Prior to December 31, 2010				Properties Acquired Since December 31, 2010	
	2011		2010		2011		2010 [1]		2011	
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %
Ontario										
Greater Toronto Area	$ 1,101	98.9	$ 1,103	99.0	$ 1,113	98.8	$ 1,103	99.0	$ 949	99.2
Ottawa	887	100.0	871	99.9	887	100.0	871	99.9	–	–
London / Waterloo	863	97.2	866	98.2	863	97.2	866	98.2	–	–
Other Ontario	1,022	99.4	963	98.8	1,020	99.5	1,003	98.7	1,053	97.6
	$ 1,074	98.9	$ 1,068	99.0	$ 1,082	98.9	$ 1,072	99.0	$ 965	99.1
Québec										
Greater Montréal Region	$ 781	97.5	$ 679	95.5	$ 707	97.5	$ 679	95.5	$ 945	97.5
Québec City	812	96.9	807	98.3	812	96.9	807	98.3	–	–
	$ 792	97.2	$ 739	96.8	$ 755	97.2	$ 739	96.8	$ 945	97.5
British Columbia										
Greater Vancouver Region	$ 1,005	98.8	$ 1,003	98.8	$ 1,029	99.3	$ 1,003	98.8	$ 933	97.2
Victoria	855	96.7	840	97.5	855	96.7	840	97.5	–	–
	$ 961	98.2	$ 944	98.4	$ 967	98.4	$ 944	98.4	$ 933	97.2
Alberta										
Edmonton	$ 1,054	99.4	$ 1,013	98.1	$ 1,054	99.4	$ 1,013	98.1	$ –	–
Calgary	1,044	98.4	984	94.7	1,044	98.4	984	94.7	–	–
	$ 1,046	98.6	$ 990	95.4	$ 1,046	98.6	$ 990	95.4	$ –	–
Nova Scotia										
Halifax	$ 1,053	97.0	$ 1,043	98.3	$ 1,053	97.0	$ 1,043	98.3	$ –	–
Saskatchewan										
Saskatoon	$ 845	97.7	$ 769	93.2	$ 845	97.7	$ 769	93.2	$ –	–
Regina	912	100.0	883	100.0	912	100.0	883	100.0	–	–
	$ 875	98.8	$ 820	96.3	$ 875	98.8	$ 820	96.3	$ –	–
Total Residential Suites	$ 1,009	98.5	$ 997	98.4	$ 1,015	98.5	$ 1,000	98.4	$ 948	98.1
MHC Land Lease Sites	$ 615	99.8	$ 622	100.0	$ 615	99.8	$ 622	100.0	$ 630	100.0
Total Residential Suites and MHC Land Lease Sites	$ 991	98.5	$ 979	98.4	$ 995	98.6	$ 981	98.4	$ 947	98.1

(1) Prior year's comparable AMR and occupancy have been restated for a property disposed in 2011.

Overall average occupancy remained at nearly full levels at 98.5% as at December 31, 2011, compared to 98.4% last year, as CAPREIT's strong portfolio and favourable market conditions enabled Management to continue to focus on improving resident quality, with an emphasis on maintaining or increasing rents in most of the portfolio's core markets, as summarized below:

- Average monthly rents for properties owned prior to December 31, 2010 increased in all regional markets of the portfolio with the exception of London / Waterloo and MHC land lease sites, while average occupancy levels decreased in certain regions.
- Ontario, where residential suites represent about 64% of the total residential suite portfolio, experienced an increase of 0.9% in average monthly rents for its properties owned prior to December 31, 2010, and 0.6% in average monthly rents for all its properties as at December 31, 2011 compared to last year. Occupancy levels remained at nearly full at 98.9%, consistent with the 99.0% last year. Management expects the Ontario rental market to remain strong and benefit from the higher guideline increase of 3.1% in 2012.
- Québec, representing about 17% of the total residential suite portfolio, experienced an increase of 2.2% in average monthly rents for its properties owned prior to December 31, 2010, compared to last year. For the total Québec portfolio, the average monthly rents increased by 7.2%, compared to last year, primarily due to the 2011 acquisitions of two luxury properties and strong rental growth in Montréal. The occupancy levels increased to 97.2% from 96.8%. Management expects the Québec rental market to remain stable.
- British Columbia experienced an increase of 2.4% in average monthly rents for its properties owned prior to December 31, 2010, and 1.8% in average monthly rents for its total portfolio. The average monthly rents in the Victoria region have increased by 1.8%, compared to last year, due to the 2010 acquisitions now being fully integrated with CAPREIT's strategies and systems, resulting in higher performing buildings. For the total British Columbia portfolio, occupancy levels decreased slightly to 98.2% from 98.4% over last year. Management expects the British Columbia rental market to remain strong and benefit from the higher guideline increase of 4.3% in 2012.
- Improving economic conditions in Alberta resulted in an overall 5.7% improvement in average monthly rents on a year-over-year basis, including occupancy levels which improved from 95.4% last year to 98.6% as at December 31, 2011.

Overall average monthly rents for the residential suite portfolio as at December 31, 2011 increased by approximately 1.2%, as compared to December 31, 2010. Management believes annual occupancies can be maintained in the 97% to 98% range and the trend for gradual increases in average monthly rents will continue, providing the basis for sustainable year-over-year increases in revenues.

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

The table below shows the new tenant inducements incurred during the years ended December 31, 2011 and 2010 as well as the amortization of tenant inducements and loss from vacancies included in net rental revenue for the same years.

Tenant Inducements and Vacancy Loss on Residential Suites and Sites

Year Ended December 31, ($ Thousands)		2011		2010
New Tenant Inducements Incurred	$	658	$	1,107
Tenant Inducements Amortized	$	940	$	1,051
Vacancy Loss Incurred		5,884		6,840
Total Amortization and Loss	$	6,824	$	7,891

Results of Operations

Total Operating Revenues by Geography

For the Year Ended December 31, ($ Thousands)		2011		2010
Ontario				
Greater Toronto Area	$	202,483	$	190,630
Ottawa		8,610		8,404
London / Waterloo		9,460		12,325
Other Ontario		18,243		17,468
Ontario Residential Suites	$	238,796	$	228,827
MHC Land Lease Sites		10,169		9,864
	$	248,965	$	238,691
Québec				
Greater Montréal Region	$	23,068	$	19,641
Québec City		19,549		19,283
	$	42,617	$	38,924
British Columbia				
Greater Vancouver Region	$	23,637	$	18,578
Victoria		8,546		6,243
	$	32,183	$	24,821
Alberta				
Edmonton	$	4,149	$	4,009
Calgary		16,673		15,951
	$	20,822	$	19,960
Nova Scotia				
Halifax	$	14,866	$	14,230
Saskatchewan				
Saskatoon	$	1,320	$	1,187
Regina		1,182		1,146
	$	2,502	$	2,333
Total Residential Suites	$	351,786	$	329,095
Total Residential Suites and MHC Land Lease Sites	$	361,955	$	338,959

Results of Operations

For the Year Ended December 31, ($ Thousands)		2011	% (1)		2010	% (1)
Operating Revenues						
Net Rental Revenues	$	343,105	94.8	$	322,747	95.2
Other (2)		18,850	5.2		16,212	4.8
Total Operating Revenues	$	361,955	100.0	$	338,959	100.0
Operating Expenses						
Realty Taxes		44,885	12.4		43,438	12.8
Utilities		38,764	10.7		38,761	11.4
Other		72,149	19.9		66,421	19.6
Total Operating Expenses		155,798	43.0		148,620	43.8
NOI	$	206,157	57.0	$	190,339	56.2

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

Operating Revenues

For the year ended December 31, 2011, total operating revenues increased by 6.8%, compared to last year, due to the contribution from acquisitions, increased average monthly rents and higher occupancies. CAPREIT increased average monthly rents in the residential portfolio to $1,009 as at December 31, 2011, compared to $997 as at December 31, 2010, while occupancy improved slightly to 98.5%, compared to 98.4% for last year. As CAPREIT continues to enhance the profile of its resident base and increase the level of service to residents, it expects to realize further increases in operating revenues. Ancillary revenues, such as parking, laundry and antenna income, increased by a significant 16.3% for the year ended December 31, 2011 as Management continued its focus on maximizing the revenue potential of its property portfolio. In addition, ancillary revenues included the positive impact of non-recurring items of $0.7 million for the year ended December 31, 2011.

For the year ended December 31, 2011, overall average residential vacancies as a percentage of operating revenues improved to 1.6% compared to 2.0% for last year. The improvement in occupancies was primarily due to strengthening market conditions in most regions, compared to the prior year.

For the year ended December 31, 2011, bad debt expense as a percentage of operating revenues improved to 0.4% compared to 0.6% for last year. Tenant inducements expense remained stable compared to last year at 0.3% as a percentage of revenues.

Estimated Net Rental Revenue Run-Rate

As at December 31, ($ Thousands)		2011		2010
Residential Rent Roll (1),(2)	$	352,572	$	318,213
Commercial Rent Roll (1),(2)		8,681		8,003
Annualized Net Rental Revenue Run-Rate	$	361,253	$	326,216

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

The table above shows the estimated Net Rental Revenue Run-Rate based on average monthly rents in place for CAPREIT's share of residential suites and sites as at December 31, 2011 and 2010, net of average historical vacancy loss, tenant inducements and bad debt. The estimated annualized Net Rental Revenue Run-Rate improved by 10.7% to $361.3 million from $326.2 million partially as a result of new acquisitions within the past year. Net rental revenue for the year ended December 31, 2011 was $343.1 million (2010 – $322.7 million).

Operating Expenses

Overall operating expenses as a percentage of revenues improved in the year ended December 31, 2011, compared to last year, as a result of: (i) the diversification of the portfolio into regions with lower taxation rates, (ii) successful energy-saving initiatives and (iii) enhanced procurement strategies.

Realty Taxes

For the year ended December 31, 2011, realty taxes as a percentage of revenues continued their downward trend to 12.4%, compared to 12.8% for last year. The decrease is primarily the result of the enhanced diversification of the portfolio into regions with lower taxation rates as well as a successful realty tax management program to mitigate rising realty taxes in certain regions.

Utilities

As a percentage of revenues, utility costs for the year ended December 31, 2011 decreased to 10.7% from 11.4% for last year.

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

Year Ended December 31, ($ Thousands)	2011	2010
Electricity	$ 17,874	$ 18,017
Natural Gas	11,211	11,499
Water	9,307	8,926
Heating Oil	372	319
Total	$ 38,764	$ 38,761

Electricity costs decreased for the year ended December 31, 2011 primarily due to lower electricity consumption resulting from warmer weather in the 2011 winter months and energy-saving initiatives compared to last year, partially offset by an increase in electricity rates and the introduction of the Harmonized Sales Tax in Ontario beginning in July 2010.

The table below explains the key components of the change in natural gas costs between the years ended December 31, 2010 and 2011:

Year Ended December 31, 2011 ($ Thousands)	
Natural Gas Costs – Year Ended December 31, 2010	$ 11,499
Impact of Change in Consumption	700
Impact of Unwinding Fixed Price Commitments	(759)
Impact of Change in Spot Prices on Unhedged Supply	(513)
Net Impact of Property Acquisitions and Disposition	284
Natural Gas Costs – Year Ended December 31, 2011	$ 11,211

The table below provides information on CAPREIT's fixed natural gas contracts for fiscal years 2012 and 2013:

Year Ended December 31,	2012	2013
Fixed Average Weighted Cost per GJ [1]	$ 3.73	$ 3.39
Total CAPREIT's Estimated Requirement	53.43%	18.16%

(1) Fixed weighted average cost per gigajoule ("GJ") excludes estimated transportation costs of $1.38 and $1.23 per GJ for 2012 and 2013, respectively.

Other Operating Expenses

Other operating expenses, which include Repairs and Maintenance ("R&M") costs, wages and benefits, insurance and advertising, increased as a percentage of revenues for the year ended December 31, 2011, to 19.9%, from 19.6% for last year. The increase was primarily due to higher R&M costs driven by a combination of factors including the integration of new properties. The overall increase was partially offset by CAPREIT's enhanced procurement strategies aimed at reducing operating expenses.

Net Operating Income

Management believes NOI is a key indicator of operating performance in the real estate industry. NOI includes all rental revenues generated at the property level, less: (i) related direct costs such as utilities, realty taxes, insurance, R&M costs and on-site wages and salaries; and (ii) an appropriate allocation of overhead costs. It may not, however, be comparable to similar measures presented by other real estate trusts or companies.

The following table shows the NOI and the NOI margin attained for each regional market for the years ended December 31, 2011 and 2010.

For the Year Ended December 31, ($ Thousands)	2011			2010	
	NOI	NOI Margin (%)	Change (%) [1]	NOI	NOI Margin (%)
Ontario					
Greater Toronto Area	$ 114,334	56.5	8.3	$ 105,609	55.4
Ottawa	4,497	52.2	2.4	4,393	52.3
London / Waterloo	5,225	55.2	(17.8)	6,355	51.6
Other Ontario	9,891	54.2	8.5	9,118	52.2
Ontario Residential Suites	$ 133,947	56.1	6.8	$ 125,475	54.8
MHC Land Lease Sites	5,688	55.9	0.5	5,658	57.4
	$ 139,635	56.1	6.5	$ 131,133	54.9
Québec					
Greater Montréal Region	$ 12,403	53.8	14.9	$ 10,792	54.9
Québec City	11,146	57.0	(1.3)	11,292	58.6
	$ 23,549	55.3	6.6	$ 22,084	56.7
British Columbia					
Greater Vancouver Region	$ 14,213	60.1	27.5	$ 11,147	60.0
Victoria	5,515	64.5	46.2	3,773	60.4
	$ 19,728	61.3	32.2	$ 14,920	60.1
Alberta					
Edmonton	$ 2,556	61.6	1.3	$ 2,522	62.9
Calgary	9,305	55.8	6.2	8,762	54.9
	$ 11,861	57.0	5.1	$ 11,284	56.5
Nova Scotia					
Halifax	$ 9,909	66.7	3.4	$ 9,579	67.3
Saskatchewan					
Saskatoon	$ 713	54.0	20.8	$ 590	49.7
Regina	762	64.5	1.7	749	65.4
	$ 1,475	59.0	10.2	$ 1,339	57.4
Total Residential Suites	$ 200,469	57.0	8.5	$ 184,681	56.1
Total Residential Suites and MHC Land Lease Sites	$ 206,157	57.0	8.3	$ 190,339	56.2

(1) Change in NOI from the prior year.

For the year ended December 31, 2011, overall NOI increased by $15.8 million or 8.3%, while the NOI margin improved to 57.0% from 56.2% for last year. The significant improvement in the NOI contribution in specific regions of the portfolio was primarily the result of acquisitions completed in the prior 12 months and higher operating revenues. While overall the NOI and the NOI margin increased for 2011, CAPREIT remains focused on continuing to further improve NOI through a combination of accretive and value-enhancing acquisitions, successful sales and marketing strategies to improve revenues, and investments in capital programs to further reduce costs and enhance the quality and value of its portfolio.

Ontario

NOI for the Ontario portfolio increased by 6.5% during the year ended December 31, 2011 compared to last year, primarily due to higher operating revenues due to contributions from acquisitions in 2011, and increased average monthly rents, partially offset by higher R&M costs and wages. The NOI margin improved to 56.1% for the year ended December 31, 2011, compared to 54.9% for last year, due to higher operating revenues offset by lower utility costs as a percentage of total operating revenues. The dispositions completed in the London / Waterloo Region during 2010 were the main contributing factors to lower revenues and NOI for the year ended December 31, 2011, compared to last year; however, the NOI margin increased to 55.2% from 51.6% last year. Management believes the Ontario portfolio will remain strong and generate steady returns in the medium term. As discussed earlier, the rent guideline increase for 2012 has been set at 3.1%, up from 0.7% in 2011.

Québec

NOI for the Québec portfolio increased by 6.6% during the year ended December 31, 2011, compared to last year, primarily due to higher operating revenues due to contributions from acquisitions in 2011, and increased average monthly rents, partially offset by higher wages, realty taxes and R&M costs. For the year ended December 31, 2011, the NOI margin decreased to 55.3% from 56.7%, primarily due to higher wages, realty taxes and R&M costs as a percentage of total operating revenues, compared to last year. CAPREIT believes the Québec rental market will remain stable and generate steady to improving returns in the medium term.

British Columbia

For the year ended December 31, 2011, acquisitions completed since the second quarter of last year and increased average monthly rents were the primary contributing factors for the large increase in revenues and NOI. For the year ended December 31, 2011, the NOI margin increased to 61.3% from 60.1%, due to higher operating revenues and lower realty taxes and wages as a percentage of operating revenues, compared to last year. The properties acquired in Victoria in 2010 are now fully integrated, resulting in a higher NOI margin of 64.5% for the year ended December 31, 2011, compared to 60.4% for last year. Management believes the British Columbia portfolio will continue to generate steady returns in the medium term. The rent guideline increase for 2012 has been set at 4.3%, up from 2.3% in 2011.

Alberta

NOI for the Alberta portfolio increased by 5.1% during the year ended December 31, 2011 compared to last year, primarily due to higher operating revenues, lower vacancies and bad debts costs. For the year ended December 31, 2011, the NOI margin increased to 57.0% compared to 56.5% for last year due to improved rental rates and occupancies in 2011. Management believes the Alberta market should continue to improve over the medium term.

Nova Scotia

NOI for the Nova Scotia portfolio increased by 3.4% during the year ended December 31, 2011 compared to last year, primarily due to higher operating revenues, and lower vacancies. However, for the year ended December 31, 2011, the NOI margin decreased to 66.7% from 67.3%, primarily due to higher utility and R&M costs as a percentage of total operating revenues, compared to last year. Management believes its presence primarily in downtown locations will serve to maintain or increase occupancy levels and average monthly rents in the medium term.

Operating Performance by Type of Property Interest

The following tables provide a summary of NOI by type of property interest held by CAPREIT for the years ended December 31, 2011 and 2010:

NOI by Type of Property Interest

Year Ended December 31, ($ Thousands)		2011	%		2010	%
Fee Simple Interests – Apartments and Townhomes	$	161,908	78.5	$	148,694	78.1
Operating Leasehold Interests		30,511	14.8		28,326	14.9
Land Leasehold Interests		8,050	3.9		7,661	4.0
Total Residential Suites	$	200,469	97.2	$	184,681	97.0
Fee Simple Interests – MHC Land Lease Sites		5,688	2.8		5,658	3.0
Total	$	206,157	100.0	$	190,339	100.0

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

NOI of Operating Leasehold Interests Portfolio by Lease Maturity

Year Ended December 31, ($ Thousands)		2011	%		2010	%
2033	$	24,337	79.8	$	22,417	79.1
2034		1,667	5.5		1,551	5.5
2035		1,341	4.4		1,283	4.5
2037		3,166	10.3		3,075	10.9
	$	30,511	100.0	$	28,326	100.0

NOI of Land Leasehold Interests Portfolio by Lease Maturity

Year Ended December 31, ($ Thousands)		2011	%		2010	%
2045	$	4,028	50.0	$	4,031	52.7
2068		1,068	13.3		1,068	13.9
2070		2,954	36.7		2,562	33.4
	$	8,050	100.0	$	7,661	100.0

Stabilized Portfolio Performance

Year Ended December 31,	2011	% (1)	2010
Stabilized Suites and Sites	26,531		26,531
Operating Revenues ($ millions)	$ 336.4	2.9	$ 327.0
Operating Costs ($ millions)	$ 145.0	1.5	$ 142.8
Net Operating Income ($ millions)	$ 191.4	3.9	$ 184.2
Net Operating Income Margin (%)	56.9	0.6	56.3

(1) Change from prior year.

Stabilized properties for the year ended December 31, 2011 are defined as all properties owned by CAPREIT continuously since December 31, 2009, and therefore, do not take into account the impact on performance of acquisitions or dispositions completed during 2011 and 2010. As at December 31, 2011, stabilized suites and sites represent 88.9% of the overall portfolio.

As of December 31, 2011, CAPREIT has generated 24 consecutive quarters of stable or improved year-over-year NOI growth for stabilized properties. For the year ended December 31, 2011, operating revenues increased by 2.9% and operating costs increased by 1.5% over last year. As a result, stabilized NOI increased by 3.9% for the year ended December 31, 2011.

For the year ended December 31, 2011, the NOI margin for properties acquired since December 31, 2009 was 58.4%.

Net Income and Other Comprehensive Income

Year Ended December 31, ($ Thousands)	2011	2010
Net Operating Income	$ 206,157	$ 190,339
(Less) Plus:		
Trust Expenses	(14,797)	(12,291)
Unrealized Gain on Remeasurement of Investment Properties	231,338	21,858
Realized Loss on Disposition of Investment Properties	(95)	(4,941)
Remeasurement of Exchangeable Units	(2,126)	(1,267)
Unit-based Compensation Expenses	(13,936)	(7,502)
Interest on Mortgages Payable and Other Financing Costs	(82,833)	(80,115)
Interest on Bank Indebtedness	(5,793)	(7,417)
Interest on Exchangeable Units	(444)	(444)
Net Loss on Natural Gas Contracts	–	(4,497)
Other Income	1,899	1,854
Amortization	(1,613)	(1,352)
Severance and Other Employee Costs	(1,352)	(736)
Unrealized and Realized Loss on Derivative Financial Instruments	(233)	(174)
Recovery of Deferred Income Taxes	–	435,733
Net Income	$ 316,172	$ 529,048
Other Comprehensive (Loss) Income		
Amortization of Losses from AOCL to Interest and Other Financing Costs	$ 1,052	$ 1,152
Change in Fair Value of Derivative Financial Instruments	(17,776)	1,764
Change in Fair value of Investments	3,799	5,649
Recovery of Deferred Income Taxes	–	4,774
Other Comprehensive (Loss) Income	(12,925)	13,339
Comprehensive Income	$ 303,247	$ 542,387

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and advisory services, trustees' and officers' insurance premiums, and other general and administrative expenses. Trust expenses increased for the year ended December 31, 2011, to $14.8 million from $12.3 million for last year, mainly due to higher compensation and other non-recurring costs.

Unrealized Gain on Remeasurement of Investment Properties

With the adoption of IFRS effective January 1, 2010, CAPREIT elected to recognize its investment properties at fair value at each reporting period, with any unrealized gain or loss on remeasurement recognized in the consolidated statements of income and comprehensive income for the year (see discussion in the Adoption of IFRS section). A description of the key components of the change in the fair value of investment properties is included in the Investment Properties section.

Remeasurement of Exchangeable Units and Related Interest Expense

With the adoption of IFRS effective January 1, 2010, CAPREIT is required to account for its Exchangeable Units as a financial liability, to remeasure such liability at each reporting period, and to include this remeasurement in the consolidated statements of income and comprehensive income (see discussion in the Adoption of IFRS section). As a result of the increase in the market price of CAPREIT's Trust Units for the year ended December 31, 2011, compared to last year, the remeasurement of Exchangeable Units at fair value resulted in a significantly higher remeasurement expense of $2.1 million, compared to $1.3 million for last year.

Unit-based Compensation Expenses

Unit-based compensation benefits are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and to provide additional incentives by increasing the participants' interest, as owners, in CAPREIT. Unit-based compensation expenses include costs attributable to these incentive plans, namely the Restricted Unit Rights Plan ("RUR Plan"), Unit Option Plan ("UOP"), Deferred Unit Plan ("DUP"), Long-Term Incentive Plan ("LTIP") and Senior Executive Long-Term Incentive Plan ("SELTIP") (see notes 13 and 15 in the accompanying audited consolidated annual financial statements for a discussion of these plans).

As a result of CAPREIT being an open-ended mutual fund trust, whereby each Unitholder of the Trust Units is entitled to redeem their Units in accordance with the conditions specified in CAPREIT's DOT, under IFRS, the underlying Trust Units relating to the Unit-based compensation awards are not treated as equity and are instead considered financial liabilities. As such, these Unit-based compensation awards must be presented as liabilities and remeasured at fair value at each reporting date. Close-ended mutual fund trusts, such as certain of CAPREIT's industry peers, are not required to remeasure their respective Unit-based compensation awards. In such cases, the related expense is limited to the amortization of the fair value of the award over the applicable vesting period.

In order to aid comparability with CAPREIT's peers, the Unit-based compensation expense has been separated into two components: (i) the amortization of the grant date fair value of the award over its vesting period, and (ii) the remeasurement of awards outstanding at year-end at fair value.

CAPREIT's Unit-based compensation expense for the year ended December 31, 2011 increased to $13.9 million from $7.5 million for last year, mainly due to the increase in the market price of CAPREIT's Trust Units as well as the issuance of additional awards granted under the DUP, UOP and RUR Plan. The table below demonstrates the impact of each component of CAPREIT's plans on the total compensation expense.

Year Ended December 31, ($ Thousands)	2011	2010
Remeasurement of Unit-based Compensation Liabilities	$ 12,165	$ 6,145
Amortization of Fair Value on Grant Date of Unit-based Compensation	1,771	1,357
Total	$ 13,936	$ 7,502

Interest on Mortgages Payable and Other Financing Costs

Interest on mortgages, which includes the amortization of certain financing costs, increased for the year ended December 31, 2011, to $82.8 million from $80.1 million for last year, due to increased mortgage top-ups and acquisition financing since December 31, 2010. However, as a percentage of operating revenues, mortgage interest expense decreased to 22.9% for the year ended December 31, 2011, compared to 23.6% for last year, as a result of CAPREIT's successful refinancing of mortgages at lower interest rates. Additional information on the interest on mortgages payable and other financing costs is included in note 16 to the accompanying audited consolidated annual financial statements and the Liquidity and Financial Condition section.

Interest on Bank Indebtedness

Interest on bank indebtedness relates to borrowings under the Credit Facilities (see Liquidity and Capital Resources discussion). Interest on bank indebtedness for the year ended December 31, 2011 decreased significantly to $5.8 million from $7.4 million for last year due to lower average borrowings throughout the year resulting from the repayment of a majority of the borrowings from the capital raised in the equity offerings completed in December 2010 and October 2011 and a lower weighted average floating interest rate. Additional information is included in the Liquidity and Capital Resources section.

Net Loss on Natural Gas Contracts

With the authorization of the Board of Trustees, effective March 1, 2010, Management implemented a revised natural gas supply strategy that, in effect, converted substantially all of the fixed-price natural gas commitments to spot pricing arrangements through the amendment of physical delivery contracts and the use of derivative financial instruments. The amendment resulted in the crystallization of a $4.5 million loss for the period ended March 31, 2010, settled through the use of derivative financial instruments (see item (iii), Natural gas contracts below). During 2011 Management locked-in future prices through the use of forward commodity fixed-price contracts instead of through the use of derivatives (see note 17 to the accompanying audited consolidated annual financial statements).

Other Income

Other income consists primarily of dividends received from investments (see notes 2 and 9 to the accompanying audited consolidated annual financial statements).

Amortization

These costs represent the amortization of CAPREIT's head office property, plant and equipment on a straight-line basis over their estimated useful lives ranging primarily between three and five years.

Severance and Other Employee Costs

For the year ended December 31, 2011, severance and other employee costs increased to $1.4 million from $0.7 million for last year, primarily due to costs related to the departure of CAPREIT's former Chief Financial Officer, as announced on May 27, 2011.

Unrealized and Realized Loss on Derivative Financial Instruments

i) **Forward interest rate hedges for which hedge accounting is being applied:** In June 2011, CAPREIT entered into a forward interest rate hedge agreement to hedge interest rates on approximately $312 million of mortgages maturing between September 2011 and June 2013, to which hedge accounting is being applied. The maturing mortgages are expected to be refinanced on ten-year terms and are expected to bear interest rates based upon ten-year Government of Canada bond rates between a floor rate of 3.00% with a maximum of 3.62%, before the impact of credit spread. Current spot market rates are below the floor rate of 3.00% as at December 31, 2011. At each reporting date, the hedging derivative will be marked-to-market, with the difference between the change in fair value and intrinsic value recognized in net income or loss. There is realized loss on derivative financial instruments of $0.9 million, the difference between the settled derivatives of $3.8 million and Other Comprehensive Income ("OCI") realized loss of $2.9 million. This is offset by $1.3 million unrealized gain from the forward interest rate contract being marked-to-market for the year ended December 31, 2011.

ii) **Interest rate contracts for which hedge accounting is being applied:** As at December 31, 2011, CAPREIT has a $55 million interest rate swap agreement fixing the interest rate at 5.706%, maturing in July 2012, to which hedge accounting is being applied. The agreement effectively converts borrowings on a banker's acceptance based floating rate credit facility to a fixed-rate facility for a five-year term. At each reporting date, the hedging derivative will be marked-to-market, with the ineffective portion being recognized in net income.

iii) **Natural gas contracts:** The amended 2010 natural gas supply strategy outlined earlier comprises a physical delivery contract at spot pricing, a floating-to-fixed derivative financial instrument with the natural gas supplier and an offsetting fixed-to-floating derivative financial instrument with a Canadian chartered bank. Hedge accounting is not being applied to these derivative financial instruments, which will be marked-to-market through net income on an ongoing basis.

   During 2011, Management locked-in future prices through the use of forward commodity fixed-price contracts instead of through the use of derivatives. These contracts do not impact OCI and are only recognized on consumption.

Additional information on the above instruments is included in notes 16 and 17 to the accompanying audited consolidated annual financial statements.

Deferred Income Taxes

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

Under IFRS, CAPREIT is unable to assume that it will distribute its non-portfolio income, which means that, had CAPREIT not met the REIT Exception, it would have been subject to tax beginning in 2011 as an inter vivos trust at the highest marginal tax rate applicable to individuals. The transition to IFRS requires that CAPREIT record a deferred income tax provision based on this higher tax rate for the comparative period until the fourth quarter of 2010, at which time CAPREIT satisfied the REIT Exception.

As CAPREIT uses the liability method of accounting for deferred income taxes, the non-cash deferred income tax liability balance represented the cumulative amount of taxes applicable to temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes expected to reverse on or after January 1, 2011 on satisfaction of the REIT Exception. As such, the deferred income tax liability of $440.5 million recorded as at January 1, 2010 was reversed and recorded as a recovery of $435.7 million to the consolidated statements of income and comprehensive income and a recovery of $4.8 million to OCI for the year ended December 31, 2010.

Realized Loss on Disposition of Investment Property

The realized loss on disposition of investment property during the first quarter of 2011 of $0.1 million for the year ended December 31, 2011 represents the difference between the net proceeds from the disposition, compared to the fair value of the same property as at December 31, 2010.

Other Comprehensive Income

Included in OCI are the following:

i) **Amortization of Losses from Accumulated Other Comprehensive Loss ("AOCL") to Interest and Other Financing Costs:** for the year ended December 31, 2011 is primarily comprised of $1.1 million amortization of the realized losses of $12.8 million on forward contracts included in AOCL.

ii) **Change in Fair Value of the Derivative Financial Instruments:** for the year ended December 31, 2011 is comprised of (i) settlement of $2.6 million of previously unrealized losses on the interest rate swap agreement entered into in 2007, which effectively converts borrowings on a banker's acceptance floating rate credit facility to a fixed-rate facility for $55 million for a five-year term. This interest rate swap agreement has been assessed as an effective hedge in accordance with International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement. The difference between the effective fixed interest rate and the corresponding three-month banker's acceptance rate is adjusted to interest expense every quarter, and (ii) a realized loss of $2.9 million and an unrealized loss of $17.7 million for the change in the intrinsic value of the forward interest rate hedge included in OCI. CAPREIT entered into a forward interest rate hedge agreement to hedge interest rates for a majority of mortgages maturing between September 2011 and June 2013. This forward interest rate hedge agreement has been assessed as an effective hedge in accordance with IAS 39, with the effective portion of the intrinsic value of the contract derivative recognized in OCI.

iii) **Change in fair value of investments:** represents the cumulative marked-to-market gain or loss for the period on investments accounted for as available-for-sale.

Additional information on the above instruments and investments is included in notes 2 and 16, respectively, to the accompanying audited consolidated annual financial statements.

Section 3

Non-IFRS Financial Measures

Per Unit Calculations

As a result of CAPREIT being an open-ended mutual fund trust, Unitholders are entitled to redeem their Trust Units, subject to certain restrictions. The impact of this redemption feature causes CAPREIT's Trust Units to be treated as financial liabilities under IFRS. Consequently, all per Unit calculations are considered non-IFRS measures.

The following table explains the number of Units used in calculating non-IFRS financial measures on a per Unit basis:

Weighted Average Number of Units

Year Ended December 31,	2011	2010
Trust Units	76,039	66,656
Exchangeable Units (1)	411	411
Units under the DUP (2)	88	63
Basic Weighted Average Number of Units	76,538	67,130
Plus:		
Dilutive Units under the LTIP (2),(3)	502	261
Dilutive Units under the SELTIP (2),(3)	189	74
Units Rights under the RUR Plan (2)	157	61
Dilutive Unexercised Options under the UOP (2),(4)	84	44
Diluted Weighted Average Number of Units	77,469	67,570

(1) See note 13 to the accompanying audited consolidated annual financial statements for details of Exchangeable Units.

(2) See notes 13 and 15 to the accompanying audited consolidated annual financial statements for details of CAPREIT's Unit-based compensation plans.

(3) Calculated using the treasury method after taking into account the respective subscriptions receivable (see note 15 to the accompanying audited consolidated annual financial statements).

(4) Calculated using the treasury method after taking into account the exercise prices.

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

Year Ended December 31, ($ Thousands)	2011	2010
Distributions Declared on Trust Units	$ 82,816	$ 72,230
Distributions Declared on Exchangeable Units	444	444
Distributions Declared on Awards Outstanding Under Unit-based Compensation Plans (1)	2,794	2,852
Total Distributions Declared	86,054	75,526
Less:		
Distributions on Trust Units Reinvested	(16,215)	(9,154)
Distributions on Unit Awards Reinvested (1)	(2,794)	(2,852)
Net Distributions Paid	$ 67,045	$ 63,520
Percentage of Distributions Reinvested	22.1%	15.9%

(1) Comprises: (i) non-cash distributions related to the DUP and the RUR plan, and (ii) retained distributions on LTIP and SELTIP Units (see notes 13 and 15 to the accompanying audited consolidated annual financial statements for a discussion of these plans).

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

The average participation rate in the DRIP and other plans under which distributions are reinvested increased for the year ended December 31, 2011 to 22.1%, from 15.9% for last year. Also, as the price of CAPREIT's Trust Units has steadily risen during the year since December 31, 2010, the number of Units issued for a given amount of reinvested distributions has declined. The DRIP participation rate is subject to factors beyond Management's control and varies between investors.

Distributions declared on Units outstanding under the Unit-based compensation plans in these tables are based on all awards granted under the RUR Plan, DUP, LTIP and SELTIP (see notes 13 and 15 to the accompanying audited consolidated annual financial statements for a discussion of these plans). When establishing the level of monthly cash distributions to Unitholders, the Board of Trustees relies on cash flow information including forecasts and budgets.

Net Operating Income

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

Funds From Operations

FFO is a measure of operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO as presented is based on the recommendations of the Real Property Association of Canada, with the exception of the adjustment for the remeasurement at fair value of Unit-based compensation, for reasons outlined earlier, and the amortization of certain other assets. It may not, however, be comparable to similar measures presented by other real estate trusts or companies in similar or different industries. Management considers FFO to be an important measure of CAPREIT's operating performance.

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

A reconciliation of net income to FFO is as follows:

Year Ended December 31, ($ Thousands, except per Unit amounts)	2011	2010
Net Income	$ 316,172	$ 529,048
Adjustments:		
Unrealized Gain on Remeasurement of Investment Properties	(231,338)	(21,858)
Realized Loss on Disposition of Investment Properties	95	4,941
Remeasurement of Exchangeable Units	2,126	1,267
Remeasurement of Unit-based Compensation Liabilities	12,165	6,145
Interest on Exchangeable Units	444	444
Recovery of Deferred Income Taxes	–	(435,733)
Amortization of Property, Plant and Equipment	1,522	1,269
FFO	$ 101,186	$ 85,523
FFO Per Unit – Basic	$ 1.322	$ 1.274
FFO Per Unit – Diluted	$ 1.306	$ 1.266
Total Distributions Declared	$ 86,054	$ 75,526
FFO Payout Ratio	85.0%	88.3%
Net Distributions Paid	$ 67,045	$ 63,520
Excess FFO over Net Distributions Paid	$ 34,141	$ 22,003
FFO Effective Payout Ratio	66.3%	74.3%

Normalized Funds From Operations

Management considers NFFO to be the key measure of CAPREIT's operating performance and the primary indicator with respect to the sustainability of CAPREIT's distributions. NFFO is calculated by excluding from FFO the effects of certain non-recurring items, including changes in fair value of hedging instruments, amortization of losses on certain hedging instruments, and losses incurred on the amendment of natural gas contracts. NFFO facilitates better comparability to prior year's performance and provides a better indicator of CAPREIT's long-term cash flow generation capability. See the discussions under the Net Income and Risks and Uncertainties sections in this MD&A for additional information on hedging instruments currently in place and on the net loss on natural gas contracts.

A reconciliation of FFO to NFFO is as follows:

Year Ended December 31, ($ Thousands, except per Unit amounts)	2011	2010
FFO	$ 101,186	$ 85,523
Adjustments:		
Unrealized Loss on Derivative Financial Instruments	233	174
Amortization of Loss on Derivative Financial Instruments Included in Mortgage Interest	1,104	1,096
Net Loss on Natural Gas Contracts	–	4,497
Severance and Other Employee Costs	1,352	736
NFFO	$ 103,875	$ 92,026
NFFO per Unit – Basic	$ 1.357	$ 1.371
NFFO per Unit – Diluted	$ 1.341	$ 1.362
Total Distributions Declared	$ 86,054	$ 75,526
NFFO Payout Ratio	82.8%	82.1%
Net Distributions Paid	$ 67,045	$ 63,520
Excess NFFO Over Net Distributions Paid	$ 36,830	$ 28,506
Effective NFFO Payout Ratio	64.5%	69.0%

Despite the negative effects of higher operating costs and a low 0.7% permitted guideline increase on lease renewals in Ontario for 2011, NFFO for the year ended December 31, 2011 increased by 12.9%, compared to last year, primarily due to the contribution from acquisitions, and overall higher average monthly rents and higher occupancy levels resulting from Management's sales and marketing programs.

For the year ended December 31, 2011, basic NFFO per Unit decreased by 1.0% compared to last year, primarily due to the approximately 14% increase in the weighted average number of Units outstanding, due to the equity offering completed in October 2011. Management expects per Unit FFO and NFFO and related payout ratios to improve in the medium term as a result of NOI contribution from recent acquisitions.

Comparing distributions declared to NFFO, the NFFO payout ratios for the year ended December 31, 2011 increased to 82.8%, compared to 82.1% for last year, due primarily to the higher weighted average number of Units outstanding during 2011. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the year ended December 31, 2011, to 64.5% from 69.0% for last year, primarily due to higher NFFO during the current year and by higher participation in distributions reinvested. Management believes NFFO will be sufficient to fund CAPREIT's distributions at their current level.

Adjusted Funds From Operations

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

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

CAPREIT calculates AFFO by deducting from NFFO an industry-based estimate for maintenance property capital investments and adding back the non-cash Unit-based compensation costs. In order to determine the AFFO payout ratio, CAPREIT compares distributions declared to AFFO. The effective AFFO payout ratio compares net cash distributions paid to AFFO.

A reconciliation of NFFO to AFFO is as follows:

Year Ended December 31, ($ Thousands, except per Unit amounts)		2011		2010
NFFO	$	103,875	$	92,026
Adjustments:				
Provision for Maintenance Property Capital Investments [1]		(12,341)		(11,835)
Amortization of Fair Value on Grant Date of Unit-based Compensation		1,741		1,332
AFFO	$	93,275	$	81,523
AFFO per Unit — Basic	$	1.219	$	1.214
AFFO per Unit — Diluted	$	1.204	$	1.206
Distributions Declared	$	86,054	$	75,526
AFFO Payout Ratio		92.3%		92.6%
Net Distributions Paid	$	67,045	$	63,520
Excess AFFO Over Net Distributions Paid	$	26,230	$	18,003
Effective AFFO Payout Ratio		71.9%		77.9%

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

The AFFO payout ratio remained stable for the year ended December 31, 2011 at 92.3% compared to last year at 92.6%. The effective AFFO payout ratios for the year ended December 31, 2011 improved as a result of higher DRIP participation rates year over year.

Changes in Non-IFRS Financial Measures

The adoption of IFRS has had a material impact on the presentation of financial results of CAPREIT. However, Management believes the underlying performance of CAPREIT is largely unaffected by the change in accounting principles and, as a result, where possible Management has adjusted the calculation of its non-IFRS financial measures to substantially exclude the effects of the adoption of IFRS to maintain comparability with prior periods and with CAPREIT's industry peers.

The significant adjustments made by Management to each key non-IFRS financial measure are as follows:

Funds From Operations

i) **Fair value adjustment of investment properties:** Unrealized gains or losses arising from the fair value remeasurement of investment properties have been adjusted in establishing FFO.

ii) **Fair value adjustment of Exchangeable Units and related interest expense:** Although IFRS necessitates the presentation of Exchangeable Units as financial liabilities that must be remeasured at fair value, Management believes these Units are equity in nature. For purposes of comparability, Management has adjusted FFO for the unrealized gains and losses arising from the fair value remeasurement of Exchangeable Units as well as the distributions made on these Units, which are treated as interest expense under IFRS.

iii) **Fair value adjustment of Unit-based compensation financial liabilities:** As outlined earlier, the requirement to remeasure at fair value all unsettled award Units at each reporting date is the result of the underlying Trust Units being considered financial liabilities for the purposes of determining the presentation and measurement of Unit-based compensation. This requirement applies only to those open-ended trusts with redeemable trust units, such as CAPREIT. As many trusts in CAPREIT's peer group do not fall into this category, Management has elected to adjust the calculation of FFO for the effects of the fair value remeasurement component to maintain comparability.

Adjusted Funds From Operations

i) **Amortization of grant date fair value of Unit-based compensation:** the use of the graded approach to amortize the grant date fair values under IFRS as compared to the straight-line approach under Canadian GAAP for the calculation of this non-cash expense results in a change in the amortization expense added back to arrive at AFFO.

Despite the above adjustments aimed at maintaining comparability with prior years, certain effects from the adoption of IFRS will impact CAPREIT's non-IFRS financial measures, including the discontinuation of certain types of amortization expenses, which were not previously adjusted for in arriving at FFO.

The table below reconciles the same non-IFRS financial measures, as previously reported, to the revised figures as presently reported for the year ended December 31, 2010.

For the Year Ended December 31, 2010 ($ Thousands)	FFO	NFFO	AFFO
As Previously Reported	**$ 85,089**	**$ 91,592**	**$ 81,453**
Adjustments:			
Elimination of Amortization of Direct Leasing Costs	70	70	70
Change in Calculation of Grant Date Fair Value Amortization of Unit-based Compensation	364	364	–
As Presently Reported	**$ 85,523**	**$ 92,026**	**$ 81,523**

The following table reconciles the impact of adopting IFRS on the consolidated statements of income and comprehensive income with the calculation of some of CAPREIT's key non-IFRS financial measures for the year ended December 31, 2010.

For the Year Ended December 31, 2010 ($ Thousands)	As Previously Reported	Investment Properties	Exchangeable Units	Unit-based Compensation	As Presently Reported
Net Income	**$ 63,321**	$ 473,219	$ (1,711)	$ (5,781)	**$ 529,048**
Depreciation and Amortization	84,811	(83,542)	–	–	1,269
Unrealized Loss on Remeasurement of					
Investment Properties	–	(21,858)	–	–	(21,858)
Exchangeable Units	–	–	1,267	–	1,267
Unit-based Compensation Liabilities	–	–	–	6,145	6,145
Interest on Exchangeable Units	–	–	444	–	444
Recovery of Deferred Income Taxes	(51,355)	(384,378)	–	–	(435,733)
(Gain) Loss on Disposition of Investment Properties	(11,688)	16,629	–	–	4,941
FFO	**$ 85,089**	$ 70	$ –	$ 364	**$ 85,523**
Unrealized Loss on Derivative Financial Instruments	174	–	–	–	174
Net Loss on Natural Gas Contracts	4,497	–	–	–	4,497
Severance and Other Employee Costs	736	–	–	–	736
Amortization of Loss on Derivative Financial Instruments Included in Mortgage Interest	1,096	–	–	–	1,096
NFFO	**$ 91,592**	$ 70	$ –	$ 364	**$ 92,026**
Provision for Maintenance Property Capital Investments	(11,835)	–	–	–	(11,835)
Amortization of Fair Value on Grant Date of Unit-based Compensation	1,696	–	–	(364)	1,332
AFFO	**$ 81,453**	$ 70	$ –	$ –	**$ 81,523**

Section 4

Property Capital Investments

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

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

To achieve its property capital investment objectives, taking into account CAPREIT's acquisition history, the soft economic conditions and the availability of competitive pricing from construction trades, in 2009, CAPREIT formulated and embarked on a multi-year capital investment plan that accelerates spending on planned building improvement programs, including upgrading parking garages, balconies and other structural improvements. These investments are closely connected to CAPREIT's property acquisitions, many of which were anticipated at the time of such acquisitions and were included in the acquisition analysis, to ensure such transactions are accretive. Management believes these investments will increase the productive capacity, the useful economic life and the operating capabilities of CAPREIT's properties and enhance their future cash flow generating potential. Management also believes these building improvement programs, combined with existing suite improvement,

common area and environment-friendly and energy-saving initiatives, will enable CAPREIT to reposition its portfolio and maintain high occupancy levels throughout any unfavourable economic conditions. These investments are expected to continue to increase average monthly rents while improving life safety and resident services. Management believes strategic investments taken at this time will position the portfolio for improved operating performance over the long term.

For the year ended December 31, 2011, CAPREIT made property capital investments of $116.4 million, as compared to $82.0 million for last year. Property capital investments were higher compared to the prior year primarily due to the acceleration of building improvement programs, and higher investments in suite improvements, common areas and equipment, which generally tend to increase NOI more quickly.

In addition, CAPREIT continues to invest in environment-friendly and energy-saving initiatives, including high-efficiency boilers, energy-efficient lighting system and water saving programs, which have permitted CAPREIT to mitigate potentially higher increases in utility and R&M costs and have improved overall portfolio NOI significantly, as discussed in the Results of Operations section.

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

Property Capital Investments by Category

Year Ended December 31, ($ Thousands)		2011	%		2010	%
Building Improvements	$	59,656	51.3	$	43,859	53.5
Suite Improvements		22,822	19.6		18,475	22.5
Common Area		11,337	9.7		7,784	9.5
Energy-saving Initiatives		2,185	1.9		3,317	4.0
Equipment		8,046	6.9		5,296	6.5
Boilers and Elevators		10,820	9.3		1,992	2.5
Appliances		1,526	1.3		1,269	1.5
Total	$	116,392	100.0	$	81,992	100.0

For the year ended December 31, 2011, CAPREIT incurred property capital investments of $116.4 million for the year. The change in the timing of capital investments, especially relating to acquisitions acquired in 2011, has led CAPREIT to adjust its multi-year capital investment programs to increase the anticipated levels for 2012. Based on a revised multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments of approximately $115 million to $125 million during 2012, including approximately $9.3 million in investments in high-efficiency boilers and other energy-saving initiatives.

Set out in the table below is Management's current estimate, established through consultations with an independent engineering firm, of CAPREIT's investments in building improvements for 2012 through 2015 for properties owned as of December 31, 2011. Building improvements represent the most significant category of property capital investment at present, but are expected to decline significantly in the coming years.

Future Investments in Building Improvements

Year Ending December 31 ($ Thousands)	Properties Held As At December 31, 2010 Estimated Range		2011 Acquisitions Estimate
2012	$ 47,000 – $ 52,000	$	18,000
2013	$ 36,000 – $ 40,000	$	7,000
2014	$ 12,000 – $ 15,000	$	–
2015	$ 12,000 – $ 14,000	$	1,000

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

Management believes CAPREIT has sufficient liquidity and access to top-up financing opportunities (see the Liquidity and Financial Condition section) to execute the above property capital investment strategy.

During the third quarter of 2011, CAPREIT began the multi-phase implementation of a new Enterprise Resource Planning ("ERP") system. Management believes this unified platform will continue to drive operational efficiencies to the business. To date, $3.1 million of costs related to this initiative have been capitalized to property, plant and equipment.

Productive Capacity

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

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

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

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

Year Ended December 31, ($ Thousands)	2011	2010
Total Property Capital Investments [1]	$ 116,392	$ 81,992
Less: Estimated Maintenance Property Capital Investments [2]	(12,341)	(11,835)
Stabilizing and Value-enhancing Capital Investments	$ 104,051	$ 70,157

(1) Excludes capital investments for head office assets, MHC land lease sites, tenant improvements and signage.
(2) Based on an industry estimate of $450 per suite per year and the weighted average number of residential suites during the year.

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

The following table presents the average NOI growth from 2007 through 2011, reflecting a segregation of the portfolio based on the amount of capital investment per suite. For example, for each year, properties with the highest capital investment per suite were included in the first quartile, and properties with the lowest capital investment per suite were included in the fourth quartile. NOI growth was measured for those properties, by quartile, for the year following the year in which the capital investments were made, with the assumption that capital investments are undertaken throughout the year and the impact on NOI could reasonably be measured in the following year. A simple average was calculated covering each of the last five years. To compute the results on a stabilized basis, only those properties owned prior to 2007 and held as at December 31, 2011 (excluding co-ownerships) were included in the analysis.

Average NOI Growth by Level of Property Capital Investment Per Suite

Quartile	Number of Properties	Average Number of Suites	% of Total Capital Investments [1]	Average NOI Growth
1st	28	5,409	60.1%	6.2%
2nd	28	5,572	20.2%	6.3%
3rd	28	5,412	12.8%	4.1%
4th	28	5,551	6.9%	3.5%
	112	21,944	100.0%	5.0%

(1) As a percentage of total property capital investments over the five-year period to December 31, 2010.

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

Capital Structure

CAPREIT defines capital as the aggregate of Unitholders' equity, debt financing, Unit-based compensation liabilities and Exchangeable Units. CAPREIT's objectives when managing capital are to safeguard its ability to continue to fund distributions to Unitholders, to retain a portion to meet repayment obligations under its mortgages and credit facilities, and to ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in CAPREIT's DOT and the Credit Facilities agreement.

CAPREIT's Credit Facilities (see Liquidity and Capital Resources) require compliance with the financial covenants shown in the table below. In addition, borrowings must not exceed the borrowing base, calculated as a predefined percentage of the fair value of the investment properties determined on an annual basis.

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

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

As at ($ Thousands)		December 31, 2011	December 31, 2010
Mortgages Payable		$ 1,848,190	$ 1,633,861
Bank Indebtedness		74,132	39,358
Unit-based Compensation Liabilities		28,975	16,410
Exchangeable Units		9,176	7,050
Unitholders' Equity		1,740,663	1,355,445
Total Capital		$ 3,701,136	$ 3,052,124
	Threshold		
Total Debt to Gross Book Value [1],[2]	Maximum 70.00%	50.27%	53.09% [7]
Total Debt to Gross Historical Cost [2],[3]		58.55%	58.86% [7]
Tangible Net Worth [4]	Minimum $700,000	$ 1,778,814	$ 1,355,445
For the year ended		**December 31, 2011**	**December 31, 2010**
Debt Service Coverage Ratio (times) [5]	Minimum 1.20	1.38	1.33 [7]
Interest Coverage Ratio (times) [6]	Minimum 1.50	2.20	2.07 [7]

(1) CAPREIT's DOT limits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAPREIT's total assets. GBV is defined as the historical book value of CAPREIT's assets plus fair value adjustments plus accumulated amortization on property, plant and equipment, CMHC fees and deferred loan costs. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments.
(2) Based on the trailing four quarters.
(3) Based on the historical cost of investment properties.
(4) Tangible net worth is generally represented by Unitholders' equity and is defined as the sum of: i) Units issued; ii) contributed surplus; and iii) retained earnings after adding back the provision for deferred income taxes payable to a maximum limit of $100 million, and effective July 1, 2011, Unit-based rights and compensation liabilities or assets, including Exchangeable Units. Effective June 30, 2010, this definition includes the sum of accumulated depreciation and amortization and, to a maximum of $50 million, deferred taxes payable on any capital stock-based investment transactions.
(5) Debt service coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes and other adjustments including non-cash costs ("EBITDA") less taxes paid divided by the sum of principal and interest payments.
(6) Interest coverage ratio is defined as EBITDA less taxes paid divided by interest payments.
(7) For information purposes, these financial ratios, previously calculated under Canadian GAAP, have been restated under IFRS.

Liquidity and Financial Condition

Liquidity and Capital Resources

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

i) CAPREIT's operating business conditions continue to be stable and are expected to generate sufficient cash flow from operating activities to fund the current level of distributions. Management expects the combination of the current level of funds reinvested from its DRIP, the retained portion of its annual NFFO, mortgage top-ups and the available borrowing capacity on its Credit Facilities will be sufficient to fund its ongoing property capital investments. For the year ended December 31, 2011, CAPREIT's NFFO payout ratio was 82.8%, compared to 82.1% for last year, and the effective NFFO payout ratio was 64.5% compared to 69.0% for the prior year. Historically, CAPREIT has targeted a long-term annual NFFO payout ratio in the 85% to 90% range.
ii) Management believes CAPREIT is well-positioned to meet its mortgage renewals and refinancing goals for 2012 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages maturing during 2012 of approximately $234.7 million, which have an effective interest rate of approximately 5.00%, and refinancing approximately $54.0 million principal repayments through 2012 with new mortgages at lower interest rates.
iii) Management successfully renewed and amended CAPREIT's Credit Facilities aggregating to $280 million in the second quarter of 2011, which comprise a revolving three-year Acquisition and Operating Facility of $270 million, subject to compliance with the various provisions of the Credit Facilities, in order to fund operations, acquisitions, capital improvements, letters of credit and other uses. In addition, the Land Lease Facility of $10 million was renewed for a one-year term maturing on June 30, 2012. Floating charge debentures on certain of CAPREIT's wholly owned investment properties, which have been pledged as security, have been converted into fixed charges. In addition to a lower borrowing rate, the renewal agreement also includes amendments to CAPREIT's tangible net worth determination, as clarification for IFRS.

iv) On October 11, 2011, CAPREIT announced it had agreed to sell, subject to regulatory approval, 6,500,000 Units for $20.30 per Unit for aggregate gross proceeds of $132.0 million on a bought-deal basis with an over-allotment option. The transaction closed on October 31, 2011, and under the over-allotment option, 975,000 additional Units were also issued on the same day. CAPREIT used the net proceeds of the offering to repay a portion of the borrowings under its Acquisition and Operating Facility.

In order to maintain and enhance its CMHC-insured financing program, and consistent with CMHC's risk management practices involving large borrowers, CAPREIT entered into an agreement with CMHC (the "Large Borrower Agreement" or "LBA") in 2010. Other than improving the efficiency and consistency of such process, the LBA has not materially affected the manner in which CAPREIT conducts its business or its approach to mortgage financing. The LBA provides for, among other things:

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

The working capital deficiency, as presented on CAPREIT's consolidated annual balance sheet as at December 31, 2011, which includes non-cash Unit-based compensation liabilities, is managed through the available liquidity under the Credit Facilities as well as the ongoing refinancing of mortgages payable.

The table below summarizes CAPREIT's bank indebtedness position as at December 31, 2011 and 2010:

As at ($ Thousands)	December 31, 2011	December 31, 2010
Acquisition and Operating Facility	$ 270,000	$ 270,000
Add:		
Cash and Cash Equivalents	–	4,350
Less:		
Bank Indebtedness	(74,132)	(38,000)
Letters of Credit and Other	(10,247)	(9,687)
Available Borrowing Capacity	$ 185,621	$ 226,663
Weighted Average Floating Interest Rate	3.67%	3.95%
Land Lease Facility	$ 10,000	$ 10,000
Less:		
Bank Indebtedness	–	(1,358)
Letters of Credit	(86)	(84)
Available Borrowing Capacity	$ 9,914	$ 8,558
Weighted Average Floating Interest Rate	3.45%	4.17%

CAPREIT's key liquidity metrics are summarized as follows:

As at December 31,	2011	2010
Mortgage Debt to Gross Book Value	48.33%	51.84% (4)
Total Debt to Gross Book Value	50.27%	53.09% (4)
Total Debt to Gross Historical Cost (1)	58.55%	58.86% (4)
Total Debt to Total Capitalization	50.11%	55.85% (4)
Debt Service Coverage Ratio (times) (2)	1.38	1.33 (4)
Interest Coverage Ratio (times) (2)	2.20	2.07 (4)
Weighted Average Mortgage Interest Rate (3)	4.48%	4.82%
Weighted Average Mortgage Term to Maturity (years)	5.7	4.9

(1) Based on the historical cost of investment properties.
(2) Based on the trailing four quarters ended December 31, 2011.
(3) Weighted average mortgage interest rate includes deferred financing costs and fair value adjustments on effective interest basis. Including the amortization of the realized component of the loss on settlement of $12.8 million included in AOCL, the effective portfolio weighted average interest rate at December 31, 2011 would be 4.57% (December 31, 2010 – 4.90%).
(4) For information purposes, these financial ratios, previously calculated under Canadian GAAP, have been restated under IFRS.

As at December 31, 2011, the overall leverage represented by the ratio of total debt to gross book value improved to 50.27%, as compared to 53.09% last year, mainly as a result of the repayment of a large portion of the Acquisition and Operating Facility with capital raised from the equity offering completed in October 2011, offset by a significant acquisition completed following the offering and increases in the fair value of

assets. Due to the rise in CAPREIT's Unit price since December 31, 2010 and overall market capitalization, combined with the equity offering, as at December 31, 2011, CAPREIT's total debt improved to 50.11% of total market capitalization compared to 55.85% last year.

The effective portfolio weighted average interest rate has steadily declined from 4.82% as at December 31, 2010, to 4.48% as at December 31, 2011, which Management expects will result in significant interest rate savings in future years. Management believes that, as CAPREIT's refinancing plan continues to be implemented, there is scope to further reduce the effective portfolio weighted average interest rate based on current market conditions and despite the impact of interest rate hedges being higher than the current spot rates. Management is also focused on ensuring the portfolio weighted average term to maturity remains above the five-year range and expects to gradually extend the term.

Mortgages Payable

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

Currently, the risk-free interest rates underlying mortgage financings are at historically low levels. This provides an opportunity for CAPREIT to reduce the risk of increased interest rates by entering into interest rate hedges on existing debt or refinancing with longer maturity terms. In June 2011, CAPREIT entered into a hedging program to provide protection against potentially rising interest rates on approximately $312 million of mortgages maturing between September 2011 and June 2013. The maturing mortgages are expected to be refinanced on ten-year terms and are expected to bear interest rates based on ten-year Government of Canada bond rates between a floor rate of 3.00% and a maximum of 3.62%, before the impact of credit spread.

Based on the market data on forward-looking Government of Canada bonds' yield curve, Management believes that interest rates will continue to increase gradually over the next two years but are currently below the floor rate; however, by entering into a hedging program to lock in interest rates below current weighted average rates on existing mortgages, Management expects to achieve long-term interest cost savings and reduce financing risks associated with unexpected upward movements in the risk-free rates.

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

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

As at December 31,	**2011**	**2010**
Percentage of CMHC-insured mortgages [(1)]	96.50%	95.50%
Percentage of fixed-rate mortgages	98.21%	97.94%

(1) Excludes the mortgages on the MHC land lease site portfolio.

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

As at December 31, ($ Thousands)	**2011**	**2010**
Balance, Beginning of the Year	$ 1,633,861	$ 1,545,315
Add:		
New Borrowings	148,113	47,745
Assumed	47,026	23,438
Refinanced	289,232	280,278
Less:		
Mortgage Repayments	(52,107)	(48,625)
Mortgages Matured	(219,507)	(182,895)
Mortgages Repaid on Disposition of Investment Property	(2,117)	(31,696)
Deferred Financing Costs, Fair Value Adjustments, net	3,689	301
Balance, End of the Year	$ 1,848,190	$ 1,633,861

The following table presents the refinancings for the year ended December 31, 2011, and the weighted average interest rates obtained.

($ Thousands)	Original Mortgage Amount	Original Stated Interest Rate (1)	New Mortgage Amount	New Stated Interest Rate (1),(2)	Weighted Average Term on New Mortgage (Yrs)	Top-Up Amount
First Quarter	$ 87,964	4.70%	$ 98,339	3.44%	5.4	$ 10,375
Second Quarter	36,944	5.68%	52,910	3.94%	10.0	15,966
Third Quarter	16,479	5.78%	21,741	3.31%	9.3	5,262
Fourth Quarter	76,564	5.04%	116,242	3.23% (3)	9.6	39,678
Total and Weighted Average	$ 217,951	5.07%	$ 289,232	3.43%	8.2	$ 71,281

(1) Weighted average.

(2) Excludes CMHC and Other Financing Costs.

(3) Of the mortgages refinanced in the fourth quarter of 2011, $71.5 million were refinanced at a weighted average effective interest rate of 3.92%, which includes the hedge impact of the forward interest rate agreement, but excludes CMHC and Other Financing Costs.

For purposes of estimating top-up financing potential, the following table provides the NOI for those properties with mortgages maturing over the next five years and beyond. A property's full NOI is included in the first year in which a mortgage matures. The balance of mortgages remaining on the same property but maturing in other years is also shown. Management expects to raise between $300 million and $325 million in total mortgage renewals and refinancings for 2012. Based on this mortgage maturity profile, Management believes it will be in a position to achieve its mortgage renewal and refinancing plan for 2012.

As at December 31, 2011 ($ Thousands) Year of Maturity	Mortgage Maturities (1)	Mortgages on the Same Properties Maturing in Other Years (1)	Total Mortgages	NOI of Properties with Maturing Mortgage(s) (2)
2012	$ 234,705	$ 4,704	$ 239,409	$ 31,469
2013	175,802	35,633	211,435	33,881
2014	225,137	34,792	259,929	34,005
2015	134,099	16,868	150,967	18,868
2016	57,413	2,026	59,439	5,811
2017 onward	649,261	(94,023)	555,238	82,123
Total	$ 1,476,417	$ –	$ 1,476,417	$ 206,157

(1) Mortgage balance due upon maturity.

(2) NOI for the year ended December 31, 2011.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2011, is as follows:

($ Thousands)

Year	Principal Repayments	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) (1),(2)
2012	$ 54,005	$ 234,705	$ 288,710	15.6	5.00
2013	49,469	175,802	225,271	12.2	4.63
2014	41,547	225,137	266,684	14.4	4.18
2015	37,468	134,099	171,567	9.3	3.82
2016	32,821	57,413	90,234	4.9	4.64
2017	29,685	100,285	129,970	7.0	4.75
2018	29,512	52,234	81,746	4.4	4.69
2019	27,707	82,760	110,467	6.0	5.14
2020	25,344	54,648	79,992	4.3	4.66
2021	18,040	273,573	291,613	15.8	4.08
2022 – 2026	26,595	85,761	112,356	6.1	4.68
2027 onward	426	–	426	–	5.51
Total	**$ 372,619**	**$ 1,476,417**	**$ 1,849,036**	**100.0**	**4.48** (2)
Deferred financing costs, fair value adjustments, net			(846)		
Total			**$ 1,848,190**		

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

(2) Effective weighted average interest rate includes deferred financing costs and fair value adjustments but excludes CMHC premiums. Including the amortization of the realized component of the loss on settlement of $12.8 million included in AOCL, the effective portfolio weighted average interest rate at December 31, 2011 would be 4.57% (December 31, 2010 – 4.90%).

To ensure CAPREIT is not overly exposed to interest rate volatility risk, Management has been successful in staggering the maturity dates within its mortgage portfolio or entering into long-term financing arrangements.

To reduce its interest cost and cost of capital, Management will continue to leverage its balance sheet strength and the stability of its property portfolio to fund acquisitions and its capital investment plan, and refinance its mortgage principal repayments.

Unitholders' Equity and Units Awarded Under Unit-based Compensation Plans

As previously discussed, under IFRS, unit capital included in Unitholders' Equity only represents the issued and outstanding Trust Units, and excludes the Exchangeable Units and any Units issued in connection with Unit-based incentive plans. For the purposes of the discussion below, Exchangeable Units and Units issued in connection with Unit-based incentive plans are treated as equity as they have claims similar or identical to those of the Trust Units.

Equity offering and over-allotment as at December 31, 2011:

($ Thousands, except per Unit amounts)

Period	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
December 2010					
Bought-deal	$ 17.30	$ 125,425	$ 5,917	$ 119,508	7,250,000
Over-allotment	$ 17.30	6,055	242	5,813	350,000
Total		$ 131,480	$ 6,159	$ 125,321	7,600,000
October 2011					
Bought-deal	$ 20.30	$ 131,950	$ 6,178	$ 125,772	6,500,000
Over-allotment	$ 20.30	19,793	792	19,001	975,000
Total		$ 151,743	$ 6,970	$ 144,773	7,475,000

In connection with the equity offerings and the exercise of the over-allotment options in December 2010 and October 2011, a total of 228,000 and 224,250 Unit Options under the UOP were granted at an exercise price of $17.30 and $20.30 per Unit, respectively, to the President and CEO, with expirations of December 2020 and October 2021.

Year Ended December 31, 2011, ($ Thousands, except per Unit amounts)	
Market Capitalization	$ 1,913,881
Number of Units Outstanding	85,785,799
LTIP and SELTIP Units	2,340,841
Deferred Units	108,639
RUR Plan Units	170,555
Exchangeable Units	411,311
Ownership by Trustees, Officers and Certain Senior Managers	4.4%
Number of Options Outstanding and Exercisable	590,750

Normal Course Issuer Bid

Each year, CAPREIT obtains approval from the TSX for a normal course issuer bid ("NCIB") to acquire up to 10% of CAPREIT's public float at the time of approval, at market prices over a 12-month period. Purchases are made through the facilities of the TSX and any Trust Units purchased by CAPREIT are cancelled. CAPREIT believes the ongoing purchase of its outstanding Trust Units may be an appropriate use of its resources from time to time and can provide liquidity to Unitholders who desire to sell their Trust Units.

The table below summarizes the NCIBs in place since January 1, 2010. No Trust Units were acquired and cancelled under these NCIBs.

Period Covered Under Each NCIB	Approval Limit
June 25, 2009 to June 24, 2010	6,344,344
June 25, 2010 to June 24, 2011	6,425,179
June 27, 2011 to June 26, 2012	7,267,915

Unitholder Taxation

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

For Year Ended December 31,	2011	2010
Taxable to Unitholders as Other Income	10.77%	22.53%
Taxable to Unitholders as Eligible Dividend Income	2.19%	2.44%
Taxable to Unitholders as Capital Gain Income	0.26%	5.00%
Income Tax Deferral	86.78%	70.03%
Total	100.00%	100.00%
Total Effective Non-taxable Portion of Distributions	86.91%	72.53%

The portion of CAPREIT's distributions to Canadian resident Unitholders treated as taxable for the year ended December 31, 2011 decreased over the prior year, primarily due to the realized loss on the interest rate forward contract, lower recapture of capital cost allowance and capital gains resulting from the disposition of a property in the current year.

SECTION 5

Selected Consolidated Quarterly Information

		Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10	Q2 10	Q1 10
Overall Portfolio AMR		$ 991	$ 991	$ 982	$ 978	$ 979	$ 977	$ 958	$ 943
Operating Revenues (000s) (1)		$ 94,564	$ 92,824	$ 88,235	$ 86,332	$ 85,630	$ 85,056	$ 84,755	$ 83,518
NOI (000s) (1)		$ 52,563	$ 55,039	$ 51,991	$ 46,564	$ 46,590	$ 49,907	$ 50,199	$ 43,643
NOI Margin (1)		55.6%	59.3%	58.9%	53.9%	54.4%	58.7%	59.2%	52.3%
Net Income (000s)		$ 226,356	$ 22,980	$ 57,173	$ 9,663	$ 477,206	$ 17,585	$ 23,585	$ 10,672
FFO (000s)		$ 23,774	$ 28,689	$ 26,591	$ 22,132	$ 20,722	$ 24,885	$ 24,832	$ 15,084
NFFO (000s)		$ 25,223	$ 29,252	$ 26,848	$ 22,552	$ 21,251	$ 25,228	$ 25,488	$ 20,059
Total Debt to Gross Book Value		50.27%	56.55%	55.57%	53.57%	53.09%	57.85%	58.17%	57.28%
FFO Per Unit	– Basic	$ 0.295	$ 0.381	$ 0.354	$ 0.296	$ 0.302	$ 0.373	$ 0.373	$ 0.227
NFFO Per Unit	– Basic	$ 0.312	$ 0.388	$ 0.357	$ 0.301	$ 0.309	$ 0.378	$ 0.383	$ 0.302
Weighted Average Number of Units (000s)									
	– Basic	80,715	75,397	75,143	74,844	68,729	66,762	66,585	66,423
	– Diluted	81,790	76,395	76,048	75,586	69,380	67,287	66,921	66,665

(1) Includes the results of investment properties owned as at the respective period-end.
Non-IFRS financial measures are reconciled with IFRS reported amounts in the respective quarterly SEDAR filings.

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

Fourth Quarter

Operating revenues in the fourth quarter of 2011 increased by 10.4% over the same quarter in 2010, while NOI increased by a significant 12.8%, driven by higher revenue and lower utility costs and realty taxes as a percentage of total operating revenues, compared to the same period last year. Net income in the fourth quarter of 2011 decreased over the same period last year by $250.9 million, mainly due to $nil recovery of future income taxes payable in the fourth quarter of 2011, compared to $424.1 million in the prior period last year, offset by higher unrealized gain on remeasurement of investment properties of $204.3 million, compared to $33.6 million for the same period last year. As discussed earlier, the higher unrealized gain on remeasurement of investment properties was due to lower capitalization rates and higher stabilized NOI, compared to the same period last year. Higher NFFO was primarily due to higher NOI during the fourth quarter of 2011.

Selected Consolidated Financial Information

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

Year Ended December 31, ($ Thousands, except per Unit amounts)	2011	2010	2009
Income Statement			
Operating Revenues	$ 361,955	$ 338,959	$ 321,159 [1]
Net Income	$ 316,172	$ 529,048	$ 15,716 [1]
Distributions			
Distributions Declared	$ 82,816	$ 72,230	$ 73,805
Distributions per Unit	$ 1.080	$ 1.080	$ 1.080
Balance Sheet			
Investment Properties	$ 3,713,737	$ 3,049,980	$ 2,900,985
Total Assets	$ 3,804,650	$ 3,136,263	$ 2,973,802
Mortgages Payable	$ 1,848,190	$ 1,633,861	$ 1,545,315
Bank Indebtedness	$ 74,132	$ 39,358	$ 146,891

(1) Not restated for IFRS.

SECTION 6

Accounting Policies and Critical Estimates

Accounting Policies and New Accounting Standards

CAPREIT adopted IFRS effective January 1, 2010 and the full impact of the change from Canadian GAAP to IFRS is described in the Adoption of IFRS section.

As at February 28, 2012, the following new or amended IFRS have been issued by the International Accounting Standards Board ("IASB") and are expected to apply to CAPREIT for annual reporting periods beginning after December 31, 2011:

IFRS 11, Joint Arrangements

IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31, Interests in Joint Ventures and Standing Interpretations Committee ("SIC") 13, Jointly Controlled Entities – Non-monetary Contributions by Venturers. This standard is applicable to annual reporting periods beginning on or after January 1, 2013, with early application permitted.

IFRS 12, Disclosure of Interests in Other Entities

This standard requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. The required disclosures for interests in joint arrangements and associates are the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarized financial information). This standard is applicable to annual reporting periods beginning on or after January 1, 2013, with early application permitted.

IAS 28, Investments in Associates and Joint Ventures

This standard supersedes IAS 28, Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. This standard is applicable to annual reporting periods beginning on or after January 1, 2013, with early application permitted.

Under these new joint arrangement standards, IFRS 11, IFRS 12 and IAS 28, some or all of CAPREIT's co-ownership arrangements will be accounted for using the equity method and not proportionate consolidation as at present.

IAS 12, Deferred Tax: Recovery of Underlying Assets

The amendment to IAS 12 provides a solution to the issue of assessing whether the recovery of the carrying value of an asset will be through use or through sale when the asset is measured using the fair value model. The amendment introduces the presumption that recovery of the carrying value will normally be through sale. This amendment is applicable to annual reporting periods beginning on or after January 1, 2012. The change is not expected to have an impact on CAPREIT's financial reporting for 2012.

IAS 1, Presentation of Financial Statements

The amendment to IAS 1 is expected to revise the way other comprehensive income is presented. The amendment would preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently, and require taxes associated with items presented before taxes to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before taxes or net of taxes). This amendment is applicable to annual reporting periods beginning on or after July 1, 2012. The change is not expected to have a significant impact on CAPREIT's financial reporting for 2012.

IFRS 13, Fair Value Measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The standard defines fair value, sets out a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRS require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRS or address how to present changes in fair value. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. Management is assessing the impact of the above amendments but does not expect CAPREIT to be significantly impacted on adoption in their current form.

IFRS 10, Consolidated Financial Statements

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities, irrespective of the nature of the investee. IFRS 10 replaces IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation – Special Purpose Entities. This standard is applicable to annual reporting periods beginning on or after January 1, 2013, with early application permitted.

IAS 27, Separate Financial Statements

An amendment to IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27, Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10, Consolidated Financial Statements. This amendment is applicable to annual reporting periods beginning on or after January 1, 2013, with early application permitted.

IFRS 10 and IAS 27 are not expected to have a significant impact on CAPREIT's financial reporting for 2012.

IFRS 9, Financial Instruments

The revised IFRS 9 incorporates requirements for the classification and measurement of financial liabilities over the existing derecognition requirements from IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 also introduces new requirements for classifying and measuring financial assets, specifically, investments in equity instruments can be designated as 'fair value through other comprehensive income' with only dividends being recognized in profit or loss. This revised standard is to be applied to annual periods beginning on or after January 1, 2015, with early application permitted on the earlier standard of IFRS 9.

Critical Estimates

In preparing the accompanying audited consolidated annual financial statements in accordance with IFRS, certain accounting policies require the use of estimates, assumptions and judgment that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the audited consolidated annual financial statements and accompanying notes. Areas of such estimation include, but are not limited to, valuation of investment properties, remeasurement at fair value of financial instruments, valuation of accounts receivable, capitalization of costs, accounting accruals, the amortization of certain assets, accounting for deferred income taxes and Unit-based compensation liabilities. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the audited consolidated annual financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

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

In the year ended December 31, 2011, there were notable changes in the types of assumptions and the nature of estimates deemed by Management to be significant to CAPREIT as a result of the adoption of IFRS. Estimates deemed by Management to be more significant, due to subjectivity, are as follows:

Valuation of Investment Properties

Investment properties are measured at fair value as at the balance sheet dates. Any changes in the fair value are included in the consolidated statements of income and comprehensive income. Fair values are supported by independent external valuations or detailed internal valuations using market-based assumptions, each in accordance with recognized valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, future stabilized net operating income, capitalization rates, reversionary capitalization rates, discount rates and other future cash flows applicable to investment properties.

In the case of Leasehold Interests, CAPREIT established the fair value of such interests using the discounted cash flow method, including an estimate of future lease payments. Management's internal assessments of fair value are based on a combination of internal financial information and external market data, including components of net operating income and capitalization rates, all of which are obtained from an independent appraiser.

Management's internal valuations and the independent appraisals are both subject to significant judgment, estimates and assumptions about market conditions in effect as at the balance sheet dates. See note 8 to the accompanying audited consolidated annual financial statements for a detailed discussion of valuation methods and the significant assumptions and estimates used.

Valuation of Unit-based Compensation Liabilities

The fair value of Unit-based compensation liabilities is based on assumptions of future events and involves significant estimates. The basis of valuation for CAPREIT's Unit-based compensation liabilities, such as market assumptions, estimates and valuation methodology, is set out in note 15 to the accompanying audited consolidated annual financial statements; however, the fair values as at the reporting date may differ materially from how they are ultimately recognized if there is volatility in Trust Unit prices, interest rates or other key assumptions in future years.

Valuation of Derivative Financial Instruments

The fair value of a derivative financial instrument is based on assumptions of future events and involves significant estimates. The basis of valuation for CAPREIT's derivatives is set out in note 16 to the accompanying audited consolidated annual financial statements; however, the fair values of derivatives reported may differ from how they are ultimately recognized if there is volatility in interest rates or energy prices in future years.

Adoption of IFRS

As outlined earlier, CAPREIT adopted IFRS for financial reporting purposes with effect from January 1, 2010. The change from Canadian GAAP to IFRS had a significant impact on certain components of CAPREIT's consolidated balance sheets and consolidated statements of income and comprehensive income, as well as to the presentation of the consolidated statements of cash flows, as a result of necessary reclassifications under IFRS. In addition to the disclosures in note 4 to the accompanying audited consolidated annual financial statements, discussed below are further details of the impact of IFRS on CAPREIT's financial results.

Consolidated Balance Sheets

The following tables quantify the impact of the significant differences, with the exception of current and non-current classifications, between Canadian GAAP and IFRS on CAPREIT's consolidated balance sheets as at January 1, 2010 and December 31, 2010:

As at January 1, 2010, ($ Thousands)	Canadian GAAP	Investment Properties	Exchangeable Units	Unit-based Compensation	Other Adjustments	IFRS
Assets						
Investment Properties	$ 2,207,806	$ 696,259	$ –	$ –	$ (3,080)	$ 2,900,985
Other Assets	71,973	(2,236)	–	–	3,080	72,817
Total Assets	$ 2,279,779	$ 694,023	$ –	$ –	$ –	$ 2,973,802
Liabilities						
Mortgages Payable	$ 1,545,315	$ –	$ –	$ –	$ –	$ 1,545,315
Bank Indebtedness	146,891	–	–	–	–	146,891
Unit-based Compensation Liabilities	–	–	–	10,077	–	10,077
Deferred Income Tax Liability	54,059	386,448	–	–	–	440,507
Other Liabilities	51,515	(192)	37	–	224	51,584
Security Deposits	18,624	–	–	–	–	18,624
Exchangeable Units	–	–	5,783	–	–	5,783
Distributions Payable	6,191	–	(37)	–	(224)	5,930
Total Liabilities	1,822,595	386,256	5,783	10,077	–	2,224,711
Unitholders' Equity						
Unit Capital	889,237	–	(8,000)	(10,163)	–	871,074
(Deficit) Retained Earnings	(409,699)	309,837	2,217	86	–	(97,559)
AOCL	(22,354)	(2,070)	–	–	–	(24,424)
Total Unitholders' Equity	457,184	307,767	(5,783)	(10,077)	–	749,091
Total Liabilities and Equity	$ 2,279,779	$ 694,023	$ –	$ –	$ –	$ 2,973,802

As at December 31, 2010, ($ Thousands)	Canadian GAAP	Investment Properties	Exchangeable Units	Unit-based Compensation	Other Adjustments	IFRS
Assets						
Investment Properties	$ 2,267,859	$ 785,505	$ –	$ –	$ (3,384)	$ 3,049,980
Other Assets	85,561	(2,662)	–	–	3,384	86,283
Total Assets	$ 2,353,420	$ 782,843	$ –	$ –	$ –	$ 3,136,263
Liabilities						
Mortgages Payable	$ 1,633,861	$ –	$ –	$ –	$ –	$ 1,633,861
Bank Indebtedness	39,358	–	–	–	–	39,358
Unit-based Compensation Liabilities	–	–	–	16,410	–	16,410
Other Liabilities	58,194	(214)	37	–	217	58,234
Security Deposits	19,227	–	–	–	–	19,227
Exchangeable Units	–	–	7,050	–	–	7,050
Distributions Payable	6,932	–	(37)	–	(217)	6,678
Total Liabilities	1,757,572	(214)	7,050	16,410	–	1,780,818
Unitholders' Equity						
Unit Capital	1,027,156	–	(8,000)	(11,885)	–	1,007,271
(Deficit) Retained Earnings	(420,223)	783,057	950	(4,525)	–	359,259
AOCL	(11,085)	–	–	–	–	(11,085)
Total Unitholders' Equity	595,848	783,057	(7,050)	(16,410)	–	1,355,445
Total Liabilities and Equity	$ 2,353,420	$ 782,843	$ –	$ –	$ –	$ 3,136,263

Investment Properties

Under Canadian GAAP, investment properties were identified as income properties and were presented at historical cost less accumulated depreciation. Under IFRS, investment properties are those properties held to earn rental income and/or for capital appreciation, and are initially recognized at cost. Subsequent to initial recognition, CAPREIT has elected to measure its investment properties using the fair value model instead of the cost model. As a result, changes in fair value are recognized for each reporting period in the consolidated statements of income and comprehensive income. Additionally, corporate head office assets, such as leasehold improvements, and corporate and information technology systems, are disclosed in the notes to the accompanying audited consolidated annual balance sheets under property, plant and equipment.

As a result of the use of the fair value model, there is a material increase in the carrying value of the investment properties as compared to Canadian GAAP. This translates into an equivalent increase in retained earnings at each reporting date. Marking-to-market resulted in a carrying value for CAPREIT's investment properties of approximately $2,901 million as at January 1, 2010, which is approximately $693 million greater than the depreciated cost of $2,208 million reported under Canadian GAAP. As at December 31, 2010, marking-to-market resulted in a carrying value for the investment properties of approximately $3,050 million, or approximately $782 million greater than the depreciated cost of $2,268 million reported under Canadian GAAP. With the relative increase in the value of the assets to the liabilities, which did not increase as significantly as the assets, certain of CAPREIT's leverage ratios are favourably impacted as a result of the adoption of IFRS.

Under IFRS, straight-line rent, direct leasing costs and tenant inducement balances will be included in the carrying value of investment properties, and the intangible assets and liabilities previously recognized under Canadian GAAP in connection with business combinations are no longer separately recognized under IFRS from the associated investment property.

The increase in the carrying value of CAPREIT's investment properties of approximately $693 million under IFRS from applying the fair value model results in an associated increase in the deferred income tax liability as at January 1, 2010 and December 31, 2010 due to the larger timing differences between the carrying values and the tax bases on the respective reporting dates. Under IFRS, the timing difference is calculated using the income tax rate applicable to inter vivos trusts such as CAPREIT, as opposed to the SIFT tax rate that was used in calculating the deferred income tax liability under Canadian GAAP.

As discussed under the Net Income section, CAPREIT satisfied the REIT Exception under the SIFT Rules in the fourth quarter of 2010 and, thus, is not presently liable for income taxes under Part I of the Tax Act. The deferred income tax liability under IFRS was reversed in the fourth quarter of 2010.

Exchangeable Units

Exchangeable Units, categorized under Canadian GAAP as equity, are considered a financial liability under IFRS. As these Units are considered to have embedded derivatives, CAPREIT has reported these Exchangeable Units at their amortized cost, which approximates their fair value, at each reporting date. At the date of transition, an adjustment to opening retained earnings for the difference between cost and fair value at the transition date has been recognized and the cumulative distributions on these Exchangeable Units have been reclassified from equity to retained earnings.

Unit-based Compensation Financial Liabilities

Under Canadian GAAP, all of CAPREIT's Unit-based incentive plan compensation was accounted for as an equity-based instrument on issuance and included in Unitholders' equity, with the associated fair value on the grant date amortized over the respective vesting periods and included in the consolidated statements of income and comprehensive income. Under IFRS, by virtue of the redemption clause associated with CAPREIT's Trust Units, Unit-based awards that remain unsettled are deemed financial liabilities and not equity, and must be reported as liabilities at fair value on each reporting date, with resulting gains or losses recognized in the consolidated statements of income and comprehensive income for the period. At the date of transition, a cumulative adjustment to opening retained earnings was recognized for the difference between the cost, including cumulative distributions on Unit-based incentive awards, and the fair value of these awards at the transition date.

Consolidated Statement of Income

The following table and discussion quantifies and describes the impact of significant differences between Canadian GAAP and IFRS on CAPREIT's consolidated statement of income.

For the Year Ended December 31, 2010, ($ Thousands)	Canadian GAAP [1]	Investment Properties	Exchangeable Units	Unit-based Compensation	Other Adjustments	IFRS
Revenue from Investment Properties	**$ 339,023**	$ (64)	$ –	$ –	$ –	**$ 338,959**
Realty Taxes	(43,438)	–	–	–	–	(43,438)
Property Operating Costs	(105,234)	52	–	–	–	(105,182)
Net Operating Income	**$ 190,351**	$ (12)	$ –	$ –	$ –	**$ 190,339**
Trust Expenses	(14,012)	–	–	1,721	–	(12,291)
Fair Value Adjustment – Investment Properties	–	21,858	–	–	–	21,858
Realized Gain (Loss) on Dispositions	11,688	(16,629)	–	–	–	(4,941)
Fair Value Adjustment – Exchangeable Units	–	–	(1,267)	–	–	(1,267)
Unit-based Compensation Costs	–	–	–	(7,502)	–	(7,502)
Interest on Mortgages Payable	(78,068)	–	–	–	(2,047)	(80,115)
Interest on Bank Indebtedness	(6,304)	–	–	–	(1,113)	(7,417)
Interest on Exchangeable Units	–	–	(444)	–	–	(444)
Other Income	1,854	–	–	–	–	1,854
Net Loss on Natural Gas Contracts	(4,497)	–	–	–	–	(4,497)
Severance and Other Employee Costs	(736)	–	–	–	–	(736)
Depreciation	(83,999)	83,999	–	–	–	–
Amortization	(4,137)	(375)	–	–	3,160	(1,352)
Unrealized Loss on Derivatives	(174)	–	–	–	–	(174)
Recovery of Deferred Income Taxes	51,355	384,378	–	–	–	435,733
Net Income	**$ 63,321**	$ 473,219	$ (1,711)	$ (5,781)	$ –	**$ 529,048**

(1) Includes results of operations of all properties, including those disposed of during the year.

Investment Properties

The measurement of investment properties using the fair value model requires the recognition in the consolidated statements of income and comprehensive income of an unrealized gain or loss arising from a change in the fair value of investment properties in the period. Also, under the fair value model, depreciation of investment properties is not recorded nor is amortization of the historic intangible balances established under Canadian GAAP in respect of business combinations, all of which are no longer to be separately recognized and, accordingly, not amortized under IFRS. As a result, CAPREIT recorded an unrealized gain for the year ended December 31, 2010. As well, depreciation and amortization recorded under Canadian GAAP was eliminated and there was a corresponding increase in net income as a result.

Exchangeable Units

As a result of the classification of Exchangeable Units as financial liabilities, distributions on these Units are now reported as interest expense instead of being accounted for as a component of equity. Additionally, the impact of the remeasurement at fair value of these Units subsequent to the transition date is recognized in the consolidated statements of income and comprehensive income for the year.

Unit-based Compensation Liabilities

The effect of awards under Unit-based compensation plans being deemed liabilities under IFRS has the following significant impacts on the consolidated statements of income and comprehensive income:

i) **Amortization of grant date fair value:** under IFRS, where a grant comprises separate tranches identified by distinct vesting dates, each tranche is deemed a separate grant, and the fair value of each tranche is amortized over its distinct vesting period. Under Canadian GAAP, the fair value of Unit-based compensation was amortized on a combined straight-line basis over the vesting period. This change in amortization methodology increases the amount of Unit-based compensation expense recognized in the initial year of grant and in the earlier portion of the vesting period compared to Canadian GAAP.

ii) **Fair value remeasurement of awards that remain unsettled:** the recognition of the underlying Trust Units as financial liabilities for the purpose of Unit-based compensation necessitates the remeasurement at fair value of all unsettled award Units at each reporting date. Additionally, remeasurement at fair value takes into account the additional impact of distributions on the original awards, which were not required to be expensed under Canadian GAAP.

iii) **Distributions earned/reinvested:** under the RUR Plan and the DUP, distribution units are reported at fair value and accounted for as part of Unit-based compensation expense, whereas under Canadian GAAP, they were accounted for as regular distributions.

iv) **Forfeitures:** under IFRS, expected forfeitures are required to be estimated and recognized in the current year, with revisions for actual forfeitures in subsequent years; however, under Canadian GAAP, forfeitures were recognized as they occurred. Based on historical trends, Management does not expect estimates of forfeitures to have a significant impact on Unit-based compensation expense.

Key Financial Covenants

The key financial covenants under CAPREIT's DOT and Credit Facilities have also been affected by the adoption of IFRS and are discussed below.

Declaration of Trust

The pro forma total debt to gross book value leverage ratio as at January 1, 2010 improves to 56.67%, based on carrying values under IFRS, compared to CAPREIT's stated leverage ratio of 62.75%, based on carrying values under Canadian GAAP. Similarly, the pro forma leverage ratio as at December 31, 2010 improves to 53.09%, based on carrying values under IFRS, compared to 58.87%, based on carrying values under Canadian GAAP. These ratios are well below the borrowing restrictions under the DOT, which requires the total debt to gross book value ratio not to exceed 70%. Management does not expect to change its historical strategy regarding leverage as a result of the increased room available under the revised metrics and continues to provide a historical cost basis for investors.

Credit Facilities

Under the current definition of EBITDA, as defined in the Credit Facilities, all significant impacts of the adoption of IFRS as noted above are accounted for and, therefore, no amendments are needed to the calculation of EBITDA. At present, the various fair value adjustments, as described above, as well as certain other non-cash or unusual items, are excluded from the definition of EBITDA per the Credit Facilities agreement and, consequently, the adoption of IFRS has not had a significant impact on Debt Service and Interest Coverage ratios (see the Capital Structure section).

While the definition of Tangible Net Worth was originally amended in the Credit Facilities agreement of 2010 in light of the changes expected under IFRS, further clarifying amendments were incorporated in the definition in the latest renewal agreement effective July 1, 2011. When reporting under Canadian GAAP, the sum of accumulated depreciation and amortization was added back to Unitholders' Equity, while under IFRS, Unitholders' Equity takes into account investment properties at fair value, and therefore, mitigates the effect of not adding back accumulated depreciation and amortization. Under IFRS, Tangible Net Worth is generally equal to Unitholders' Equity adjusted for any deferred income tax liability of up to $100 million. Additionally, the Tangible Net Worth definition under the Credit Facilities agreement, effective July 1, 2011, further adjusts for the Exchangeable Units liability and Unit-based compensation financial liabilities. The required minimum Tangible Net Worth of $700 million remains unchanged.

Controls and Procedures

Disclosure Controls and Procedures

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

As at December 31, 2011, Management evaluated the effectiveness of the disclosure controls and procedures against the rules adopted by the Canadian Securities Administrators as defined under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, using the Committee of Sponsoring Organizations of the Treadway Commission control framework, CAPREIT's President and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as at December 31, 2011.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management assessed the effectiveness of the internal controls over financial reporting as at December 31, 2011 and, based on that assessment, determined that the internal controls over financial reporting were designed and operating effectively.

Management has designed an adequate and appropriate controls framework for the fair value assessment processes required for reporting under IFRS to ensure values reported accurately reflect market conditions. For the fair value assessment process of investment properties and Unit-based compensation, these controls include a comprehensive review of the assumptions and estimates, including those used by the independent appraiser or third party on an annual basis, as well as multiple levels of reviews of such key assumptions and data within CAPREIT by Management, with final approval by the Board of Trustees on an interim and annual basis.

During September 2011, CAPREIT implemented the SAP Finance and Control Module. Management has assessed that the new module did not cause significant or material changes to the design of internal controls over financial reporting.

CAPREIT did not make any other changes to the design of internal controls over financial reporting in 2011 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

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

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. The design of any system of controls is also based in part on certain assumptions about the likelihood of future events, and there can be no assurances that any design will succeed in achieving its stated goals under all potential conditions.

SECTION 7

Risks and Uncertainties

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

Related to Reporting Investment Property at Fair Value

CAPREIT holds investment property to earn rental income or for capital appreciation or both. All investment property is measured using the fair value model, whereby changes in fair value are recognized for each reporting period in the consolidated statements of income and comprehensive income. Management values each investment property based on the most probable price that a property should be sold for in a competitive and open market as of the specified date under all conditions requisite to a fair sale, such as the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Each investment property has been valued on a highest and best use basis.

There is a risk that general declines in real estate markets or sales of assets by CAPREIT under financial or other hardship would impact the fair values reported, or the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect CAPREIT's specific history or experience and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser, as this approach may not adequately capture the range of fair values that market participants would assign to the investment properties. CAPREIT mitigates this risk by undertaking a detailed review of the assumptions utilized in valuing the properties, including comparing the assumptions to the benchmarks derived from CAPREIT's own observations of market transactions. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could significantly impact CAPREIT's operating revenues and cash flows, as well as the fair values of the investment properties.

Related to Ownership and Operation of Real Property

Real Property Ownership

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

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

Leasehold Interests

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

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

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

Co-ownerships

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

Investment Restrictions

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

Operating Risk

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

While CAPREIT strives to achieve geographic and demographic sector diversification of its portfolio, changes in general economic conditions will also affect the performance of the portfolio. Additionally, the portfolio is currently weighted with 66% of the overall portfolio (by number of suites and sites) in Ontario (49% in the GTA), making CAPREIT's performance particularly sensitive to its performance in, and changes affecting, Ontario and, in particular, the GTA.

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

Energy Costs and Hedging

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

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

During 2010 and 2011, CAPREIT entered into new natural gas physical delivery contracts, fixing a portion of its variable rate natural gas commitments. See the Natural Gas table in the Results of Operations section for additional information. The fixed price arrangement is intended to mitigate the risk of rising natural gas prices over the related period.

Environmental Matters

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

Insurance

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

Capital Investments

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

Related to Financing

Indebtedness

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

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

CAPREIT's Land Lease Facility of $10 million matures on June 30, 2012, and the three-year revolving Acquisition and Operating Facility of $270 million matures on June 30, 2014. CAPREIT's Acquisition and Operating Facility and Land Lease Facility are at floating interest rates and, accordingly, changes in short-term borrowing rates will affect CAPREIT's costs of borrowing. CAPREIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing or cost-effective financing. As at the date hereof, it is difficult to forecast the future state of the commercial loan market. If, because of CAPREIT's level of indebtedness, the level of cash flows, lenders' perceptions of CAPREIT's creditworthiness or other reasons, Management is unable to renew, replace or extend the Credit Facilities on acceptable terms, or to arrange for alternative financing, CAPREIT may be required to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding could be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring property capital investments, dispositions of one or more properties on unfavourable terms, reducing or eliminating future cash distributions or other discretionary uses of cash or other more severe actions. Also, disruptions in the credit markets and uncertainty in the economy could adversely affect the banks that currently provide the Credit Facilities, could cause the banks or a bank to elect not to participate in any new Credit Facilities sought, or could cause other banks that are not currently participants in the Credit Facilities to be unwilling or unable to participate in any such new facility.

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

Interest Rate Hedging

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

In general, hedging activities may subject CAPREIT to additional costs, such as transaction fees or breakage costs, if these arrangements are terminated. In addition, although Management enters into such hedge contracts with financially sound counterparties in order to mitigate the risk that the counterparty may fail to honour its obligations, the risk cannot be mitigated completely.

Related to Taxes and Regulations

Taxation-Related Risks

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

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

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

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

On December 16, 2010, the Department of Finance released proposed amendments to the tax provisions that relax certain requirements under the original SIFT Rules and reduce the likelihood of REITs such as CAPREIT being treated as a SIFT in a given year. The most significant changes under the proposed amendments are to allow a REIT to hold non-portfolio property that is not qualified REIT property of up to 10% of the total fair market value of all the trust's non-portfolio property and to reduce to 90% the amount of the trust's revenues that must be derived from rent from real or immovable properties, interest, capital gains from disposal of real or immovable properties, dividends and royalties. These changes are generally proposed to apply beginning in January 2011; however, at this time, it is not certain when they may be enacted.

On December 24, 2010, based on the REIT Exception guidelines, CAPREIT completed the necessary restructuring to qualify as a REIT commencing for the 2011 taxation year and became exempted from taxation as a SIFT. Accordingly, CAPREIT will continue to be able to flow income through to Unitholders on a tax effective basis. CAPREIT's assets and operating activities were largely unaffected by the restructuring. All non-compliant assets were either disposed of or restructured, as necessary. As a result of the completion of its restructuring, the non-cash future income tax liability of $429.2 million recorded as at September 30, 2010 that arose primarily as a result of the introduction of the SIFT Legislation in 2007 reversed in the fourth quarter of 2010 through the consolidated statements of income and comprehensive income as a one-time non-cash future income tax recovery.

Excluded from the definition of a SIFT is a partnership, such as CAPLP, that is not publicly traded and of which the equity (and equity-like debt) is wholly owned by any combination of a SIFT, a REIT or a taxable Canadian corporation. If CAPREIT does not qualify for the REIT Exception at any

point in time in a given future year, the SIFT Rules will apply to CAPREIT for that taxation year. To the extent that CAPREIT does not qualify for the REIT Exception, CAPREIT will consider alternative measures, including restructuring, assuming that these measures are in the best interests of its Unitholders, in order to qualify for the REIT Exception in the following year. No assurances can be given that CAPREIT will continue to qualify for the REIT Exception. If applicable, the SIFT Rules may have a material adverse effect on Unitholders' returns.

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

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

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

Government Regulations

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

Applicable legislation may be further amended in a manner that may adversely affect the ability of CAPREIT to maintain the historical level of cash flow from its properties. In addition, applicable legislation provides for compliance with several regulatory matters involving tenant evictions, work orders, health and safety issues, fire and maintenance standards, etc. An amendment to the *Residential Tenancies Act, 2006*, if passed by the government, will set Ontario's annual rent increase guideline between 1.0% and 2.5% beginning in 2013.

Controls over Financial Reporting

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

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

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

Other Legal and Regulatory Risks

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

Related to CAPREIT's Securities, Organization and Structure

Nature of CAPREIT Trust Units

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

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

Unitholder Liability

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

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

Liquidity and Price Fluctuation of Units

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

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

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

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

Dilution

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

Distributions

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

DRIP Participation

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

Potential Conflicts of Interest

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

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

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

Dependence on Key Personnel

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

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

Related to the Real Estate Industry

General Economic Conditions

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

Competition for Residents

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

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

Competition for Real Property Investments

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

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

Continued Growth

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

Acquisitions

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

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

Related Party Transactions

For the year ended December 31, 2011, CAPREIT paid construction management fees of $1.7 million, excluding reimbursable expenses of $0.7 million, and HST/GST (based on 4.5% of construction costs up to $20.0 million, 3.0% for the next $15.0 million and 1.0% thereafter) in consideration for construction management services provided by a company owned by two trustees and officers of CAPREIT in connection with the capital investment programs for the properties. Refer to the Subsequent Events section below for further details.

CAPREIT leases office space from a company in which one of the trustees and officers has an 18% beneficial interest. The rent paid for the office space (which is based on fair market rents at the date the lease was entered into) for the year ended December 31, 2011 was $0.8 million, including property operating costs, and has been expensed as trust expenses. The lease agreement expires on October 31, 2014 and yearly minimum rental payments are $0.5 million before HST. During the third quarter of 2011, the lease was amended for additional office space, resulting in minimum annual rental payments increasing by $51 thousand; however, the lease expiry date remains unchanged.

Commitments and Contingencies

From time to time, CAPREIT enters into commitments for fixed price natural gas, hydro and land lease agreements, as outlined in note 26 to the accompanying audited consolidated annual financial statements.

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

SECTION 8

Subsequent Events

Subsequent to the year end, CAPREIT disposed of a 136-suite mid-tier property in the Greater Toronto Area for a sale price of $17.5 million. The mortgage of approximately $9.5 million was discharged and the balance applied to pay down the Acquisition and Operating Facility. The transaction was completed on February 22, 2012.

Effective January 1, 2012, CAPREIT terminated its construction management agreement with the related party and has entered into a new construction management agreement with a non-related party on substantially similar terms.

Future Outlook

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

However, as a result of some continued economic uncertainty in particular regions, CAPREIT may experience an increase in bad debt and tenant inducement costs combined with a reduction in occupancy levels over the short term. CAPREIT believes the strong defensive characteristics of its property portfolio, due to diversification by both geography and demographic sector, will serve to mitigate some of the negative impact of the unfavourable economic conditions that certain regions are experiencing or may experience. CAPREIT intends to continue to seek opportunities to further diversify its property portfolio. In addition, despite having entered into a forward interest rate hedge, CAPREIT may still experience difficulty in obtaining long-term financing (i.e., financing for terms of ten years and longer) due to credit market conditions.

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

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

A significant part of managing CAPREIT's annual rental increases is determined by the annual guideline increases established by certain provincial governments under rent control legislation that CAPREIT must adhere to in setting annual rental rates for renewing tenants. In the Province of Ontario, the guideline increase for 2011 was 0.7%, which compared unfavourably to the 2.1% guideline increase for 2010. The Ontario rent control legislation provides that landlords may apply to the Landlord and Tenant Board (the "Board") to raise rents by more than the approved annual guideline. The Board can allow such an above guideline increase ("AGI") for: (i) eligible capital expenditures; (ii) unusually high increases in property taxes and/or utility costs; and (iii) increases in eligible security costs. The maximum AGI permitted in connection with eligible capital expenditures is three percent per year to a maximum of nine percent over a three-year period. These same limitations do not apply to AGI applications related to unusually high increases in property taxes and/or utilities, or increases in eligible security costs. In July 2011, the Ontario Ministry of Municipal Affairs and Housing announced the rent control guideline for 2012 will be 3.1%.

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

The following table summarizes the status of AGI applications filed by CAPREIT as of December 31, 2011:

As at December 31,	**2011**	**2010**
Number of Units and Sites Filed	9,320	5,265
Applications Settled		
Number of Applications	42	28
Term Weighted Average Total Increase [1]	2.49%	2.90%
Weighted Average Term (Years) [1],[2]	1.34	1.24
Applications Outstanding		
Number of Applications	21	–
Term Weighted Average Total Increase [1]	4.31%	0.00%
Weighted Average Term (Years) [1],[2]	1.63	–

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

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

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

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

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

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

Management's Responsibility for Financial Statements

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

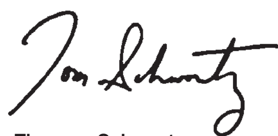
To assist management in the discharge of these responsibilities, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing financial statements and other financial information, transactions are properly authorized and recorded,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

As at December 31, 2011, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

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

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

February 28, 2012



Thomas Schwartz
President and Chief Executive Officer

Scott Cryer
Chief Financial Officer

Independent Auditors' Report

February 28, 2012

To the Unitholders of Canadian Apartment Properties Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Canadian Apartment Properties Real Estate Investment Trust (CAPREIT) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CAPREIT and its subsidiaries as at December 31, 2011, December 31, 2010 and January 1, 2010 and their financial performance and their cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

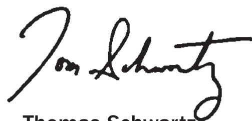
Consolidated Balance Sheets

(CA$ Thousands) As at	Note	December 31, 2011	December 31, 2010	January 1, 2010
Non-Current Assets				
Investment properties	8	$ 3,713,737	$ 3,049,980	$ 2,900,985
Other non-current assets	9	81,743	71,141	63,169
		3,795,480	3,121,121	2,964,154
Current Assets				
Other current assets	9	9,170	10,792	9,648
Cash and cash equivalents		–	4,350	–
		9,170	15,142	9,648
		$ 3,804,650	$ 3,136,263	$ 2,973,802
Non-Current Liabilities				
Mortgages payable	11	1,559,480	1,354,368	1,337,181
Bank indebtedness	12	74,132	38,000	144,816
Unit-based compensation financial liabilities	13	1,646	355	–
Other non-current liabilities	10	2,703	1,095	1,924
Deferred income tax liability	19	–	–	440,507
		1,637,961	1,393,818	1,924,428
Current Liabilities				
Mortgages payable	11	288,710	279,493	208,134
Bank indebtedness	12	–	1,358	2,075
Unit-based compensation financial liabilities	13	27,329	16,055	10,077
Accounts payable and accrued liabilities		50,375	45,913	40,908
Other current liabilities	10	21,727	11,226	8,752
Security deposits		21,261	19,227	18,624
Exchangeable Units	13	9,176	7,050	5,783
Distributions payable		7,448	6,678	5,930
		426,026	387,000	300,283
		$ 2,063,987	$ 1,780,818	$ 2,224,711
Unitholders' Equity				
Unit Capital		$ 1,172,058	$ 1,007,271	$ 871,074
Accumulated other comprehensive loss ("AOCL")	20	(24,010)	(11,085)	(24,424)
Retained earnings		592,615	359,259	(97,559)
		$ 1,740,663	$ 1,355,445	$ 749,091
		$ 3,804,650	$ 3,136,263	$ 2,973,802

See accompanying notes to consolidated annual financial statements.

Contingencies (note 27)

Signed on behalf of the Trustees:



Thomas Schwartz
Trustee

Michael Stein
Trustee

Consolidated Statements of Income and Comprehensive Income

(CA$ Thousands) For the Year Ended December 31,	Note	2011	2010
Operating Revenues			
Revenue from investment properties		$ 361,955	$ 338,959
Operating Expenses			
Realty taxes		44,885	43,438
Property operating costs		110,913	105,182
		155,798	148,620
Net Rental Income		206,157	190,339
Trust expenses		14,797	12,291
Unit-based compensation expenses	15	13,936	7,502
Fair value adjustments of investment properties	8	(231,338)	(21,858)
Realized loss on disposition of investment properties	7	95	4,941
Net loss on natural gas contracts	17	–	4,497
Amortization of property, plant and equipment		1,613	1,352
Severance and other employee costs	21	1,352	736
Operating Income		405,702	180,878
Fair value adjustments of Exchangeable Units	13	2,126	1,267
Loss on derivative financial instruments	17	233	174
Interest and other financing costs	22	89,070	87,976
Other income		(1,899)	(1,854)
Income Before Taxes		316,172	93,315
Recovery of deferred income taxes	19	–	435,733
Net Income		$ 316,172	$ 529,048
Other Comprehensive (Loss) Income			
Amortization of losses from AOCL to interest and other financing costs	20	$ 1,052	$ 1,152
Change in fair value of derivative financial instruments	17	(17,776)	1,764
Change in fair value of investments		3,799	5,649
Recovery of deferred income taxes	19	–	4,774
Other Comprehensive (Loss) Income		$ (12,925)	$ 13,339
Comprehensive Income		$ 303,247	$ 542,387

See accompanying notes to consolidated annual financial statements.

Consolidated Statements of Unitholders' Equity

(CA$ Thousands)	Note	Unit Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Unitholders' Equity, January 1, 2011		**$ 1,007,271**	**$ 359,259**	**$ (11,085)**	**$ 1,355,445**
Unit Capital					
New Units Issued	13	144,773	–	–	144,773
Distribution Reinvestment Plan	13	15,908	–	–	15,908
Unit Option Plan	13, 15	3,412	–	–	3,412
Long-Term Incentive Plan	13	366	–	–	366
Employee Unit Purchase Plan	15	328	–	–	328
		164,787	–	–	164,787
Retained Earnings and Other Comprehensive Loss					
Net Income			316,172	–	316,172
Other comprehensive loss		–	–	(12,925)	(12,925)
		–	316,172	(12,925)	303,247
Distributions on Trust Units					
Distributions declared and paid	14	–	(75,368)	–	(75,368)
Distributions payable	14	–	(7,448)	–	(7,448)
		–	(82,816)	–	(82,816)
Unitholders' Equity, December 31, 2011		**$ 1,172,058**	**$ 592,615**	**$ (24,010)**	**$ 1,740,663**

	Note	Unit Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Unitholders' Equity, January 1, 2010		**$ 871,074**	**$ (97,559)**	**$ (24,424)**	**$ 749,091**
Unit Capital					
New Units issued	13	125,321	–	–	125,321
Distribution Reinvestment Plan	13	8,544	–	–	8,544
Unit Option Plan	13, 15	1,160	–	–	1,160
Deferred Unit Plan	13, 15	462	–	–	462
Long-Term Incentive Plan	13, 15	434	–	–	434
Employee Unit Purchase Plan	15	276	–	–	276
		136,197	–	–	136,197
Retained Earnings and Other Comprehensive Income					
Net Income		–	529,048	–	529,048
Other comprehensive income		–	–	13,339	13,339
		–	529,048	13,339	542,387
Distributions on Trust Units					
Distributions declared and paid	14	–	(65,552)	–	(65,552)
Distributions payable	14	–	(6,678)	–	(6,678)
		–	(72,230)	–	(72,230)
Unitholders' Equity, December 31, 2010		**$ 1,007,271**	**$ 359,259**	**$ (11,085)**	**$ 1,355,445**

See accompanying notes to consolidated annual financial statements.

Consolidated Statements of Cash Flows

(CA$ Thousands) **For the Year Ended December 31,**	**Note**	**2011**	**2010**
Cash Provided By (Used In):			
Operating Activities			
Net income		$ 316,172	$ 529,048
Items related to operating activities not affecting cash:			
Fair value adjustment – investment properties		(231,338)	(21,858)
Fair value adjustment – Exchangeable Units		2,126	1,267
Fair value adjustment – utility contracts		(10)	(38)
Loss on sale of investment properties	7	95	4,941
Loss on derivative financial instruments	17	233	174
Net loss on natural gas contracts	17	–	4,497
Recovery of deferred income taxes	19	–	(435,733)
Amortization of property, plant and equipment		1,613	1,352
Amortization of other financing costs	22	4,541	4,444
Amortization of loss on derivative financial instruments from AOCL	20	1,052	976
Unit-based compensation expense		13,936	7,502
Straight-line rent adjustment		(220)	(102)
		108,200	96,470
Net income items related to financing and investing activities	24	81,233	81,085
Changes in non-cash operating assets and liabilities	24	(423)	(1,831)
Cash Provided By Operating Activities		189,010	175,724
Investing Activities			
Acquisition of investment properties	24	(270,536)	(94,458)
Capital investments	24	(117,336)	(78,390)
Disposition of investment properties	24	3,609	68,789
Change in restricted cash		(350)	(345)
Investment income received		1,899	1,854
Cash Used In Investing Activities		(382,714)	(102,550)
Financing Activities			
Mortgage financings		437,345	328,023
Mortgage principal repayments		(52,107)	(48,625)
Mortgages repaid on maturity		(219,507)	(214,591)
Financing costs on mortgages payable		(1,478)	(1,595)
CMHC premiums on mortgages payable		(7,940)	(5,253)
Interest paid on mortgages payable	24	(77,447)	(76,000)
Bank indebtedness		34,774	(107,533)
Interest paid on bank indebtedness	24	(5,241)	(6,495)
Interest paid on Exchangeable Units	24	(444)	(444)
Proceeds on issuance of Units	13	147,537	126,513
Net cash distributions to Unitholders	24	(66,138)	(62,938)
Proceeds from repayment of LTIP and SELTIP instalment receipts		–	114
Cash Provided By (Used In) Financing Activities		189,354	(68,824)
Changes in Cash and Cash Equivalents During the Year		(4,350)	4,350
Cash and Cash Equivalents, Beginning of Year		4,350	–
Cash and Cash Equivalents, End of Year		$ –	$ 4,350

See accompanying notes to consolidated annual financial statements.

Notes to Consolidated Annual Financial Statements

December 31, 2011 (CA$ Thousands, except Unit and per Unit amounts)

Note 1 · Organization of the Trust

Canadian Apartment Properties Real Estate Investment Trust ("CAPREIT") owns interests in multi-unit residential rental properties, including apartments, townhomes and manufactured home communities ("MHC") located in and near major urban centres across Canada. CAPREIT's net assets and operating results are derived from real estate located in Canada, where it is also domiciled.

CAPREIT converted from a closed-end real estate investment trust to an open-end trust on January 8, 2008, and is governed under the laws of the Province of Ontario by a Declaration of Trust ("DOT") dated February 3, 1997, as most recently amended and restated on November 13, 2009. CAPREIT commenced active operations on February 4, 1997, when it acquired an initial portfolio of properties, and became a reporting issuer on May 21, 1997, pursuant to an initial public offering prospectus dated May 12, 1997.

CAPREIT is listed on the Toronto Stock Exchange ("TSX") under the symbol "CAR.UN" and its registered address is 11 Church Street, Suite 401, Toronto, Ontario, Canada M5E 1W1.

Note 2 · Significant Accounting Policies

a) Statement of compliance

Beginning January 1, 2011, CAPREIT prepares its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). For the purposes of these consolidated annual financial statements, the term "Canadian GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These consolidated annual financial statements have been prepared in accordance with IFRS applicable to the preparation of consolidated annual financial statements including IFRS 1, First-time Adoption of IFRS. Subject to certain transition elections discussed in note 4, CAPREIT has consistently applied the same accounting policies in its opening IFRS consolidated balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on CAPREIT's financial performance, Unitholders' equity and consolidated statements of cash flows, including the nature and effect of significant changes in accounting policies from those employed in CAPREIT's consolidated annual financial statements for the year ended December 31, 2010 prepared in accordance with Canadian GAAP.

These consolidated annual financial statements, which were approved by CAPREIT's Board of Trustees on February 28, 2012, have been prepared on the basis of IFRS issued and effective, or available for early adoption, as of December 31, 2011.

b) Basis of presentation

These consolidated annual financial statements have been prepared on a going concern basis and historical cost basis except for:

i) Investment properties and certain financial instruments, which are stated at fair value; and
ii) Certain Unit-based compensation accounts, which are stated at their fair value.

c) Principles of consolidation

i) **Controlled entities**

These consolidated annual financial statements comprise the assets and liabilities of all controlled entities and the results of all controlled entities for the financial period. CAPREIT and its controlled entities are collectively referred to as CAPREIT in these consolidated annual financial statements. Controlled entities are all entities over which CAPREIT has the power to govern the financial and operating policies, generally accompanying ownership of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether CAPREIT controls another entity.

Controlled entities are fully consolidated from the date control commences and de-consolidated from the date that control ceases.

ii) **Co-ownerships**

CAPREIT has co-ownership interests in and joint control of a number of properties through unincorporated co-ownerships and through co-ownership entities. CAPREIT's proportionate share of revenues, expenses, assets and liabilities under both types of co-ownership interests are included in their respective descriptions on the consolidated balance sheets and consolidated statements of income and comprehensive income. In general, CAPREIT has recourse against all of the assets of the co-ownerships in the event that CAPREIT is called upon to pay liabilities in excess of its proportionate share.

All balances and effects of transactions between co-ownerships and CAPREIT have been eliminated to the extent of CAPREIT's interest in the co-ownership. Where co-ownerships adopt accounting policies which differ from CAPREIT's, adjustments have been made to ensure consistency within the reported financial information.

d) Investment properties

CAPREIT considers its income properties to be investment properties under International Accounting Standards ("IAS") 40, Investment Property ("IAS 40"), and has chosen the fair value model to account for its investment properties in the consolidated annual financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's-length transaction at the date of valuation.

CAPREIT's investment properties have been valued on a highest and best use basis, but do not include any portfolio premium that may be associated with economies of scale of owning a large portfolio or the consolidation value of having compiled a large portfolio of properties over a long period of time, many through individual property acquisitions.

Investment properties comprise investment interests held in land and buildings (including integral equipment) held for the purpose of producing rental income, capital appreciation, or both. CAPREIT's investments in its property portfolio reflect different forms of property interests, including (i) Fee Simple Interests – Apartments and Townhomes, (ii) Operating Leasehold Interests, (iii) Land Leasehold Interests and (iv) Fee Simple Interests – Manufactured Home Communities Land Lease Sites. These four forms of property interests meet the definition of investment property and are classified and accounted for as such. All investment properties are recorded at their fair value at their respective acquisition dates and are subsequently stated at fair value at each consolidated balance sheet date with any gain or loss arising from a change in fair value recognized in the consolidated statements of income and comprehensive income for the period. For Operating Leasehold Interests, all of which are held under a prepaid operating lease, CAPREIT has classified all such interests as finance leases, including the fair value of options to purchase, and are accounted for and presented as investment property.

The fair value of investment properties is determined by a qualified external appraiser annually. Management regularly undertakes a review of its investment property valuation between external appraisal dates to assess the continuing validity of the underlying assumptions such as cash flows, capitalization rates and discount rates. These assumptions are tested against market information obtained from an independent appraiser. Where increases or decreases are warranted, the carrying values of CAPREIT's investment properties are adjusted. See notes 3 and 8 for a detailed discussion of the significant assumptions, estimates and valuation methods used.

e) Property asset acquisitions

Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their fair values at the acquisition date. Acquisition-related transaction costs are capitalized to the property.

f) Presentation of non-current assets classified as held-for-sale

Investment properties are reclassified to assets held-for-sale when criteria set out in IFRS 5, Non-Current Assets Held-For-Sale and Discontinued Operations, are met. CAPREIT presents non-current assets classified as held-for-sale and their associated liabilities separately from other assets and liabilities on the consolidated balance sheets and in the notes beginning from the period in which they were first classified as "for sale". The sale of one or a group of investment properties by CAPREIT will generally be presented as non-current assets held-for-sale and not discontinued operations. If a group of assets for sale are considered to meet the definition of a discontinued operation, then income or expense recognized in the consolidated statements of income and comprehensive income relating to that group of assets is presented separately from continuing operations. A discontinued operation is a component of operations that represents a separate major line of business or geographic area of operations that has been disposed of or is held-for-sale, or is a subsidiary acquired exclusively with a view to resale.

g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and mainly comprise head office and regional offices leasehold improvements, corporate and information technology systems, and are presented within other non-current assets on the consolidated balance sheets. These items are amortized on a straight-line basis over their estimated useful lives ranging from three to five years, or, in the case of leasehold improvements, are amortized over the leasehold improvement lease term ranging from five to 15 years.

h) Tenant inducements

Incentives such as cash, rent-free periods and move-in allowances may be provided to lessees to enter into a lease. These incentives are capitalized and amortized on a straight-line basis over the term of the lease as a reduction of rental revenue. The carrying amounts of the tenant inducements are included in the fair value of investment properties.

i) Prepaid CMHC premiums

Fees and insurance premiums paid to Canada Mortgage and Housing Corporation ("CMHC") are presented within other non-current assets. They are amortized over the amortization period of the underlying mortgage loans when incurred (initial amortization period is typically 25 to 35 years) and are included in interest and other financing costs in the consolidated statements of income and comprehensive income.

j) Financial instruments

Financial assets and financial liabilities

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

Classification of financial instruments

The following summarizes the classification and measurement CAPREIT has elected to apply to each of its significant categories of financial instruments:

Type	Classification	Measurement
Financial assets		
Cash and cash equivalents	FVTPL	Fair value
Restricted cash	FVTPL	Fair value
Other receivables	Loans and receivables	Amortized cost
Investments	Available-for-sale	Fair value
Financial liabilities		
Mortgages payable	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Accounts payable and other liabilities	Other liabilities	Amortized cost
Security deposits	Other liabilities	Amortized cost
Exchangeable Units	Other liabilities	Amortized cost

Fair Value Through Profit or Loss ("FVTPL")

Cash and cash equivalents acquired with the intention of generating profits in the near term, as well as restricted cash held by CAPREIT, are accounted for at fair value. Interest earned or accrued on these financial assets is included in other income. Derivatives are also categorized as FVTPL unless designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statements of income and comprehensive income in the period in which they arise. Financial assets and liabilities at FVTPL are classified as current, except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, which is classified as non-current.

Loans and receivables

Such receivables arise when CAPREIT provides services to a third party, such as a tenant, and are included in current assets, except for those with maturities more than 12 months after the consolidated balance sheet date, which are classified as non-current assets. Loans and receivables are included in other assets in the consolidated balance sheets and are accounted for at amortized cost.

Available-for-sale

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

Other liabilities

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

Transaction costs

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

Determination of fair value

The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments is remeasured based on relevant market data. CAPREIT classifies the fair value for each class of financial instrument based on the fair value hierarchy in accordance with IFRS 7. The fair value hierarchy distinguishes between market value data obtained from independent sources and CAPREIT's own assumptions about market value. See note 16 for a detailed discussion of valuation methods used for financial instruments quoted on an active market and instruments valued using observable data.

Derivatives

Derivatives are measured at fair value with changes therein recognized in the consolidated statements of income and comprehensive income in property operating costs or OCI, except for those contracts that are designated for CAPREIT's own use. Derivatives not part of a hedging relationship are presented as part of other current assets or liabilities and those expected to be realized or paid beyond 12 months of the consolidated balance sheet date, are presented under other non-current assets or liabilities.

Embedded derivatives

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

CAPREIT has concluded that it does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

k) Hedging relationships

CAPREIT has applied cash flow hedge accounting to certain derivatives, wherein the effective portion of the change in the fair value of the hedging derivative is recognized in OCI, while the ineffective portion is recognized in net income. Should a hedging relationship become ineffective and/or hedge accounting become no longer appropriate, previously unrealized gains and losses remain within AOCL and are amortized to the relevant item in the consolidated statements of income and comprehensive income in the same periods during which the hedged items affect earnings, while future changes in the fair value of the hedging derivatives are recognized in the consolidated statements of income and comprehensive income.

l) Mortgages payable and bank indebtedness

Mortgages payable are recognized at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs and discounts directly related to the mortgage are recognized in the consolidated statements of income and comprehensive income over the expected term of the mortgage. Mortgage maturities and repayments due more than 12 months after the consolidated balance sheet date are classified as non-current.

m) Exchangeable Units

Issued and outstanding Units of CAPLP are exchangeable on demand for Trust Units ("Exchangeable Units"). As the Trust Units are redeemable at the holder's option, the Exchangeable Units are classified as current liabilities. The distributions on the Exchangeable Units are recognized in the consolidated statements of income and comprehensive income as interest expense under IFRS and the interest payable at the reporting date is reported under other current liabilities on the consolidated balance sheets. These Exchangeable Units are remeasured at each reporting date at their amortized cost, which approximates fair value as they are considered to be puttable instruments under IAS 32, with changes in the carrying amount recognized in the consolidated statements of income and comprehensive income.

n) Comprehensive income

Comprehensive income includes net income and other comprehensive income (loss). Other comprehensive income (loss) includes changes in the fair value of investments and the effective portion of cash flow hedges less any amounts reclassified to interest and other financing costs and the associated income taxes.

o) Accumulated Other Comprehensive Loss ("AOCL")

AOCL is included in the consolidated balance sheets as Unitholders' Equity and includes the unrealized gains and losses of the changes in the fair market value of cash flow hedges, derivatives and investments. The components of AOCL are disclosed in note 20.

p) Revenue recognition

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

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

q) Borrowing costs and interest on mortgages payable

Interest and other financing costs includes mortgage interest, which is expensed at the effective interest rate, and transaction costs incurred in connection with the revolving credit facilities, which are capitalized and presented as other non-current assets and amortized over the term of the facility to which they relate.

r) Distributions

Distributions represent the monthly cash distributions on outstanding Trust Units.

s) Unit-based compensation and incentive plans

Unit-based compensation benefits are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and provide additional incentives by increasing the participants' interest, as owners, in CAPREIT. Unit-based compensation liabilities are classified as current except for the portion expected to be realized or paid beyond 12 months of the consolidated balance sheet date, including amounts which are classified as non-current where CAPREIT has the unconditional right to defer settlement of vested awards.

CAPREIT accounts for its Unit-based compensation plans using the fair value-based method, under which compensation expense is recognized over the vesting period. The key drivers of recognition and measurement of compensation expense are summarized as follows:

Incentive Plan [1]	Type	Vesting Period	Type of Amortization	Distributions applied to	Mark-to-Market until:
LTIP	Issued Units	2 years [2]	Graded	Secured loan	Loan repaid
SELTIP	Issued Units	2 years [2]	Graded	Secured loan	Loan repaid
DUP	Rights	Grant date	Immediate	Additional Units	Issued
RUR Plan	Rights	3 years	Straight line	Additional Units	Issued
UOP	Options	Grant date	Immediate	N/A	Exercised

(1) For definitions of these plans, refer to notes 13 and 15.
(2) Vesting one-third on grant date, and one-third on each of the subsequent two grant anniversary dates.

t) Consolidated statements of cash flows

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

u) Income taxes

CAPREIT is taxed as a Mutual Fund Trust for income tax purposes and intends, at the discretion of the Board of Trustees, to distribute its income for income tax purposes each year to Unitholders to such an extent that it would not be liable for income tax under Part I of the *Income Tax Act* (Canada) ("Tax Act"). Accordingly, no provision for current income taxes payable is required. For a comprehensive discussion of CAPREIT's liability for tax purposes, see note 19.

At the end of 2010, CAPREIT and its wholly owned subsidiaries satisfied certain conditions available to REITs (the "REIT Exception") under amendments to the Tax Act intended to permit a corporate income tax rate of nil as long as the specified conditions continue to be met. Without satisfying these conditions, CAPREIT would have been liable for income taxes beginning in the 2011 taxation year. As a result, a provision for income taxes is included in the consolidated annual financial statements for periods prior to CAPREIT satisfying the REIT Exception.

v) Earnings per Unit

As a result of the redemption feature of CAPREIT's Trust Units, these Units are considered financial liabilities under IAS 33 and they may not be considered equity for the purposes of calculating net income on a per Unit basis. Consequently, CAPREIT has elected not to report an Earnings per Unit calculation, as permitted under IFRS.

w) Future accounting changes

As of February 28, 2012, the following new or amended IFRS have been issued by the International Accounting Standards Board and are expected to apply for fiscal periods beginning after December 31, 2011: IFRS 1, First-time Adoption of International Financial Reporting Standards; IFRS 7, Financial Instruments: Disclosures; IFRS 9, Financial Instruments; IFRS 10, Consolidated Financial Statements; IFRS 11, Joint Arrangements; IFRS 12, Disclosure of Interests in Other Entities; IFRS 13, Fair Value Measurement; IAS 1, Financial Statement Presentation; IAS 12, Income Taxes; and IAS 28, Investments in Associates and Joint Ventures.

Amendments to IFRS 1, effective for annual periods after July 2011, with earlier adoption permitted, relate to severe hyperinflation environments and remove fixed dates for first-time adopters. Amendments to IFRS 7 relate to disclosures with respect to the transfers of financial assets. The new IFRS 9 replaces the current IAS 39 and introduces new requirements for the classification and measurement of financial assets and financial liabilities to be measured at either amortized cost or fair value; specifically, investments in equity instruments can be measured as fair value through OCI, with only the dividends being recognized through net income. IFRS 7 and IFRS 9 are effective for annual periods beginning on or after July 2011 and January 2015, respectively. The amendments to IAS 12, effective beginning 2012, provide a solution to the issue of assessing whether the recovery of the carrying value of an asset will be through use or through sale when the asset is measured using the fair value model. The amendment introduces the presumption that recovery of the carrying amount will normally be through sale.

The amendments to IAS 1, intended to improve how components of OCI are presented, are effective for annual periods beginning on or after July 1, 2012. IFRS 13, which defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements when other IFRS require or permit fair value measurements. The new standard does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value or address how to present changes in fair value. IFRS 13 is effective beginning 2013, with earlier application permitted.

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities and replaces IAS 27, Consolidated and Separate Financial Statements and SIC-12, Consolidation of Special Purpose Entities. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement and supersedes IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. IAS 28 supersedes IAS 28, Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. The new requirements are effective beginning 2013, with earlier application permitted. Under these new joint arrangement standards, some or all of CAPREIT's co-ownership arrangements may be accounted for using the equity method and not proportionate consolidation as at present.

CAPREIT is assessing the impact of the above changes but does not expect to be significantly impacted upon adoption in their current form.

Note 3 · Critical Accounting Estimates, Assumptions and Judgements

The preparation of consolidated annual financial statements in accordance with IFRS requires the use of estimates, assumptions and judgement that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the consolidated annual financial statements and accompanying notes. Areas of such estimation include, but are not limited to: valuation of investment properties, remeasurement at fair value of financial instruments, valuation of accounts receivable, capitalization of costs, accounting accruals, the amortization of certain assets, accounting for deferred income taxes and Unit-based compensation financial liabilities. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated annual financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

The estimates deemed to be more significant, due to subjectivity and the potential risk of causing a material adjustment within the next financial year to the carrying amounts of assets and liabilities, are discussed below.

i) Valuation of investment properties

Investment properties are measured at fair value as at the consolidated balance sheet date. Any changes in the fair value are included in the consolidated statements of income and comprehensive income. Fair value is supported by independent external valuations or detailed internal valuations using market-based assumptions, each in accordance with recognized valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things, future stabilized net operating income, capitalization rates, reversionary capitalization rates, discount rates and other future cash flows applicable to investment properties.

CAPREIT's internal assessments of fair value are based on a combination of internal financial information and external market data including components of net operating income and capitalization rates, all of which are obtained from an independent industry expert.

CAPREIT's internal valuations and the independent appraisals are both subject to significant judgements, estimates and assumptions about market conditions in effect as at the consolidated balance sheet date. See note 8 for a detailed discussion of valuation methods and the significant assumptions and estimates used.

ii) Valuation of financial instruments

The fair value of derivative assets and liabilities is based on assumptions that involve significant estimates. The basis of valuation for CAPREIT's derivatives is set out in note 16; however, the fair values of derivatives reported may differ from how they are ultimately recognized if there is volatility in interest rates or energy prices between the valuation date and settlement date.

iii) Unit-based compensation

The fair values of Unit-based compensation financial liabilities are based on assumptions that involve significant estimates. The basis of valuation for CAPREIT's Unit-based compensation financial liabilities is set out in note 13; however, the fair values as at the reporting date may differ materially from how they are ultimately recognized if there is volatility in listed Unit prices, interest rates or other key assumptions between the valuation date and settlement date. Market assumptions, estimates and valuation methodology are discussed in note 15.

Note 4 · Transition to IFRS

The consolidated annual financial statements have been prepared in accordance with IFRS. In preparing the opening consolidated balance sheets as at January 1, 2010 and comparative information for the year covered by the December 31, 2010 consolidated annual financial statements, amounts previously reported and prepared in accordance with Canadian GAAP were adjusted to be in accordance with IFRS by applying those standards identified as effective for years ended December 31, 2011. Accordingly, the opening consolidated balance sheets at January 1, 2010 and December 31, 2010, as well as the consolidated statements of income and comprehensive income, Unitholders' Equity and cash flows for the year ended December 31, 2010, are prepared in accordance with IFRS effective for years ended December 31, 2011.

The effects of the transition to IFRS are summarized as follows:

a) Transition elections made under IFRS 1 and other applicable standards

Business combinations

As part of its transition to IFRS, CAPREIT has elected not to restate those business combinations that occurred prior to January 1, 2010. Accordingly, acquisition-related transaction costs associated with business combinations completed prior to January 1, 2010 continue to be capitalized.

Other transitional exemptions and guidance

IFRS 1 allows for certain other optional exemptions; however, such exemptions were not deemed to be significant to CAPREIT's adoption of IFRS.

Mandatory exceptions

In preparing these consolidated annual financial statements in accordance with IFRS 1, CAPREIT applied certain mandatory exceptions from full retrospective application of IFRS. The significant mandatory exceptions applied from full retrospective application of IFRS were as follows:

- Only hedging relationships that satisfied the hedge accounting criteria as of the transition date are reflected as hedges in CAPREIT's results under IFRS. Any derivatives not meeting the IAS 39 criteria for hedge accounting are recorded as non-hedging derivative financial instruments.
- In accordance with IFRS 1, hindsight was not used to create or revise estimates and, accordingly, the estimates previously made by CAPREIT under Canadian GAAP were consistently applied under IFRS.

b) Reconciliation of the consolidated statements of Unitholders' Equity as previously reported under Canadian GAAP to IFRS as at January 1, 2010 and December 31, 2010

	Ref	December 31, 2010	January 1, 2010
Unitholders' Equity as reported under Canadian GAAP		$ 595,848	$ 457,184
IFRS adjustments			
Opening cumulative adjustments		291,907	–
Fair value adjustment of investment properties	(i)	5,229	694,215
Depreciation		83,624	–
Other leasing costs		(12)	–
Deferred income taxes	(ii)	386,448	(386,448)
Exchangeable Units — cost	(iii)	–	(8,000)
Exchangeable Units — fair value adjustments	(iii)	(1,267)	1,106
Exchangeable Units — cumulative distributions	(iii)	–	1,111
Unit-based compensation and financial liabilities	(iv)	(7,477)	(10,077)
Increase in equity upon settlement of Units	(v)	1,145	–
Unitholders' Equity as reported under IFRS		$ 1,355,445	$ 749,091

(i) **Fair value adjustment of investment properties –** CAPREIT considers its income properties to be investment properties under IAS 40. Investment properties include land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or services or for sale in the ordinary course of business. Similar to Canadian GAAP, investment properties are initially recorded at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for investment properties. CAPREIT has elected to use the fair value model. The adjustments to retained earnings represent the cumulative unrealized gain in respect of the investment properties relating to the fair value adjustments and the reversal of accumulated depreciation on the investment properties, net of any de-recognition of related intangible assets and liabilities, which are inherently reflected in the fair value of the investment properties, and the reclassification of straight-line rent receivable, direct leasing costs and tenant inducements.

(ii) **Deferred income taxes –** the increase in deferred income tax liability under IFRS compared with Canadian GAAP primarily relates to the increased carrying values of CAPREIT's investment properties and the increase in the tax rate being applied to timing differences. The deferred income tax liability under IFRS is determined by applying tax rates to temporary differences that are consistent with CAPREIT's expectation that the method of realization will be through owning and operating its properties rather than through sale. IFRS does not allow

the assumption that taxable income will be distributed to Unitholders in the future when determining the tax rate to apply, thus the use of the SIFT rate is not an allowable presumption. CAPREIT has assumed that regardless of intentions to distribute, the future taxable income would be taxed at the top marginal personal tax rate when determining its deferred tax liability. The impact of the change in CAPREIT's tax status from a SIFT to a qualified REIT is disclosed separately in the consolidated statements of income and comprehensive income.

(iii) **Exchangeable Units –** these Units were issued by CAPLP for $8,000 and are exchangeable on demand for Trust Units, at the holder's option. As such, these Units have been reclassified from equity at historical cost under Canadian GAAP to current liabilities presented at amortized cost, which approximates fair value, under IFRS. As a result, equity has been adjusted for: (i) the historical cost of the Exchangeable Units previously issued; (ii) the impact on retained earnings from the cumulative fair value adjustment of the liability; and (iii) distributions, which are classified as interest expense under IFRS. These Units are remeasured at each reporting date at amortized cost with changes in their carrying amounts recognized in the consolidated statements of income and comprehensive income.

(iv) **Unit-based compensation and financial liabilities –** Units, Unit rights and Unit options issued as part of CAPREIT's incentive plans for its officers, trustees and certain employees have been reclassified from equity at historical cost under Canadian GAAP to current and non-current liabilities presented at fair value under IFRS. Under Canadian GAAP, compensation cost was only measured once at grant date whereas under IFRS, the Units, Unit rights and Unit options are required to be remeasured each reporting period until settled. As a result, equity under Canadian GAAP has been adjusted for: (i) the historical cost of the Units, Unit rights and Unit options previously issued; and (ii) the impact on retained earnings from the cumulative fair value adjustment of the liability. These Units, Unit rights and Unit options are remeasured at each reporting date at fair value and changes in their fair value are recognized in the consolidated statements of income and comprehensive income.

(v) **Increase in equity upon settlement of Units –** represents additional fair value adjustments to Unit capital resulting from the remeasurement of the Unit-based compensation plans for LTIP and DUP Units settled.

c) Reconciliation of the consolidated statements of income and comprehensive income as previously reported under Canadian GAAP to IFRS and related notes for the year ended December 31, 2010

	Ref	Year Ended December 31, 2010
Comprehensive income as reported under Canadian GAAP		$ 74,590
IFRS adjustments		
Fair value adjustment of investment properties	(i)	5,229
Depreciation on investment properties	(ii)	83,624
Recovery of deferred income tax	(iii)	386,448
Exchangeable Units — fair value adjustments	(iv)	(1,267)
Exchangeable Units — interest expense	(iv)	(444)
Unit-based compensation expense	(v)	(5,781)
Other leasing costs		(12)
Comprehensive income as reported under IFRS		$ 542,387

(i) **Fair value adjustment of investment properties –** upon transition to IFRS, investment properties have been recognized at fair value, whereas under Canadian GAAP, investment properties were measured on a historical cost basis. The adjustments above represent the increase (decrease) in the fair value of the investment properties during the respective periods.

(ii) **Depreciation on investment properties –** the recognition of investment properties at fair value under IAS 40 has the effect of reversing all of the depreciation on the related investment properties previously recognized under Canadian GAAP.

(iii) **Recovery of deferred income taxes –** the increase in deferred income tax liability under IFRS compared with Canadian GAAP primarily relates to the increased carrying values of CAPREIT's investment properties and the change in the tax rate being applied.

(iv) **Exchangeable Units –** as a result of these Units being exchangeable on demand for Trust Units, which are redeemable at the holder's option, Exchangeable Units are therefore required to be classified as liabilities, whereas under Canadian GAAP, these Units were presented as equity instruments. Exchangeable Units are remeasured at each reporting date at amortized cost with changes in their carrying amounts recognized in the consolidated statements of income and comprehensive income for the period, with distributions under Canadian GAAP classified as interest expense under IFRS.

(v) **Unit-based compensation expense –** under IFRS, CAPREIT accrues the cost of Unit-based payments for the LTIP and SELTIP over the vesting period using the graded accelerated method of amortization rather than the straight-line method, which was CAPREIT's policy under Canadian GAAP. This change in amortization period increased the Unit-based compensation liability and reduced retained earnings at the date of transition and consequently results in accelerated Unit-based compensation amortization expense.

CAPREIT accounts for its Unit-based payments to participants under the liability method, that is, remeasured at fair value each reporting period. Under Canadian GAAP, CAPREIT accounted for these Unit-based payment arrangements by reference to their grant date fair value as a result of being accounted for as equity at historical cost. Under IFRS, the related liability has been adjusted to reflect the remeasured fair value of the outstanding Unit-based payments.

d) Adjustments to the consolidated statements of cash flows

Although the transition from Canadian GAAP to IFRS had no impact on actual cash flows of CAPREIT, under IFRS, the presentation requirements necessitate the reflection of the changes disclosed in the consolidated statements of income and comprehensive income. These include investment properties and other fair value adjustments presented under cash flow from operating activities, distributions received on investments classified as investing activities and cash flows relating to interest payments presented under financing activities.

e) Current and non-current classification

Under IFRS, the consolidated balance sheets have been classified between the current portion and non-current portion of each asset and liability. As a result, each asset and liability line item that is expected to be recovered or settled within no more than 12 months after the consolidated balance sheet date is classified as current, and that which is expected to be recovered or may be settled more than 12 months after the consolidated balance sheet date is classified as non-current. The change in presentation of the consolidated balance sheets has no financial impact on CAPREIT's operating results.

Note 5 · Significant Matters

In 2010, CAPREIT entered into an agreement with CMHC (the "Large Borrower Agreement" or "LBA"). The LBA provides for, amongst other things: (i) certain financial covenants and limitations on indebtedness; (ii) the posting of a revolving letter of credit with respect to certain capital expenditures on a portfolio rather than an individual property basis; and (iii) cross-collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

Note 6 · Recent Investment Property Acquisitions

CAPREIT completed the following investment property acquisitions since January 1, 2010, which have contributed to the operating results effective from their respective acquisition dates:

For the year ended December 31, 2011	Suite or Site Count	Region(s)	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
December 28, 2011	185	Greater Montréal Region	$ 32,240	$ 15,108	3.30%	January 1, 2022
November 18, 2011[1]	8	Bowmanville and Grand Bend	697	– [2]	– [2]	– [2]
August 10, 2011	229	Toronto	17,382	12,926	3.88%	March 1, 2022
July 31, 2011	811	Greater Montréal Region	74,239	47,026 [3]	4.80%	– [3]
June 30, 2011	224	Toronto	32,088	18,586	3.67%	July 1, 2021
May 31, 2011	625	Greater Toronto Area	81,200	45,306	3.67%	July 1, 2021
April 15, 2011	495	Greater Vancouver Region	74,562	49,369	4.38%	May 1, 2021
January 31, 2011	83	Burlington	9,116	6,818	4.26%	March 1, 2021
	2,660		$ 321,524	$ 195,139		

(1) The MHC land lease sites acquisition comprised seven sites in Bowmanville and one site in Grand Bend.

(2) The acquisition was funded from CAPREIT's land lease facility (see note 12(b)).

(3) Mortgages assumed on acquisition were comprised of $35,256 maturing December 1, 2026 and $11,770 maturing December 1, 2016, at a weighted average stated rate of 4.80%.

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

(1) The MHC land lease sites acquisition comprised seven sites in Bowmanville and two sites in Grand Bend.
(2) The acquisition was funded from CAPREIT's land lease facility (see note 12(b)).
(3) Comprised of new mortgage financing of $25,580 at 3.67% maturing December 1, 2020 and an assumed mortgage of $786 at a stated rate of 4.73% maturing on February 1, 2016.
(4) The mortgage was assumed from the vendor at acquisition.
(5) The MHC land lease sites acquisition comprised 13 sites in Bowmanville and one site in Grand Bend.

The total purchase consideration including mortgages payable and bank indebtedness is allocated to investment property and other assets acquired based upon the relative fair value of each at the time of purchase.

Note 7 · Investment Property Dispositions

The tables below summarize the investment property dispositions completed since January 1, 2010. These dispositions do not meet the definition of discontinued operations under IFRS 5.

Dispositions Completed During the Year Ended December 31, 2011

Disposition Date	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
March 29, 2011	143	Hamilton	$ 5,975	$ 3,609	$ 2,117

Dispositions Completed During the Year Ended December 31, 2010

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

A loss of $95 was recognized in the year ended December 31, 2011 (December 31, 2010 – $4,941) in connection with these property dispositions.

Note 8 · Investment Properties

Valuation basis

Investment properties are carried at fair value, which is the amount at which the individual properties could be exchanged between willing parties in an arm's-length transaction, based on current prices in an active market for similar properties in the same location, considering the highest and best use of the asset and subject to similar leases, with any gain or loss arising from a change in fair value recognized in the consolidated statements of income and comprehensive income for the period. Valuations do not take into account any potential portfolio premium.

The fair values of all of CAPREIT's investment properties are determined by a qualified external appraiser annually. Each quarter, CAPREIT utilizes market assumptions for capitalization and discount rates provided by the external appraiser to determine the fair value of the investment properties. To the extent that the stabilized forecasted cash flows of an investment property change significantly in a quarter, the fair value of the investment property would be re-assessed by the external appraiser and the fair value adjusted accordingly.

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

a) **Fee Simple and MHC Land Lease Sites**

CAPREIT utilizes the Direct Income Capitalization ("DC") method. Under this method, capitalization rates are applied to a stabilized net operating income ("NOI") representing market-based NOI assumptions (property revenue less property operating expenses). The most significant assumption is the capitalization rate for each specific property.

b) **Operating Leasehold Interests**

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

c) **Options to Purchase the Related Operating Leasehold Interests**

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

d) **Land Leasehold Interests**

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

A summary of the market assumptions and ranges for each type of property interest along with their fair values are presented below as at January 1, 2010, December 31, 2010 and December 31, 2011:

As at January 1, 2010

Type of Interest		Fair Value	Rate Type	Max	Min	Weighted Average
Fee Simple Interests – Apartments and Townhomes	$	2,304,280	Capitalization rate	7.75%	5.00%	6.27%
MHC Land Lease Sites		87,940	Capitalization rate	6.25%	6.25%	6.25%
Operating Leasehold Interests [1],[2]		383,745	Discount rate [3]	9.00%	7.63%	7.91%
Land Leasehold Interests [1]		125,020	Discount rate	8.00%	7.75%	7.83%
Total Investment Properties	$	2,900,985				

As at December 31, 2010

Type of Interest		Fair Value	Rate Type	Max	Min	Weighted Average
Fee Simple Interests – Apartments and Townhomes	$	2,436,001	Capitalization rate	7.50%	4.65%	6.06%
MHC Land Lease Sites		88,790	Capitalization rate	6.25%	6.25%	6.25%
Operating Leasehold Interests [1],[2]		393,319	Discount rate [3]	8.50%	7.25%	7.56%
Land Leasehold Interests [1]		131,870	Discount rate	8.00%	7.50%	7.80%
Total Investment Properties	$	3,049,980				

As at December 31, 2011

Type of Interest		Fair Value	Rate Type	Max	Min	Weighted Average
Fee Simple Interests – Apartments and Townhomes	$	3,037,751	Capitalization rate	7.50%	4.25%	5.63%
MHC Land Lease Sites		94,150	Capitalization rate	6.25%	6.00%	6.04%
Operating Leasehold Interests [1],[2]		435,906	Discount rate [3]	8.25%	6.75%	7.01%
Land Leasehold Interests [1]		145,930	Discount rate	7.75%	7.50%	7.59%
Total Investment Properties	$	3,713,737				

(1) The fair value of Operating Leasehold Interest subject to a contractual air rights lease and Land Leasehold Interests subject to land leases reflects the estimated land lease or air rights payments over the term of the leases.

(2) The fair values of Operating Leasehold Interests include the fair values of the Options to Purchase the related operating leases of $14,300 as at January 1, 2010, $16,600 as at December 31, 2010 and $27,077 as at December 31, 2011.

(3) Represents the discount rate used to determine the fair value for Operating Leasehold Interests using the DCF method. A weighted average stabilized NOI growth of 2.5% has been assumed as at January 1, 2010, December 31, 2010 and December 31, 2011.

Reconciliation of carrying amounts of investment properties

For the Year Ended December 31,		2011		2010
Balance at the beginning of the year	$	3,049,980	$	2,900,985
Additions:				
Acquisitions		321,524		118,672
Property capital investments		116,579		82,777
Capitalized leasing costs [1]		143		400
Dispositions		(5,732)		(69,771)
Realized loss on dispositions of investment properties		(95)		(4,941)
Unrealized fair value adjustments		231,338		21,858
Balance of Investment Properties at the end of the year	$	3,713,737	$	3,049,980

(1) Comprised of tenant inducements, straight-line rent, direct leasing costs and recoverable capital improvements.

Note 9 · Other Assets

As at	Ref	December 31, 2011	December 31, 2010	January 1, 2010
Other Non-Current Assets				
Property, plant and equipment	(1)	$ 12,584	$ 9,937	$ 8,333
Accumulated amortization of property, plant and equipment		(7,555)	(5,942)	(4,590)
Net property, plant and equipment		5,029	3,995	3,743
Investments		38,187	34,388	28,739
Prepaid CMHC premiums, net	(2)	36,575	30,834	28,109
Deferred loan costs, net	(3)	1,952	1,679	1,754
Deposits on purchases	(4)	–	245	824
Total		$ 81,743	$ 71,141	$ 63,169
Other Current Assets				
Prepaid expenses		$ 1,496	$ 1,572	$ 2,110
Other receivables		3,824	5,669	4,359
Restricted cash		3,241	2,891	2,546
Deposits		609	660	633
Total		$ 9,170	$ 10,792	$ 9,648

(1) Consists of head office and regional offices' leasehold improvements, corporate and information technology systems.
(2) Represents prepaid CMHC premiums on mortgages payable net of amortization.
(3) Represents deferred loan costs related to the revolving credit facilities.
(4) Under the terms of the development agreements entered into concurrently with the acquisition of the MHC land lease sites on July 10, 2007, CAPREIT is required to fund servicing costs on the lands in the land lease communities for future development. These funded amounts will be deducted from the final purchase price when the MHC land lease sites are acquired by CAPREIT. The Agreements are for a ten-year term and can be extended for an additional ten years.

Note 10 · Other Liabilities

As at	Note	December 31, 2011	December 31, 2010	January 1, 2010
Other Non-Current Liabilities				
Hedge liability	17(b)	$ 2,703	$ 719	$ 1,924
Accrued loss on natural gas contracts	17(c)	–	376	–
Total		$ 2,703	$ 1,095	$ 1,924
Other Current Liabilities				
Hedge liability	17(b)	$ 15,214	$ 2,867	$ 3,518
Accrued loss on natural gas contracts	17(c)	620	3,191	–
Mortgage interest payable		5,893	5,168	5,234
Total		$ 21,727	$ 11,226	$ 8,752

Note 11 · Mortgages Payable

Mortgages payable bear interest at a weighted average effective rate of 4.57% (December 31, 2010 – 4.90%) and mature between 2012 and 2027. The effective interest rate as at December 31, 2011 includes 0.09% (December 31, 2010 – 0.08%) for the amortization of the realized component of the loss on settlement of derivative financial instruments included in AOCL. All but $33,145 or 1.79% of CAPREIT's mortgages payable are financed at fixed interest rates. The investment properties have been pledged as security. As at December 31, 2011, unamortized deferred financing costs of $5,490 and fair value adjustments of ($4,644) are netted against mortgages payable.

Future principal repayments ending December 31 for the years indicated are as follows:

As at December 31, 2011	Principal Amount	% of Total Principal
2012	$ 288,710	15.6
2013	225,271	12.2
2014	266,684	14.4
2015	171,567	9.3
2016	90,234	4.9
Subsequent to 2016	806,570	43.6
	1,849,036	100.0
Deferred financing costs and fair value adjustments	(846)	
	$ 1,848,190	

As at	December 31, 2011	December 31, 2010	January 1, 2010
Represented by:			
Mortgages payable — current	$ 288,710	$ 279,493	$ 208,134
Mortgages payable — non-current	1,559,480	1,354,368	1,337,181
	$ 1,848,190	$ 1,633,861	$ 1,545,315

Note 12 · Bank Indebtedness

CAPREIT has a credit agreement comprising an acquisition and operating facility ("Acquisition and Operating Facility") and a land lease facility ("Land Lease Facility") (the "Credit Facilities"). Effective June 30, 2011, the Credit Facilities were renewed and amended as summarized below. Floating charge debentures on certain of CAPREIT's wholly owned investment properties, which have been pledged as security, have been converted into fixed charges.

a) Acquisition and Operating Facility

The maximum amount available is $270,000, comprising one facility for a three-year term maturing on June 30, 2014, subject to compliance with the various provisions of the credit agreement, in order to fund ongoing working capital requirements, general corporate purposes and acquisition and improvements to the properties. At December 31, 2011, the weighted average floating interest rate for amounts drawn under this credit facility was 3.67% (December 31, 2010 – 3.95%, January 1, 2010 – 3.39%) and the borrowings outstanding were $74,132 (December 31, 2010 – $38,000, January 1, 2010 – $144,816). In addition, letters of credit in the amount of $10,247 (December 31, 2010 – $9,687, January 1, 2010 – $5,965) were outstanding, which reduce the maximum amount available under the facility.

As the Acquisition and Operating Facility is not required to be refinanced during the next 12 months, the facility is reported as a non-current liability.

b) Land Lease Facility

The Land Lease Facility was established (notes 6 and 9) to fund operating, development and acquisition costs associated with the MHC land lease portfolio. The maximum amount of the facility is $10,000 for a one-year term maturing on June 30, 2012. Fixed charge debentures on the MHC land lease properties have been provided as security. At December 31, 2011, the weighted average floating interest rate for amounts drawn under this facility was nil% (December 31, 2010 – 4.17%, January 1, 2010 – 3.38%) and the borrowings outstanding were $nil (December 31, 2010 – $1,358, January 1, 2010 – $2,075). In addition, letters of credit in the amount of $86 (December 31, 2010 – $84, January 1, 2010 – $106) were outstanding, which reduce the maximum available under the facility.

As the Land Lease Facility matures within the next 12 months, the facility is reported as a current liability.

Note 13 · Unitholders' Equity and Unit-based Compensation Financial Liabilities

Unitholders' Equity

All Trust Units outstanding are fully paid, have no par value and are voting Trust Units. CAPREIT is authorized to issue an unlimited number of Trust Units. Trust Units represent a Unitholder's proportionate undivided beneficial interest in CAPREIT. No Trust Unit has any preference or priority over another. No Unitholder has or is deemed to have any right of ownership in any of the assets of CAPREIT. Each Unit confers the right to one vote at any meeting of Unitholders and to participate pro rata in any distributions by CAPREIT and, in the event of termination of CAPREIT, in the net assets of CAPREIT remaining after satisfaction of all liabilities. Units will be issued in registered form and are transferable. Issued and outstanding Units may be subdivided or consolidated from time to time by the trustees without Unitholder approval. No certificates for fractional Units will be issued and fractional Units will not entitle the holders thereof to vote.

By virtue of CAPREIT being an open-ended mutual fund trust, Unitholders of Trust Units are entitled to redeem their Units at any time at prices determined and payable in accordance with the conditions specified in the DOT. As a result, under IFRS, Trust Units are defined as financial liabilities; however, for the purposes of financial statement classification and presentation, the Trust Units may be presented as equity instruments as they meet the puttable instrument exemption under IAS 32. For the purposes of presenting earnings on a per Unit basis as well as for Unit-based compensation plans, CAPREIT's Trust Units are not treated as equity instruments.

The number of issued and outstanding Trust Units is as follows:

For the Year Ended December 31,	Ref	2011	2010
Units outstanding beginning of the year		74,176,908	65,884,057
Issued or granted during the year in connection with the following:			
New Units Issued	(a)	7,475,000	7,600,000
Distribution Reinvestment Plan ("DRIP")	(b)	865,099	574,197
Employee Unit Purchase Plan ("EUPP")	(c)	16,350	17,599
Deferred Unit Plan ("DUP")	(d)	–	26,855
Unit Option Plan ("UOP")	(e)	174,500	74,200
Long-Term Incentive Plan ("LTIP")	(f)	46,596	–
Units outstanding December 31,		82,754,453	74,176,908

a) New Units Issued

	Price Per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
2011 (the "2011 Equity Offering")					
Bought-deal (October 31, 2011)	$ 20.30	$ 131,950	$ 6,178	$ 125,772	6,500,000
Over-allotment (October 31, 2011)	$ 20.30	19,793	792	19,001	975,000
Total		$ 151,743	$ 6,970	$ 144,773	7,475,000
2010 (the "Equity Offering")					
Bought-deal (December 10, 2010)	$ 17.30	$ 125,425	$ 5,917	$ 119,508	7,250,000
Over-allotment (December 23, 2010)	$ 17.30	6,055	242	5,813	350,000
Total		$ 131,480	$ 6,159	$ 125,321	7,600,000

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

c) **Employee Unit Purchase Plan ("EUPP")**
The EUPP grants employees the right to receive an additional amount equal to 10% of the Units they acquire, paid in the form of additional Units.

d) **Deferred Unit Plan ("DUP")**
During 2010, CAPREIT issued 26,855 Trust Units pursuant to the terms of the DUP.

e) **Unit Option Plan ("UOP")**
Under the terms of the UOP, options are granted to trustees, officers and employees based on performance incentive for improved service and enhancing profitability and vest on the date of grant.

f) **Long-Term Incentive Plan ("LTIP")**
During 2011, CAPREIT issued 46,596 Trust Units to settle 96,260 previously issued LTIP Units.

Unit-based Compensation Financial Liabilities

Units are issuable pursuant to CAPREIT's Unit-based compensation plans, namely, the UOP, the EUPP, the Unit Purchase Plan, the LTIP, the SELTIP, the DUP and the RUR Plan (each of which is more fully described in note 15). As at December 31, 2011, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 7,000,000 Units (December 31, 2010 – 6,000,000). The maximum available for future issuance under all Unit incentive plans as at December 31, 2011 is 1,113,760 Units (December 31, 2010 – 575,151 Units).

The Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans as at December 31, 2011 and 2010 are as follows:

For the Year Ended December 31, 2011 (Number of Units)	UOP	DUP	RUR	SELTIP/LTIP (1)	Exch. Units (2)	Total
Units, Unit Rights and Unit Options outstanding						
as of January 1, 2011	541,000	74,103	72,887	2,437,101	411,311	3,536,402
Issued, cancelled or granted during the year:						
Issued or granted	224,250	29,635	99,537	–	–	353,422
Exercised or settled	(174,500)	–	–	(96,260)	–	(270,760)
Cancelled	–	–	(10,446)	–	–	(10,446)
Distributions reinvested	–	4,901	8,577	–	–	13,478
Units, Unit Rights and Unit options outstanding as of December 31, 2011	**590,750**	**108,639**	**170,555**	**2,340,841**	**411,311**	**3,622,096**

For the Year Ended December 31, 2010 (Number of Units)	UOP	DUP	RUR	SELTIP/LTIP (1)	Exch. Units (2)	Total
Units, Unit Rights and Unit Options outstanding						
as of January 1, 2010	387,200	60,624	–	2,490,841	411,311	3,349,976
Issued, cancelled or granted during the year:						
Issued or granted	228,000	43,819	69,552	–	–	341,371
Exercised or settled	(74,200)	–	–	–	–	(74,200)
Cancelled	–	(34,847)	(743)	(53,740)	–	(89,330)
Distributions reinvested	–	4,507	4,078	–	–	8,585
Units, Unit Rights and Unit options outstanding as of December 31, 2010	541,000	74,103	72,887	2,437,101	411,311	3,536,402

(1) The distributions payable on SELTIP and LTIP Units do not increase the number of Units outstanding on these plans but are incorporated into the fair value of the plans.

(2) The outstanding 411,311 Exchangeable Units are entitled to distributions equivalent to distributions on Trust Units, must be exchanged solely for Trust Units on a one-for-one basis, and are exchangeable at any time at the option of the holder. An equivalent number of Special Voting Units were issued at the same time as the Exchangeable Units. The holders of such Units have no entitlement to any share of or interest in the distributions or net assets of CAPREIT. Through Special Voting Units, holders of Exchangeable Units are entitled to an equivalent number of votes at all meetings of Unitholders or in respect of any written resolution of Unitholders equal to the number of Exchangeable Units held. The carrying value of these Units is measured at amortized cost of $9,176 at December 31, 2011 (December 31, 2010 – $7,050), which approximates the closing bid price of the Trust Units.

The table below summarizes the change in the total Unit-based compensation financial liabilities for the years ended December 31, 2011 and 2010 including the reversal of liability as a result of settlements for Trust Units.

For the Year Ended December 31,	2011	2010
Total Unit-based compensation financial liabilities, beginning of the year	$ 16,410	$ 10,077
Unit-based compensation expenses	13,906	7,477
Settlement of Unit-based compensation awards for Trust Units	(1,341)	(1,144)
Total Unit-based compensation financial liabilities, end of the year	$ 28,975	$ 16,410

The Unit-based compensation financial liabilities are comprised of:

For the Year Ended December 31,	2011	2010
Current		
LTIP	$ 15,112	$ 8,321
SELTIP	7,096	5,205
DUP	2,424	1,270
UOP	2,697	1,259
	27,329	16,055
Non-Current		
RUR	1,646	355
Total Unit-based compensation financial liabilities	$ 28,975	$ 16,410

Units or Unit-based compensation financial liabilities held by trustees, officers and other senior management
As at December 31, 2011, 4.4% (December 31, 2010 – 4.7%) of all Units and Trust-Unit equivalents outstanding were held by trustees, officers and other senior management of CAPREIT.

Normal course issuer bid ("NCIB")
The table below summarizes the NCIBs in place since January 1, 2010. No Trust Units were acquired and cancelled under these NCIBs.

Period Covered Under Each NCIB	Approval Limit
June 27, 2011 to June 26, 2012	7,267,915
June 25, 2010 to June 24, 2011	6,425,179
June 25, 2009 to June 24, 2010	6,344,344

Note 14 · Distributions on Trust Units

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

Year Ended December 31,	2011	2010
Distributions declared on Trust Units	$ 82,816	$ 72,230
Distributions Per Unit	$ 1.080	$ 1.080

Note 15 · Unit-based Compensation Expenses

These costs represent Unit-based compensation amortization, which includes fair value remeasurement at each reporting date amortized over the respective vesting periods for each plan for the year ended December 31, 2011 and 2010, as follows:

Year Ended December 31,	2011	2010
UOP	$ 2,415	$ 830
LTIP	7,153	3,815
SELTIP	1,893	1,531
DUP	1,154	947
RUR Plan	1,291	354
EUPP	30	25
	$ 13,936	$ 7,502

a) UOP

Under the terms of the UOP, options are granted to trustees, officers and employees based on a performance incentive for improved service and enhancing profitability and vest on the date of grant. In February 2010, the President and CEO's employment agreement was amended to provide that during its term, the President and CEO will be awarded options to acquire three percent (3%) of the number of Units issued by the Trust pursuant to any equity offering or acquisition transaction (not including pursuant to any compensation arrangements) at the market price of the Units at the time of completion of each such treasury issuance, in accordance with the terms of the UOP, as amended from time to time. On October 31, 2011, there were 224,250 options granted to the President and CEO in connection with CAPREIT's 2011 Equity Offering at an exercise price of $20.30 with an expiration date of October 30, 2021. In connection with the Equity Offering, on December 10, 2010, 217,500 options were granted to the President and CEO at an exercise price of $17.30 with an expiration date of December 9, 2020. In connection with the exercise of the over-allotment option, on December 23, 2010, 10,500 options were granted to the President and CEO at an exercise price of $17.30 with an expiration date of December 22, 2020.

A summary of Unit option activity for the years ended December 31, 2011 and 2010 is presented below. All options are exercisable as at December 31, 2011 and 2010.

For the Year Ended December 31,	2011	2010
Number of Units		
Balance, beginning of year	541,000	387,200
Granted	224,250	228,000
Exercised	(174,500)	(74,200)
Balance, end of year	590,750	541,000

The fair value of Unit Options is determined as at the grant date and subsequent interim and annual valuations are determined by adjusting market-based valuation assumptions used in arriving at the estimated fair value. The weighted average assumptions for the grants awarded in the respective periods were as follows:

As at	December 31, 2011	December 31, 2010	January 1, 2010
Number of Units	590,750	541,000	387,200
Weighted average issue price	$ 17.51	$ 15.20	$ 13.42
Weighted average risk free rate (%)	1.6	2.3	1.6
Weighted average distribution yield (%)	4.8	6.3	7.7
Weighted average expected years	7.4	5.0	2.1
Weighted average volatility (%)	22.4	21.4	32.4
Weighted average Unit option value	$ 4.57	$ 2.33	$ 1.87

b) **LTIP and SELTIP**

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

The fair value of LTIP and SELTIP awards is determined by using an option pricing model which uses market-based valuation assumptions.

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

Year Ended December 31,	2011		2010	
Number of Units	**LTIP**	**SELTIP**	**LTIP**	**SELTIP**
Balance, beginning of year	1,619,187	817,914	1,672,927	817,914
Settled during the year	(96,260)	–	(53,740)	–
Balance, end of year	1,522,927	817,914	1,619,187	817,914

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

Year Ended December 31,	2011		2010	
Instalment Receipts	**LTIP**	**SELTIP**	**LTIP**	**SELTIP**
Balance, beginning of year	$ 21,357	$ 12,583	$ 23,103	$ 12,835
Principal repayments during the year	(1,599)	(265)	(1,746)	(252)
Balance, end of year	$ 19,758	$ 12,318	$ 21,357	$ 12,583

The Instalment Receipts are recognized as a deduction from Unit-based compensation liability. During the years ended December 31, 2011 and 2010, interest payments in the amount of $1,557 and $1,681, respectively, were applied to the outstanding Unit-based compensation liability. The outstanding balance of the instalment receivable is used in determining the fair value of the Unit and the related fair value adjustments.

The following table summarizes the market-based rates and assumptions as well as projections of certain inputs used in determining the fair values using an option pricing model for LTIP and SELTIP Units outstanding at the respective measurement dates.

LTIP

As at	December 31, 2011	December 31, 2010	January 1, 2010
Number of Units	1,522,927	1,619,187	1,672,927
Weighted average loan rate (%)	4.66	4.68	4.69
Weighted average issue price	$ 15.49	$ 15.49	$ 15.48
Weighted average loan balance per Unit — current	$ 12.89	$ 13.35	$ 13.76
Weighted average loan balance per Unit — at maturity	$ 9.56	$ 9.59	$ 9.59
Weighted average risk-free rate (%)	1.4	2.6	3.2
Weighted average distribution yield (%)	4.8	6.3	7.7
Weighted average expected years	5.8	6.7	7.6
Weighted average volatility (%)	26.0	25.5	24.3
Weighted average Unit value	$ 9.92	$ 5.38	$ 3.19

SELTIP

As at	December 31, 2011	December 31, 2010	January 1, 2010
Number of Units	817,914	817,914	817,914
Weighted average loan rate (%)	4.96	4.96	4.96
Weighted average issue price	$ 17.66	$ 17.66	$ 17.66
Weighted average loan balance per Unit — current	$ 14.99	$ 15.33	$ 15.65
Weighted average loan balance per Unit — at maturity	$ 13.40	$ 13.40	$ 13.40
Weighted average risk-free rate (%)	1.9	3.1	3.6
Weighted average distribution yield (%)	4.8	6.3	7.7
Weighted average expected years	24.4	25.4	26.4
Weighted average volatility (%)	26.5	27.0	27.5
Weighted average Unit value	$ 8.68	$ 6.36	$ 4.49

c) DUP

The DUP gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred units ("Deferred Units"). Each trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the "Elected Percentage") of his annual retainer payable in respect of a calendar year (the "Elected Amount"), subject to an annual maximum Elected Percentage established by the Compensation and Governance Committee, in the form of Deferred Units, in lieu of cash. CAPREIT will match the Elected Amount in the form of Deferred Units having a value equal to the volume-weighted average price of all Units traded on the TSX for the five trading days immediately preceding the date on which board compensation is payable. The maximum Elected Percentage in respect of 2011 is 100% (2010 – 100%) of a trustee's annual board compensation of $55.

The Deferred Units earn notional distributions based on the same distributions paid on the Units, and such notional distributions are used to acquire additional Deferred Units ("Distribution Units"). The Deferred Units and additional Distribution Units are credited to each trustee's Deferred Unit account and are not issued to the trustee until the trustee elects to withdraw such Units. Each trustee may elect to withdraw up to 20% of the Deferred Units credited to his Deferred Unit account only once in a five-year period. The fair value of the Distribution Units represents the closing price of the Units on the TSX on the distribution date.

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

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

The fair value of such Units represents the closing price of the Units on the TSX on the last trading day on which the Units traded prior to the reporting date, representing the fair value of the redemption price.

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

	December 31, 2011			December 31, 2010		
	Weighted Avg Issue Price	Fair Value per Unit	Number of Units	Weighted Avg Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the year	$ 15.34	$ 17.14	74,103	$ 15.03	$ 14.06	60,624
Granted during the year	$ 20.47	$ 20.47	29,635	$ 15.62	$ 15.62	43,819
Additional Unit distributions	$ 19.68	$ 19.68	4,901	$ 15.53	$ 15.53	4,507
Cancelled during the year	–	–	–	$ 15.18	$ 15.18	(34,847)
Outstanding, end of the year	$ 16.94	$ 22.31	108,639	$ 15.34	$ 17.14	74,103

d) RUR Plan

During the first quarter of 2010, CAPREIT adopted the RUR Plan as the primary plan through which long-term incentive compensation will be awarded. The RUR Plan was approved by Unitholders on May 19, 2010. The Compensation and Governance Committee of the Board of Trustees may award RURs, subject to the attainment of specified performance objectives, to certain officers and key employees, collectively the "Participants". The purpose of the RUR Plan is to provide its Participants with additional incentive and to further align the interest of its Participants with Unitholders through the use of RURs which, upon vesting, are exercisable for Units. RUR Plan Units will be issued from treasury upon vesting. The RURs vest in their entirety on the third anniversary of the grant date. The RURs earn notional distributions in respect of each distribution paid on RURs commencing from the grant date and such notional distributions are used to calculate additional RURs ("Distribution RURs"), which are accrued for the benefit of the Participant. The Distribution RURs are credited to the Participants only when the underlying RURs upon which the Distribution RURs are earned become vested. The fair value of the Distribution RURs is based on the closing price of the Units on the TSX on the distribution date.

On February 24, 2010, 69,552 RURs were granted at $14.09 based on the market price equal to the weighted average trading price of the Units for the five trading days prior to the grant date with a fair value of $972.

On October 8, 2010, 743 RURs were cancelled at a fair value of $10.

On February 22, 2011, 99,537 RURs were granted at $18.37 based on the market price equal to the weighted average trading price of the Units for the five trading days prior to the grant date with a fair value of $1,871.

On June 24, 2011, 10,446 RURs were cancelled at a fair value of $192.

The fair value of such RURs represents the closing price of the Units on the TSX on the last trading day on which the Units traded prior to the reporting date, representing the fair value of the redemption price.

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

	December 31, 2011			December 31, 2010		
	Weighted Avg Issue Price	Fair Value per Unit	Number of Units	Weighted Avg Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the year	$ 14.19	$ 17.14	72,887	–	–	–
Granted during the year	$ 18.37	$ 18.80	99,537	$ 14.09	$ 13.97	69,552
Additional Unit distributions	$ 19.72	$ 19.72	8,577	$ 15.85	$ 15.85	4,078
Cancelled during the year	$ 18.03	$ 18.41	(10,446)	$ 14.16	$ 14.04	(743)
Outstanding, end of the year	$ 16.67	$ 22.31	170,555	$ 14.19	$ 17.14	72,887

e) EUPP

The EUPP grants employees the right to receive an additional amount equal to 10% of the Units they acquire, paid in the form of additional Units. This additional amount is expensed as compensation upon issuance of the Units.

Note 16 · Financial Instruments and Risk Management

a) Fair value of financial instruments

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

At December 31, 2011, the fair value of CAPREIT's mortgages payable is estimated to be $2,023,000 (December 31, 2010 – $1,705,000; January 1, 2010 – $1,568,000) due to changes in interest rates since the dates the individual mortgages were financed and the impact of the passage of time on the primarily fixed rate nature of CAPREIT's mortgages. The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions.

CAPREIT has classified and disclosed the fair value for each class of financial instrument based on the fair value hierarchy in accordance with IFRS 7. The fair value hierarchy distinguishes between market value data obtained from independent sources and CAPREIT's own assumptions about market value. The hierarchy levels are defined below:

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

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

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

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

The following table presents CAPREIT's estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as of December 31, 2011, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts CAPREIT could ultimately realize.

	Level 1	Level 2	Level 3	
	Quoted prices in active markets for identical assets and liabilities	Significant other observable inputs	Significant unobservable inputs	Total
Assets				
Restricted cash	$ 3,241 (1)	$ –	$ –	$ 3,241
Investments	$ 38,187 (2)	$ –	$ –	$ 38,187
Derivative financial instruments – utilities	$ –	$ 423 (3)	$ –	$ 423
Liabilities				
Derivative financial instruments – interest	$ –	$ 1,568 (5)	$ –	$ 1,568
Derivative financial instruments – utilities	$ –	$ 620 (3)	$ –	$ 620
Derivative financial instruments – forward interest rate hedge	$ –	$ 16,349 (4)	$ –	$ 16,349
Total	$ 41,428	$ 18,960	$ –	$ 60,388

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

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

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

(4) CAPREIT uses certain derivative financial instruments to manage its interest rate risk. The valuation of these forward interest rate hedge instruments is determined using the Black-Scholes option pricing model. The variables that determine the value of the options are the forward price of the hedging bond, the strike price on each option, the risk-free discount rate, the time to maturity of each option and the volatility of the price on the specified bond. The options are valued as a portfolio to provide a market value (see note 18(b)). CAPREIT considers the impact of credit valuation adjustments to reflect both its risk and the counterparty's risk in the fair value measurement of the forward interest rate hedge.

(5) The valuation of the interest rate swap instrument is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. The fair value is determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. CAPREIT considers the impact of credit valuation adjustments to reflect both its risk and the counterparty's risk in the fair value measurement of the interest rate swap agreement.

Although CAPREIT has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by CAPREIT itself. As of December 31, 2011, CAPREIT has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of the derivative. As a result, CAPREIT has determined that the derivative valuations in their entirety should be classified in Level 2 of the fair value hierarchy.

b) Risk management

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

Interest rate risk

CAPREIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced on terms as favourable as those of the existing indebtedness. In addition, interest on CAPREIT's bank indebtedness is subject to floating interest rates. CAPREIT is also subject to the risks associated with changes in interest rates above or below the fixed ceiling or floor, respectively, or different financing terms from the hedging derivative assumptions, which may result in the hedging relationship to be ineffective, causing volatility in earnings. For the years ended December 31, 2011 and 2010, a 100 basis point change in interest rates would have the following effect:

	Change in rates (basis points)	Increase (decrease) in net income		Increase (decrease) in OCI	
		2011	2010	2011	2010
Floating rate debt	+100	$ (1,094)	$ (1,699)	$ –	$ –
Floating rate debt	–100	$ 1,094	$ 1,699	$ –	$ –
Forward interest rate hedge	+100	$ –	$ –	$ 17,387	$ –
Forward interest rate hedge	–100	$ –	$ –	$ (19,885)	$ –
Interest rate swap agreements	+100	$ –	$ –	$ 412	$ 963
Interest rate swap agreements	–100	$ –	$ –	$ (414)	$ (978)

CAPREIT's objective of managing interest rate risk is to minimize the volatility of earnings. As at December 31, 2011, interest rate risk has been minimized, as all but $33,145 or 1.79% of mortgages payable are financed at fixed interest rates, with maturities staggered over a number of years.

Liquidity risk

Liquidity risk is the risk that CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 96.5% of CAPREIT's mortgages are CMHC-insured (excluding a $55,000 mortgage on the portfolio of MHC land lease sites), which reduces the risk of mortgage refinancings. CAPREIT's overall risk for mortgage refinancings is further reduced as the unamortized mortgage insurance premiums are transferable between approved lenders and are effective for the full amortization period of the underlying mortgages, ranging between 25 and 35 years. To mitigate the risk associated with the refinancing of maturing debt, CAPREIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAPREIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments and distributions to Unitholders, and provide future growth in its business. As at December 31, 2011, CAPREIT had undrawn lines of credit in the amount of $185,621 (December 31, 2010 – $226,663).

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at December 31, 2011 are as follows:

	2012	2013-2014	2015-2016	2017 onward
Mortgages payable	$ 288,710	$ 491,955	$ 261,801	$ 806,570
Bank indebtedness	–	74,132	–	–
Mortgage interest [1]	73,540	112,159	78,934	120,475
Bank indebtedness interest [1]	2,718	4,065	–	–
Other liabilities	72,102	2,703	–	–
Security deposits	21,261	–	–	–
Exchangeable Units	9,176	–	–	–
Distributions payable	7,448	–	–	–
	$ 474,955	$ 685,014	$ 340,735	$ 927,045

(1) Based on current in-place interest rates.

Credit risk

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

CAPREIT monitors its risk exposure regarding obligations with counterparties through the regular assessment of counterparties' credit positions.

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

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

Note 17 · Realized and Unrealized Gains and Losses on Derivative Financial Instruments

a) Contracts for which hedge accounting is no longer effective

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

CAPREIT settled these interest rate forward contracts in 2009. The associated cumulative unamortized loss of $9,908 included in AOCL at September 30, 2008 will be amortized to mortgage interest expense over the original terms of the hedged contracts. For the years ended December 31, 2011 and 2010, $1,071 and $1,096, respectively, was amortized from AOCL to mortgage interest expense and $nil and $176, respectively, was amortized from AOCL to loss on disposition of investment properties.

b) Contracts for which hedge accounting is being applied

As at December 31, 2011, CAPREIT has a $55,000 interest rate swap agreement fixing the interest rate at 5.706%, maturing in July 2012, for which hedge accounting is being applied. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a five-year term. The mark-to-market loss of $1,568 and $3,586 has been set up in other liabilities as at December 31, 2011 and December 31, 2010, respectively.

The interest rate swap agreement has been summarized as follows:

As at December 31,	2011	2010
Hedge liability, beginning of the year	$ (3,586)	$ (5,442)
Settlement of previously unrealized losses included in OCI	2,656	1,905
Change in ineffective portion included in loss on derivative financial instruments	(630)	(174)
Change in accrued mortgage interest included in interest and other financing costs	(8)	125
Hedge liability, end of the year	(1,568)	(3,586)

As at December 31,	2011	2010
Hedge liability in AOCL, beginning of the year	$ (3,687)	$ (5,592)
Settlement of previously unrealized losses included in OCI	2,656	1,905
Hedge liability in AOCL, end of the year	$ (1,031)	$ (3,687)

In June 2011, CAPREIT entered into a hedging program which effectively hedged interest rates on approximately $312,000 of mortgages maturing between September 2011 and June 2013. The maturing mortgages are expected to be refinanced on ten-year terms and will bear interest rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before credit spread. The change in the intrinsic value of the forward interest rate hedge has been included in OCI (note 20). The ineffective portion and the difference between the settled amount and the mark-to-market has been recognized in net income. As at December 31, 2011 and 2010, the mark-to-market cumulative unrealized loss of $16,349 and $nil, respectively, has been recorded in other liabilities.

The forward interest rate hedge liability has been summarized as follows:

As at December 31,	2011	2010
Hedge liability, beginning of the year	$ –	$ –
Change in intrinsic value included in OCI	(20,573)	–
Loss on derivative financial instruments	397	–
Change in fair value	3,827	–
Hedge liability, end of the year	$ (16,349)	$ –

As at December 31,	2011	2010
Hedge liability in AOCL, beginning of the year	$ –	$ –
Change in intrinsic value included in OCI	(20,573)	–
Amortization from AOCL to interest and other financing costs	33	–
Hedge liability in AOCL, end of the year	$ (20,540)	$ –

c) Natural gas contracts

Effective March 1, 2010, CAPREIT adopted a natural gas supply strategy that, in effect, converted substantially all of the fixed price natural gas commitments through October 2012 (see note 26) to spot pricing arrangements through the amendment of physical delivery contracts and the use of derivative financial instruments. The amended arrangement is comprised of a physical delivery contract at spot pricing, a floating-to-fixed derivative financial instrument with the natural gas supplier and an offsetting fixed-to-floating derivative financial instrument with a Canadian chartered bank. CAPREIT has elected not to apply hedge accounting to these derivative financial instruments, which will be marked-to-market through net income on an ongoing basis.

As a result of the amendment of the fixed price natural gas commitments, for the years ended December 31, 2011 and 2010 the inherent net loss of $nil and $4,497 has been crystallized and has been included in net income.

During the quarter ended September 30, 2010, through the use of floating-to-fixed derivative financial instruments, CAPREIT hedged a significant portion of its variable rate natural gas commitments (see note 26), which will be marked-to-market through OCI on an ongoing basis. During the first quarter of 2011, the instrument was settled.

The gains and losses on the natural gas derivative financial instruments have been summarized as follows:

Year Ended December 31,	2011	2010
Net loss on natural gas contracts included in net income during the year	$ –	$ (4,497)
Opening net loss, beginning of the year	(2,348)	–
Recovery of loss during the year included in net income	2,010	2,290
Gain (loss) on natural gas contracts included in OCI	141	(141)
Closing net loss, end of the year	$ (197)	$ (2,348)

As at December 31,	2011	2010
Gain included in other assets	$ 423	$ 1,360
Loss included in other liabilities	(620)	(3,567)
Loss included in AOCL	–	(141)
Closing net loss, end of the year	$ (197)	$ (2,348)

Note 18 · Capital Management

CAPREIT defines capital as the aggregate of Unitholders' equity, mortgages payable, bank indebtedness, Unit-based compensation financial liabilities, Exchangeable Units and other non-current liabilities. CAPREIT's objectives when managing capital are to safeguard its ability to continue to fund its distributions to Unitholders, to meet its repayment obligations under its mortgages and credit facilities, and to ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in CAPREIT's DOT and Credit Facilities.

CAPREIT's Credit Facilities (note 12) require compliance with certain financial covenants. In addition, borrowings must not exceed the borrowing base, calculated at a predefined percentage to the market value of the properties.

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

CAPREIT is in compliance with all its investment and debt restrictions and financial covenants contained in the DOT, the LBA and the Credit Facilities. The covenants were amended effective June 30, 2010 to incorporate changes made under the renewal of the Credit Facilities.

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

As at		December 31, 2011	December 31, 2010	January 1, 2010
Mortgages payable		$ 1,848,190	$ 1,633,861	$ 1,545,315
Bank indebtedness		74,132	39,358	146,891
Unit-based compensation financial liabilities		28,975	16,410	10,077
Exchangeable Units		9,176	7,050	5,783
Unitholders' equity		1,740,663	1,355,445	749,091
Total capital		$ 3,701,136	$ 3,052,124	$ 2,457,157
	Threshold			
Total debt to gross book value (1)	Maximum 70.00%	50.27%	53.09%	56.67%
Tangible net worth (2)	Minimum $700,000 (3)	$ 1,778,814	$ 1,355,445	$ 849,091
Debt service coverage ratio (times) (4)	Minimum 1.20	1.38	1.33	N/A(5)
Interest coverage ratio (times) (6)	Minimum 1.50	2.20	2.07	N/A(5)

(1) CAPREIT's DOT limits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAPREIT's total assets. GBV is defined as the historical book value of CAPREIT's assets plus fair value adjustments plus accumulated amortization on property, plant and equipment, CMHC premiums and deferred loan costs. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments.

(2) Tangible net worth is generally represented by Unitholders' Equity and is defined as the sum of: i) Units issued; ii) contributed surplus; and iii) retained earnings after adding back the provision for a) deferred income taxes payable to a maximum limit of $100,000; and b) effective July 1, 2011, Unit-based rights and compensation liabilities or assets, including Exchangeable Units. Effective June 30, 2010, this definition included the sum of accumulated depreciation and amortization and, to a maximum of $50,000, deferred taxes payable on any capital Unit-based investment transactions.

(3) Effective June 30, 2010 (January 1, 2010 – $400,000).

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

(5) This ratio is calculated on a rolling 12-month basis. As the results for the 12-month period ended January 1, 2010 are primarily under Canadian GAAP, the ratio is not calculated on a comparable basis to IFRS and is therefore not disclosed. Actual results may be found in CAPREIT's 2010 Annual Report.

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

Note 19 · Deferred Income Taxes

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

Certain real estate investment trusts that satisfy specified conditions (the "REIT Exception"), including a condition that the trust not exceed the Normal Growth Guidelines, are excluded from the SIFT definition and therefore will not be subject to taxation under the SIFT Rules. As CAPREIT did not meet the REIT Exception prior to January 1, 2010, deferred income tax liability in the amount of $440,507 was recorded as at that date, based on the temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes. As at December 31, 2010, CAPREIT qualified for the REIT Exception and is therefore not subject to taxation as a SIFT. As a result, the non-cash deferred tax liability was reversed at December 31, 2010. The change in the deferred income tax liability has been recorded as a recovery to the consolidated statements of income and comprehensive income in the amount of $435,733 for the year ended December 31, 2010 and a recovery to other comprehensive income for $4,774 relating to the unrealized loss on derivative financial instruments and interest rate swap agreements. CAPREIT is not currently taxable and, accordingly, no current income taxes have been recorded for 2011 and 2010. Comparative deferred income tax amounts are calculated using the substantively enacted SIFT tax rate applicable as at the reporting date.

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

For the Year Ended December 31,	2011	2010
Current income taxes at Canadian statutory tax rate	$ –	$ –
Recovery relating to OCI	–	(4,774)
Provision for changes in substantively enacted tax rates for OCI	–	–
Provision for changes in substantively enacted tax rates	–	–
Recovery related to timing differences expected to reverse [(1)]	–	(435,733)
Deferred income tax recovery	$ –	$ (440,507)

(1) Includes impact of acquisitions and dispositions.

The deferred income tax liability is as follows:

As at	December 31, 2011	December 31, 2010
Balance, beginning of the year	$ –	$ 440,507
Recovery relating to OCI	–	(4,774)
Recovery [(1)]	–	(435,733)
Balance, end of the year	$ –	$ –

(1) Includes impact of acquisitions and dispositions.

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

As at	December 31, 2011	December 31, 2010	January 1, 2010
Carrying value in excess of tax base of investment properties	$ –	$ –	$ (429,221)
Relating to OCI	–	–	(4,774)
Other	–	–	(6,512)
Deferred income tax liability, end of the year	$ –	$ –	$ (440,507)

The tax component of each item in OCI is as follows:

As at	December 31, 2011	December 31, 2010	January 1, 2010
Loss on interest rate swap agreements	$ –	$ –	$ (966)
Loss on amounts designated as cash flow hedges settled in prior years and transferred to mortgage interest expense	–	–	(3,808)
	$ –	$ –	$ (4,774)

Note 20 · Accumulated Other Comprehensive Loss

Year Ended December 31,	2011	2010
AOCL balance, beginning of year	$ (11,085)	$ (24,424)
Amortization from AOCL to interest and other financing costs [(1)]	1,052	1,152
Settlement on derivative financial instruments (note 17(b))	2,656	1,905
Settlement on derivative financial instruments (note 17(c))	141	–
Change in intrinsic value of derivative financial instruments (note 17(b))	(20,573)	–
Change in fair value of derivative financial instruments (note 17(c))	–	(141)
Change in fair value of investments	3,799	5,649
Recovery of deferred income taxes	–	4,774
Other comprehensive (loss) income	(12,925)	13,339
AOCL balance, end of year	$ (24,010)	$ (11,085)

	December 31, 2011	December 31, 2010	January 1, 2010
AOCL comprised of:			
Loss on derivative financial instruments			
Cumulative realized loss [(1)]	$ (9,908)	$ (9,908)	$ (9,908)
Accumulated amortization to interest and other financing costs	2,935	1,864	592
Unamortized balance of loss on cash flow hedges previously settled	(141)	(89)	31
Loss on interest rate swap agreements	(1,031)	(3,687)	(5,592)
Loss on forward interest rate hedge [(2)]	(20,573)	–	–
Accumulated amortization to interest and other financing costs	33	–	–
Loss on natural gas hedges	–	(141)	–
Provision for deferred income taxes	–	–	(4,774)
Change in fair value of investments	4,675	876	(4,773)
AOCL balance, end of year	$ (24,010)	$ (11,085)	$ (24,424)

(1) The cumulative realized loss on derivative financial instruments aggregating $9,908 before taxes will be amortized as mortgage interest expense to net income over periods ending in December 2014 to September 2022, being the original terms of the hedged contracts. The estimated amount of the amortization that is expected to be reclassified to net income from AOCL in the next 12 months is $1,077. For the year ended December 31, 2010, $1,096 was amortized to mortgage interest and $176 was amortized to loss on disposition of investment properties.

(2) The cumulative realized loss on the forward interest rate hedge aggregating $2,934 before taxes will be amortized as mortgage interest expense to net income over the next ten years. The estimated amount of the amortization that is expected to be reclassified to net income from AOCL in the next 12 months is $294.

Note 21 · Severance and Other Employee Costs

In the years ended December 31, 2011 and 2010, $1,352 and $736 of severance and other employee costs were incurred. 2011 includes the costs related to the departure of the former Chief Financial Officer.

Note 22 · Interest and Other Financing Costs

Year Ended December 31,	2011	2010
Interest on mortgages payable [(1)]	$ 80,634	$ 78,083
Amortization of CMHC premiums and fees	2,199	2,032
Interest on bank indebtedness and deferred loan costs	5,793	7,417
Interest on Exchangeable Units	444	444
	$ 89,070	$ 87,976

(1) Including amortization of deferred financing costs, fair value adjustments and OCI hedge interest.

Note 23 · Co-ownerships

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

Year Ended December 31,	2011	2010
Assets	$ 141,670	$ 126,758
Liabilities	70,484	70,051
Revenues	14,419	14,083
Expenses	(1,937)	8,345
Net income	16,356	5,738
Cash Provided By (Used In):		
Operating activities	$ 4,902	$ 4,544
Financing activities	$ (2,260)	$ (3,231)
Investing activities	$ (3,530)	$ (1,760)

Note 24 · Supplemental Cash Flow Information

a) Net income items related to investing and financing activities

Year Ended December 31,	2011	2010
Dividend interest income on investments	$ (1,899)	$ (1,854)
Interest paid on Exchangeable Units	444	444
Interest paid on mortgages payable	77,447	76,000
Interest paid on bank indebtedness	5,241	6,495
	$ 81,233	$ 81,085

b) Changes in non-cash operating assets and liabilities

Year Ended December 31,	2011	2010
Prepaid expenses	$ 75	$ (127)
Tenant inducements and direct leasing costs	77	(97)
Other receivables	2,274	(30)
Other assets	(1,270)	(1,053)
Deposits on purchases	245	579
Deposits	51	(27)
Accounts payable and other liabilities	(3,965)	(2,236)
Security deposits	2,090	1,160
	$ (423)	$ (1,831)

c) Net cash distributions to Unitholders

Year Ended December 31,	2011	2010
Distributions declared to Unitholders	$ (82,816)	$ (72,230)
Add: Distributions payable at beginning of year	(6,678)	(5,930)
Less: Distributions payable at end of year	7,448	6,678
Less: Distributions to participants in the DRIP	15,908	8,544
	$ (66,138)	$ (62,938)

d) Capital investments

Year Ended December 31,	2011	2010
Capital investments	$ (119,226)	$ (84,381)
Change in accounts payable and other liabilities	1,890	5,991
	$ (117,336)	$ (78,390)

e) Acquisition of investment properties

Year Ended December 31,		2011		2010
Acquired properties	$	(321,524)	$	(118,672)
Fair value adjustment of assumed debt		3,962		776
Assumed debt		47,026		23,438
Net disbursement	$	(270,536)	$	(94,458)

f) Disposition of investment properties

Year Ended December 31,		2011		2010
Proceeds	$	5,975	$	74,680
Closing costs		(249)		(5,891)
Mortgages assumed by purchasers and discharged		(2,117)		–
Net proceeds	$	3,609	$	68,789

Note 25 · Related Party Transactions

a) CAPREIT incurred the following transactions with key management personnel and trustees. The loans outstanding from key management personnel and trustees for indebtedness relating to the SELTIP and LTIP at December 31, 2011 were $8,455 and $13,742, respectively (December 31, 2010 – $8,630 and $15,128, respectively). These amounts are taken into consideration when calculating the fair value of the Unit-based compensation financial liabilities. Key management personnel are eligible to participate in the EUPP. In addition, certain key management personnel also participate in the RUR and trustees currently participate in the DUP. Pursuant to employee contracts, key management personnel are subject to termination benefits that entitle them to payments up to 36 months of benefits (based on base salary, bonus and other benefits) depending on cause.

Key management personnel and trustee compensation included in the consolidated statements of income and comprehensive income is comprised of:

For the Year Ended December 31,		2011		2010
Short-term employee benefits (1)	$	4,857	$	3,123
Unit-based compensation — grant date amortization		1,512		1,176
Unit-based compensation — fair value remeasurement		7,690		3,354
Total	$	14,059	$	7,653

(1) 2011 includes $1,266 in costs related to the departure of the former Chief Financial Officer included in severance and other employee costs.

b) CAPREIT has entered into construction management agreements with a company that is owned by two trustees and officers of CAPREIT to provide construction management services (based on 4.5% of construction costs up to $20,000, 3% for the next $15,000 and 1% thereafter) to carry out the capital improvements for the properties. The total construction management fees for the years ended December 31, 2011 and 2010 (excluding reimbursable expenses of $651 and $576 and HST/GST) were $1,671 and $1,464, respectively, and have been capitalized to income properties. At December 31, 2011, there were construction management fees outstanding of $89 (December 31, 2010 – $72) in accounts payable and other liabilities.

CAPREIT has a lease for office space with a company in which one of the trustees and officers has an 18% beneficial interest. The rent paid for the office space (which is based on fair market rents at the date the lease was entered into) for the years ended December 31, 2011 and 2010 was $785 and $730, respectively, including property operating costs, and has been expensed as trust expenses. During the third quarter of 2011, the above lease was amended for additional office space resulting in minimum annual rental payments increasing by $51. There is no change to the lease expiry date. The lease agreement expires on October 31, 2014. Minimum annual rental payments for the next three years are as follows:

		2012		2013		2014
Minimum annual rent	$	458	$	458	$	382

Note 26 · Commitments

Natural gas and hydro

Through the combination of fixed and variable price contracts, CAPREIT is committed as at December 31, 2011, in the aggregate amount of $7,510 for its natural gas requirements. These commitments, which range from one to two years, fix the price of natural gas for a portion of CAPREIT's natural gas and transport requirements at an average cost per gigajoule of $3.73 and $3.39, representing 53.43% and 18.16%, respectively, of CAPREIT's estimated expected requirements for 2012 and 2013.

During 2009, CAPREIT entered into hydro purchase agreements to fix future rates for its Alberta properties. Rates have been fixed for CAPREIT's Edmonton and Calgary properties for the periods covering May 1, 2011 to April 30, 2014 and March 1, 2011 to February 28, 2014, respectively. The purchase agreements are own use commitments with no minimum quantity requirement.

Land Leasehold Interests

Three of the properties have ground leases with various expiry dates (subject to revisions at periodic intervals) between March 31, 2045 and March 31, 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. During the years ended December 31, 2011 and 2010, total expenses under these three leases were $2,272 and $2,336, respectively.

In addition, CAPREIT has two leasehold interests, expiring on September 30, 2013 and May 31, 2014, in land parcels used in conjunction with two of its existing freehold properties. Total expenses under these two leases during the years ended December 31, 2011 and 2010 were $22 and $19, respectively.

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

	2012	2013	2014	2015	2016	Thereafter
Minimum annual rent	$ 1,290	$ 1,287	$ 1,274	$ 1,273	$ 1,273	$ 42,693

Property capital investments

Commitments primarily related to capital investments in investment properties of $12,034 were outstanding as at December 31, 2011 (December 31, 2010 – $13,624).

Note 27 · Contingencies

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

Note 28 · Subsequent Events

Subsequent to the year end, CAPREIT disposed of a 136-suite mid-tier property in the Greater Toronto Area for a sale price of $17,500. The mortgage of approximately $9,500 was discharged and the balance applied to pay down the Acquisition and Operating Facility. The transaction was completed on February 22, 2012.

Effective January 1, 2012, CAPREIT terminated its construction management agreement with the related party (note 25 (b)) and has entered into a new construction management agreement with a non-related party on substantially similar terms.

Five Year Review

($ Thousands, except where noted)

	Reporting Under IFRS		Reporting Under Canadian GAAP		
For the Years Ended December 31,	**2011**	**2010**	**2009**	**2008**	**2007**
Operating Revenues [1]	$ 361,955	$ 338,959	$ 321,159	$ 310,563	$ 284,417
Net Operating Income ("NOI") [1]	$ 206,157	$ 190,339	$ 174,432	$ 168,336	$ 151,083
Net Operating Income Margin (%) [1]	57.0	56.2	54.3	54.2	53.1
Net (Loss) Income [2]	$ 316,172	$ 529,048	$ 15,716	$ (3,477)	$ (50,196)
Income from Discontinued Operations [3]	–	–	$ 705	$ 17,770	$ 1,545
Normalized Funds From Operations ("NFFO")	$ 103,875	$ 92,026	$ 83,380	$ 80,993	$ 72,295
Cash Distributions	$ 86,054	$ 75,526	$ 73,805	$ 72,754	$ 66,802
NFFO Payout Ratio (%)	82.8	82.1	88.5	89.8	92.4
Non-taxable Distributions (%)	87.0	72.5	99.9	56.1	89.8
Normalized Funds From Operations ("NFFO") Per Unit – Basic	$ 1.357	$ 1.371	$ 1.263	$ 1.238	$ 1.197
Cash Distributions Per Unit	$ 1.080	$ 1.080	$ 1.080	$ 1.080	$ 1.080
Weighted Average Number of Units (000s)	76,538	67,130	66,016	65,412	60,387
Number of Suites and Sites – Total	31,014	28,947	28,916	28,892	29,111
Number of Suites and Sites – CAPREIT's share	29,859	27,792	27,761	27,737	28,348
Income Properties [4]	$ 3,713,737	$ 3,049,980	$ 2,148,761	$ 2,135,921	$ 2,043,570
Unitholders' Equity	$ 1,740,663	$ 1,355,445	$ 457,184	$ 485,933	$ 584,281
Overall Portfolio Occupancy (%) [1]	98.5	98.4	98.1	98.5	98.0
Mortgage Debt to Gross Book Value (%)	48.3	51.8	57.3	57.1	57.5
Interest Coverage (times)	2.20	2.07	2.06	2.06	1.94
Weighted Average Mortgage Interest Rate (%) [5]	4.48	4.82	5.07	5.30	5.37
Weighted Average Mortgage Term (years)	5.7	4.9	5.1	5.0	5.5
Cumulative Compounded Return (%)	614	417	294	306	284
Unit Price at End of Year	$ 22.31	$ 17.14	$ 14.06	$ 15.74	$ 16.03

(1) 2009, 2008 and 2007 have been restated for discontinued operations.

(2) 2010, 2009, 2008 and 2007 include a (recovery of) provision for future income taxes of ($435,733), ($9,568), $9,134 and $51,789.

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

(4) 2009, 2008 and 2007 have been restated to exclude assets held for sale.

(5) Includes deferred financing costs and fair value adjustments.

Unitholder Information

Board of Trustees

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Maria Amaral
Chief Accounting Officer

Corinne Pruzanski
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Corporate Secretary

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Auditors
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Legal Counsel
Stikeman Elliott LLP

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

Monthly Distribution per Unit
January 2011—December 2011:
$0.09

Annual Meeting of Unitholders

The Annual Meeting of Unitholders will be held at 4:30 p.m. EDT on Wednesday, May 16, 2012 at
1 King West Hotel
1 King Street West
Toronto, Ontario M5H 1A1

www.capreit.net