CAPREIT 2012 Annual Report **A Record Year**

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.

Management Team

Thomas Schwartz
President and
Chief Executive Officer

Mark Kenney
Chief Operating Officer

Maria Amaral
Chief Accounting Officer

Corinne Pruzanski
General Counsel and
Corporate Secretary

Scott Cryer
Chief Financial Officer

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 and maximize earnings and cash flow potential.

Operating Highlights

- Acquired 6,984 suites and sites for total costs of $791.3 million
- Raised net proceeds of $345.3 million through two successful bought-deal equity offerings
- Stabilized NOI up 4%, marking over six years of consistent quarterly same property NOI growth
- NFFO up 27.6%
- NFFO per Unit up 9.5%, showing strong accretive growth
- NFFO payout ratio improved to 76.4%
- Monthly cash distributions increased 3.7%
- Occupancies remained at near-full levels, with stable increases in average monthly rents

Record Growth, Record Performance, Record Outlook

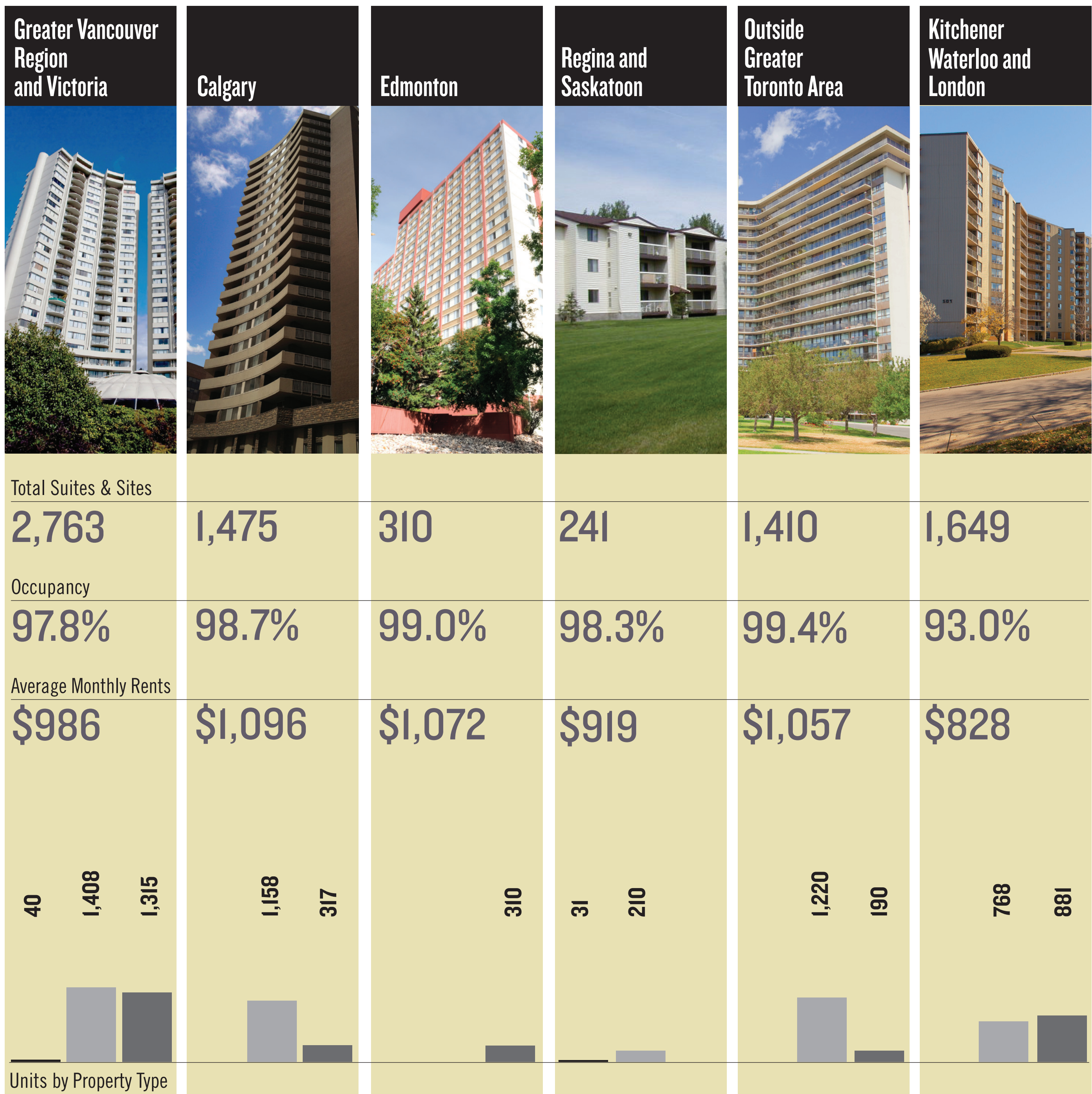
($ THOUSANDS, EXCEPT AS NOTED)

Year ended December 31,		2012		2011
Portfolio Performance				
Overall Portfolio Occupancy [1]		97.9%		98.5%
Overall Portfolio Average Monthly Rents [1]	$	975	$	991
Operating Revenues ($000s)	$	412,421	$	361,955
NOI ($000s)	$	237,916	$	206,157
NOI Margin		57.7%		57.0%
Operating Performance [2]				
FFO Per Unit – Basic	$	1.448	$	1.322
NFFO Per Unit – Basic	$	1.486	$	1.357
Weighted Average Number of Units – Basic (000s)		89,215		76,538
Cash Distributions Per Unit	$	1.097	$	1.080
FFO Payout Ratio		78.4%		85.0%
NFFO Payout Ratio		76.4%		82.8%
Liquidity and Leverage				
Total Debt to Gross Book Value [1]		47.25%		50.27%
Total Debt to Gross Historical Cost [1], [3]		56.71%		58.55%
Weighted Average Mortgage Interest Rate [1]		3.87%		4.48%
Weighted Average Mortgage Term (years) [1]		5.4		5.7
Debt Service Coverage (times) [4]		1.52		1.38
Interest Coverage (times) [4]		2.51		2.20
Available Liquidity – Acquisition and Operating Facility ($000s) [1]	$	126,296	$	185,621
Other				
Number of Suites and Sites Acquired		6,984		2,660
Number of Suites Disposed		773		143
Closing Price of Trust Units [1]	$	24.90	$	22.31
Market Capitalization ($millions) [5]	$	2,550	$	1,914

(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.
(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.

High Quality Locations

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



UP

Affordable
Mid-Tier
Luxury

	Greater Toronto Area (GTA)	Ottawa	Greater Montréal Region	Québec City	Halifax	TOTAL
Total Suites & Sites	15,728	1,527	4,436	2,728	1,588	**33,855**
Occupancy	98.5%	99.9%	96.1%	97.5%	96.0%	**97.8%**
Average Monthly Rents	$1,134	$913	$846	$907	$1,012	**$1,030**

Units by Property Type

	Greater Toronto Area (GTA)	Ottawa	Greater Montréal Region	Québec City	Halifax	TOTAL
Affordable	1,277		617		505	2,470
Mid-Tier	9,506	1,527	1,541	834		18,172
Luxury	4,945		2,278	1,894	1,083	13,213

Manufactured Home Communities

In 2012 we extended our presence in the strong manufactured home communities business with the purchase of 2,032 sites in Ontario, Saskatchewan, Alberta and British Columbia.

	British Columbia	Alberta	Saskatchewan	Ontario	TOTAL
Total Units	130	318	246	2,676	**3,370**
Occupancy	97.7%	97.2%	99.2%	99.6%	**99.2%**
Average Monthly Rents	$383	$348	$292	$466	**$439**

British Columbia

Gibson
- The Poplars

Alberta

Slave Lake
- Lynwood Gardens

Whitecourt
- Evergreen Village
- Hillpark Estates

Saskatchewan

Saskatoon
- Sunset Estates

Ontario

Beamsville
- Golden Horseshoe Estates

Grand Bend
- Grand Cove

Newcastle
- Wilmot Creek

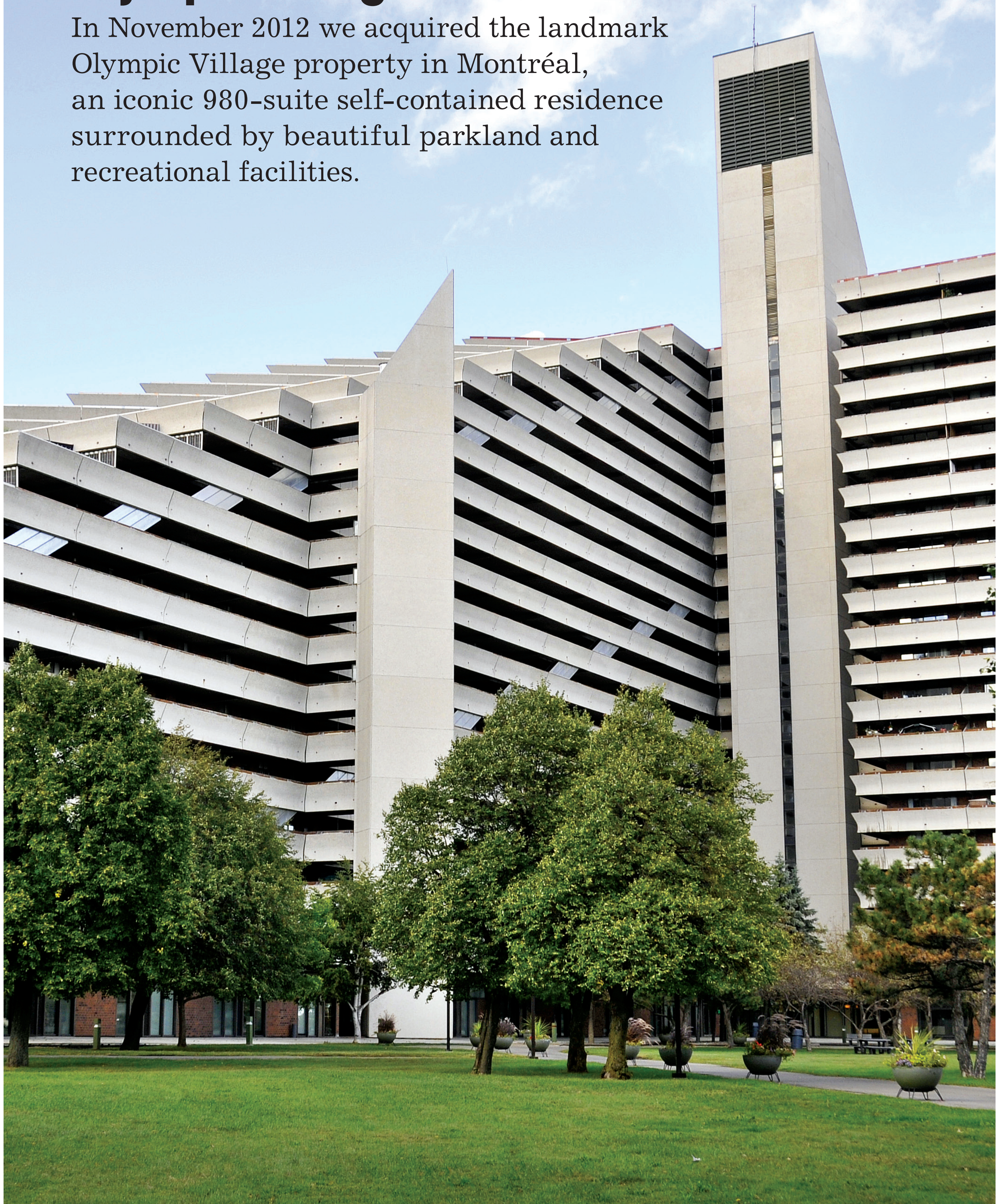
Orillia
- Fergushill Estates
- Parkside Estates
- Silver Creek Estates

Sarnia
- Green Haven Estates

Trenton
- Bayview Estates
- Sunny Creek Estates

Olympic Village

In November 2012 we acquired the landmark Olympic Village property in Montréal, an iconic 980-suite self-contained residence surrounded by beautiful parkland and recreational facilities.



Report to Unitholders

2012 was our most active year to date, as we generated record growth and record operating and financial performance. With the significant expansion and enhanced diversification of our property portfolio, the proven success of our asset and property management strategies, and the continuing strong fundamentals in the Canadian residential rental real estate sector, we expect this record performance will continue in the years ahead.

Record Growth

During 2012 we accretively acquired a remarkable 6,934 apartment and townhouse suites and manufactured home communities land lease sites. Typically our goal is to expand the portfolio by between 1,500 and 2,000 suites per year, but in 2012 we were presented with a significant number of compelling property and portfolio investment opportunities that we are confident will be accretive over the long-term and add real value for our Unitholders.

A key transaction was the purchase of a portfolio of 3,562 apartment and townhouse suites in fourteen buildings completed on June 29, 2012. Well-located in the Greater Toronto Area, Southwestern Ontario, Montréal, Québec City and Halifax, the new acquisitions are generally located close to existing properties in our portfolio, and fit very well with our geographic, demographic and quality criteria. We paid approximately $461.4 million for the properties, which was satisfied by the assumption of approximately $183.9 million in assumed mortgages and $277.5 million from a successful bought-deal equity offering, with the balance in cash from our Acquisition and Operating Credit Facility. The new portfolio is already benefiting from our hands-on property management, procurement and energy management programs, and we expect to see growing cash flows from the properties going forward.

Another key acquisition was the purchase of Olympic Village in Montréal on November 1, 2012. This iconic luxury property consists of 980 residential suites and 237,000 square feet of commercial and retail space in unique twin 21-storey pyramid towers on 25 acres of landscaped parkland. Originally constructed as the athletes' residence for the 1976 Summer Olympic Games, the property is now a landmark luxury residential complex offering an exceptional living and work environment. The self-contained community provides residents with an urban setting surrounded by beautiful parkland and recreational space only seven kilometers from downtown Montréal. It sits next to a municipal golf course and is adjacent to the Montréal Botanical Gardens, the 65-acre Maisonneuve Park and the famous Olympic Park housing the Olympic Stadium, Aréna Maurice-Richard, the Biodome and a new multi-screen movie theatre. We paid $183.5 million for the property, satisfied by the assumption of an

Jodi Lieberman	**David Cohen**	**Perry Rose**	**Trish MacPherson**	**Maggie Chin-Sang**	**Nadia Georgis**
VP of Human Resources	VP of Information Technology	VP of Procurement	VP of Sales and Marketing	VP of Business Process Improvement	VP of Accounting

existing $82.0 million mortgage and the balance in cash.

Earlier in June we significantly strengthened our presence in the Canadian manufactured home communities ("MHC") business with the acquisition of a large and well-established national portfolio of 12 properties totalling 2,032 land lease sites in Ontario, Saskatchewan, Alberta and British Columbia. We paid approximately $76.3 million, including all community services and amenities, satisfied by the assumption of $37.8 million in existing mortgages with the balance from another successful bought-deal equity offering.

Our experience has been very positive since we entered the MHC business in July 2007. Residents own their home and enter into a lease agreement for the lot on which it is located for a monthly rental charge, and are responsible for all of their utility costs. As a result, the properties generate secure and stable long-term cash flows and experience high occupancies, steady increases in average monthly rents, and low capital and maintenance costs. Our MHC properties now represent just under 10% of our total portfolio.

As at December 31, 2012, our portfolio totals interests in 37,225 apartment suites and land lease sites well diversified by property type and across all major urban geographic markets in Canada. Looking ahead, in the near term we expect our portfolio growth will return to more historic levels as we consolidate the record growth generated in 2012 and our new properties benefit from our proven asset and property management programs.

Record Performance

With the record growth in our property portfolio, the positive impact of our property management programs, and the continuing strong fundamentals in the Canadian multi-residential rental business, we generated record operating and financial results across all of our key performance benchmarks in 2012. Operating revenues rose by a significant 13.9%, the result of contributions from acquisitions, continuing high stable occupancies, and an increase in average monthly rents. Ancillary revenues, including parking, laundry, communications services and antenna rentals, and excluding non-recurring items in 2011, also made a strong contribution, rising 12.0% in 2012 compared to the prior year.

Our focus on keeping our buildings full resulted in average occupancies remaining at nearly-full levels of 97.9% at year-end, while average monthly rents in our apartment properties increased 2.1% to $1,030 per suite. In addition to our effective property management programs, in 2012 we benefited from higher rent increase guidelines in Ontario and British Columbia. In 2013 rent increase guidelines have been set at 2.5% and 3.8% respectively. Average monthly rents in our MHC portfolio declined in 2012 due to the majority of properties acquired during the year being located in affordable geographic regions.

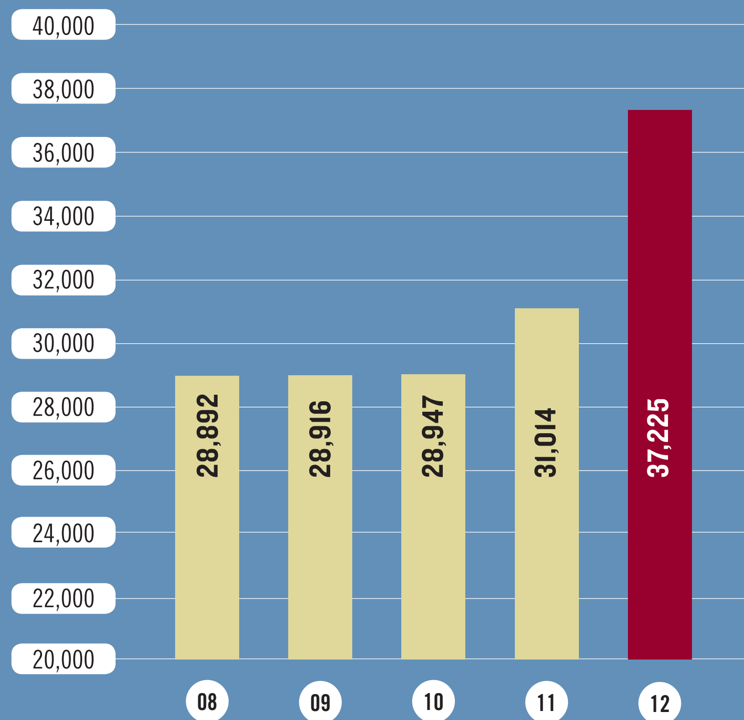
With this increase in operating revenues, combined with our relentless focus on managing our costs, our Net Operating Income ("NOI") margin improved to 57.7% from 57.0% last year, with Normalized Funds From Operations ("NFFO"), our key performance benchmark, up 27.6% to $132.6 million, or $1.49 per Unit. Importantly, our payout ratio of distributions declared to NFFO further strengthened to 76.4% from 82.8% last year.

While acquisitions made a strong contribution to our results, we are also generating solid organic growth as NOI from our stabilized properties

Record Growth

With a market capitalization of $2.55 billion, today CAPREIT's portfolio fair value exceeds $4.8 billion*

*as at December 31, 2012



increased 4.0% in 2012, the sixth consecutive year we have generated stable or improved quarterly growth in our same-property NOI, a significant track record in our industry.

Despite the record growth generated in 2012, we continue to possess one of the strongest and most conservative balance sheets in our business. Our total debt to gross book value ratio was a conservative 47.3% at year-end, well within our guidelines and a solid improvement over the 50.3% at the end of last year. Our mortgage portfolio remained well balanced with the weighted average interest rate declining to 3.87% at December 31, 2012 from 4.48% last year. During 2013 we expect to raise between $575 million and $625 million in mortgage renewals and refinancings, and expect to complete these renewals at lower interest rates than the maturing debt, generating further cost savings over the long term.

Largely to finance our growth, during 2012 we successfully completed two bought-deal equity offerings issuing a total of 15.5 million Trust Units, including over-allotment options, for aggregate gross proceeds of approximately $361.2 million. It is important to note that, despite the 17.0% increase in the weighted average number of Units outstanding at December 31, 2012 compared to the prior year, our growth was significantly accretive as NFFO per Unit rose a solid 9.5%. At year end we maintained a very strong liquidity position with available financing capacity of over $126.3 million, providing us with the resources and flexibility to act on further accretive growth opportunities going forward.

With our record growth and performance in 2012, and our highly positive outlook on our future, we were very pleased to implement a 3.7% increase in monthly cash distributions in August, to $1.12 per Unit annually, our ninth increase in fifteen years and a reflection of our commitment to enhancing Unitholder value over time.

Record Outlook

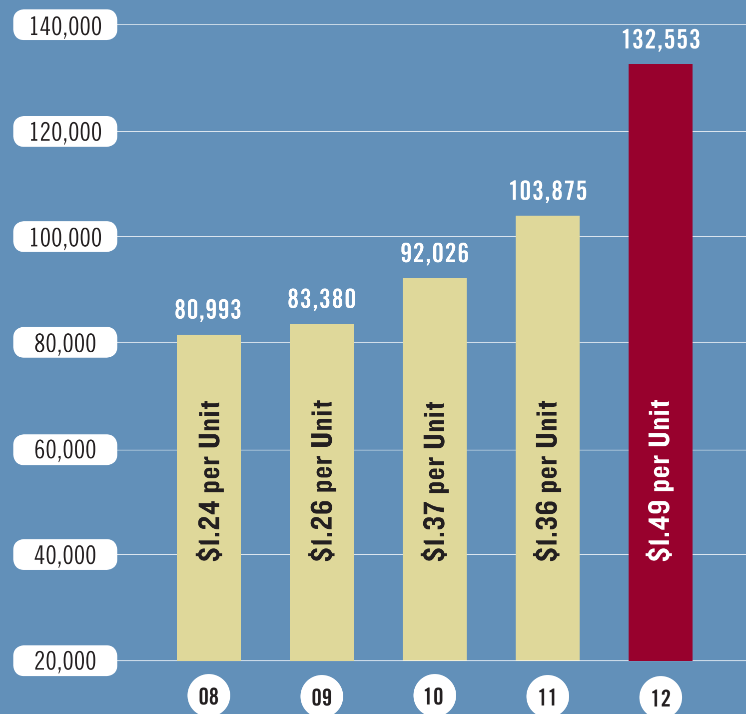
Looking ahead, we believe 2013 will be an even better year. With the majority of our major acquisitions occurring mid-way through 2012, we will profit from a full year's contribution from these new properties. In addition, we expect to see improved performance from these properties as they benefit from our proven property management, procurement and energy management programs. Portfolio growth will also continue, although we believe at more historic levels than during the past two years. In addition, fundamentals in the Canadian rental residential sector remain very strong, with solid demand in all of our key urban markets resulting in nearly full occupancies and rising average monthly rents. We are more confident than ever before in our future, and look for continued growth and enhanced performance for years to come.

Thomas Schwartz
President and Chief Executive Officer

Michael Stein
Chairman

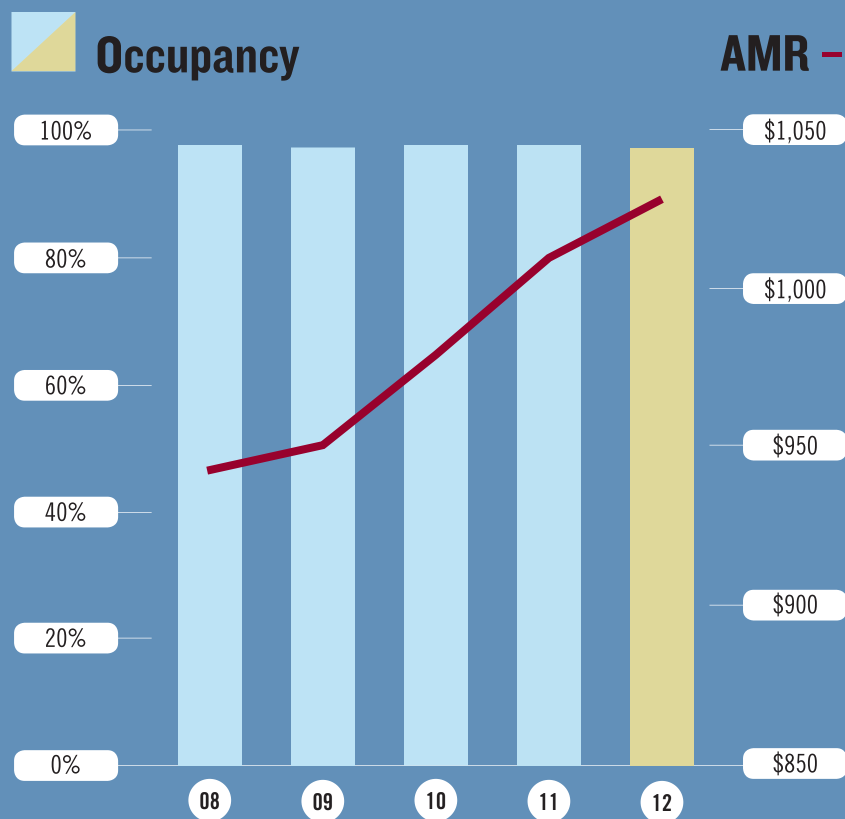
Record Performance

Despite the 17.0% increase in the weighted average number of Units outstanding in 2012, CAPREIT's growth has been highly accretive, with NFFO per Unit rising 9.5%



Record Outlook

Since inception, CAPREIT has demonstrated stable, nearly full occupancy levels with consistent, sustainable increases in average monthly rents



FINANCIAL REPORTING

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECTION I
13 Forward-Looking Disclaimer
14 Non-IFRS Financial Measures
14 Overview
16 Objectives
16 Business Strategy
17 Key Performance Indicators
18 Performance Measures
19 Property Portfolio
21 Investment Properties

SECTION 2
23 Average Monthly Rents and Occupancy
26 Results of Operations
28 Net Operating Income
29 Stabilized Portfolio Performance
30 Net Income and Other Comprehensive Income (Loss)
32 Other Comprehensive Income ("OCI")

SECTION 3
33 Non-IFRS Financial Measures

SECTION 4
36 Property Capital Investments
37 Productive Capacity
38 Capital Structure
39 Liquidity and Financial Condition
44 Unitholder Taxation

SECTION 5
44 Selected Consolidated Quarterly Information
45 Selected Consolidated Financial Information

SECTION 6
45 Accounting Policies and Critical Estimates
47 Controls and Procedures

SECTION 7
48 Risks and Uncertainties
55 Related Party Transactions
55 Commitments and Contingencies

SECTION 8
56 Subsequent Event
56 Future Outlook

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

58 Management's Responsibility for Financial Statements
59 Independent Auditor's Report
60 Consolidated Balance Sheets
61 Consolidated Statements of Income and Comprehensive Income (Loss)
62 Consolidated Statements of Unitholders' Equity
63 Consolidated Statements of Cash Flows
64 Notes to Consolidated Financial Statements
92 Five-Year Review

Management's Discussion and Analysis

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, 2012 should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2012.

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 taxes and provincial sales taxes, 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 flows from operating activities determined in accordance with IFRS as indicators of CAPREIT's performance.

OVERVIEW

CAPREIT is an unincorporated open-ended publicly-traded real estate investment trust and one of Canada's largest residential landlords, serving over 35,000 families across the country. CAPREIT owns and operates a portfolio of multi-unit residential rental properties, including apartments, townhomes and manufactured home communities located in and near major urban centres. CAPREIT's concentration on the residential real estate market is aimed at generating solid year-over-year income growth in a portfolio with stable occupancy and rising average monthly rents. In addition, CAPREIT mitigates concentration risk through demographic diversification by operating properties across the affordable, mid-tier and luxury sectors, as well as through geographic diversification across Canada.

CAPREIT's vision is to be the premier residential real estate landlord in Canada, the landlord and employer of choice, and the investment of choice in its industry.

CAPREIT's mission is to attract the best tenants and the best employees, acquire the best properties and generate sustainable and profitable growth for Unitholders.

Established in 1997, CAPREIT has grown by acquiring properties at prices below their replacement cost, primarily in large urban rental markets with high employment and close to public facilities such as schools, libraries and hospitals. CAPREIT focuses on acquisitions deemed accretive to growth and employing successful operational strategies aimed at long-term ownership. This focus has contributed to growing net operating income, Normalized Funds From Operations and value for Unitholders.

2012 was a significant year of growth for CAPREIT with an almost 20% increase in its portfolio, having acquired 4,947 residential suites in 14 properties across Canada and 2,037 land lease sites in 14 manufactured home communities. In the same period, pursuant to its strategy to dispose of non-core assets from time to time, CAPREIT sold 773 non-core residential suites. The acquisitions completed in 2012 have strengthened the portfolio geographically. The acquisition of new manufactured home communities has increased CAPREIT's base in a profitable sector of residential real estate, which Management believes will provide CAPREIT with accretive growth in the long term.

CAPREIT was established under the laws of the Province of Ontario by a declaration of trust (the "DOT") dated February 3, 1997, as most recently amended and restated on November 13, 2009. As at December 31, 2012, CAPREIT had owning interests in 37,225 residential units, comprised of 33,855 residential suites, and 14 manufactured home communities ("MHC"), comprised of 3,370 land lease sites. As at December 31, 2012, CAPREIT had 829 employees (778 employees as at December 31, 2011).

The tables below summarize property acquisitions and dispositions for the years ended December 31, 2012 and 2011:

Acquisitions Completed During the Year Ended December 31, 2012

($ THOUSANDS)	DEMOGRAPHIC SECTOR	SUITE OR SITE COUNT	REGION(S)	TOTAL ACQUISITION COSTS	MORTGAGE FUNDING	INTEREST RATE	MORTGAGE MATURITY DATE
May 31, 2012	MHC	2,032	Various [1]	$ 76,324	$ 37,753 [2]	5.33% [2]	— [2]
June 29, 2012	Mixed [3]	3,562	Various [3]	461,428	183,939 [4]	3.99% [4]	— [4]
July 19, 2012	MHC [5]	5	Bowmanville and Grand Bend	499	— [6]	— [6]	— [6]
August 31, 2012	Mid-tier [7]	405	Calgary	69,501	31,208 [8]	3.38% [8]	— [8]
November 1, 2012	Luxury	980	Montréal	183,516	82,048	4.39%	September 1, 2013
Total		6,984		$ 791,268	$ 334,948		

(1) The acquisition comprised 12 manufactured home communities ("MHC") consisting of 2,032 land lease sites located in Ontario, Saskatchewan, Alberta and British Columbia.

(2) Mortgages assumed on acquisition comprise $37,753 at a weighted average term to maturity of 3.0 years, at a weighted average stated interest rate of 5.33%.

(3) The acquisition comprised 14 properties consisting of 3,562 suites (1,027 affordable, 1,403 mid-tier, and 1,132 luxury suites) located in Ontario, Québec, and Nova Scotia.

(4) Mortgages assumed on acquisition comprise $183,939 at a weighted average term to maturity of 2.6 years, at a weighted average stated interest rate of 3.99%.

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

(6) The acquisition was funded from CAPREIT's Acquisition and Operating Facility (see Liquidity and Financial Condition section).

(7) The acquisition comprised two mid-tier properties. One property is a fee simple interest, and the other is a land leasehold interest.

(8) Mortgages assumed on acquisition comprise $13,405 maturing on January 1, 2014, and $17,803 maturing on September 1, 2014, at a weighted average stated interest rate of 3.38%.

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	47,026 [2]	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	Greater Montréal Region	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 comprise $35,256 maturing on December 1, 2026, and $11,770 maturing on December 1, 2016, at a weighted average stated interest 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).

Dispositions Completed During the Year Ended December 31, 2012

($ THOUSANDS)	DEMOGRAPHIC SECTOR	SUITE COUNT	REGION(S)	SALE PRICE	CASH PROCEEDS	MORTGAGE DISCHARGED
February 22, 2012	Mid-tier	136	GTA	$ 17,500	$ 7,726	$ 9,485
May 31, 2012	Luxury	199	GTA	33,500	17,974	15,030
October 31, 2012	Various [(1)]	438	Various [(1)]	60,700	29,944	29,018
Total		773		$ 111,700	$ 55,644	$ 53,533

(1) The disposition comprised 5 properties consisting of 438 suites (270 mid-tier and 168 luxury suites) located in Mississauga, Oakville and Toronto, Ontario.

Disposition 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

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, 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 resource 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 56% to 58% 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 NFFO payout ratio of between 85% and 90%.

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 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 bridge loan ("Bridge Loan") (collectively, the "Credit Facilities", as described under Liquidity and Financial Condition 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, 2012 and 2011. Management believes that these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. Effective September 2012, monthly cash distributions declared to Unitholders increased to $0.093 per Unit, compared to $0.090 per Unit, previously.

YEAR ENDED DECEMBER 31,	2012	2011
Portfolio Performance		
Overall Portfolio Occupancy (1)	97.9%	98.5%
Overall Portfolio Average Monthly Rents (1)	$ 975	$ 991
Operating Revenues (000s)	$ 412,421	$ 361,955
NOI (000s)	$ 237,916	$ 206,157
NOI Margin	57.7%	57.0%
Operating Performance (2)		
FFO Per Unit – Basic	$ 1.448	$ 1.322
NFFO Per Unit – Basic	$ 1.486	$ 1.357
Weighted Average Number of Units - Basic (000s)	89,215	76,538
Cash Distributions Per Unit	$ 1.097	$ 1.080
FFO Payout Ratio	78.4%	85.0%
NFFO Payout Ratio	76.4%	82.8%
Liquidity and Leverage		
Total Debt to Gross Book Value (1)	47.25%	50.27%
Total Debt to Gross Historical Cost (1), (3)	56.71%	58.55%
Weighted Average Mortgage Interest Rate (1)	3.87%	4.48%
Weighted Average Mortgage Term (years) (1)	5.4	5.7
Debt Service Coverage (times) (4)	1.52	1.38
Interest Coverage (times) (4)	2.51	2.20
Available Liquidity – Acquisition and Operating Facility (000s) (1)	$ 126,296	$ 185,621
Other		
Number of Suites and Sites Acquired	6,984	2,660
Number of Suites Disposed	773	143
Closing Price of Trust Units (1)	$ 24.90	$ 22.31
Market Capitalization (millions) (5)	$ 2,550	$ 1,914

(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).

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 three land parcels in Alberta and one land parcel in British Columbia, of which one was purchased in the third quarter of 2012 in Alberta. CAPREIT acquired a residential building on each of the four land parcels and pays ground rent on an annual basis for its use of the land. One land lease matures in 2045, two mature in 2068 and another matures in 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 fourteen MHCs, whereby CAPREIT owns sites, which it rents to residents under long-term leases.

Portfolio by Type of Property Interest

AS AT DECEMBER 31,	2012	%	2011	%
Fee Simple Interests – Apartments and Townhomes	28,989	77.9	24,967	80.5
Operating Leasehold Interests	3,815	10.2	3,815	12.3
Land Leasehold Interests	1,051	2.8	899	2.9
Total Residential Suites	33,855	90.9	29,681	95.7
Fee Simple Interests – MHC Land Lease Sites	3,370	9.1	1,333	4.3
Total Residential Suites and MHC Land Lease Sites	37,225	100.0	31,014	100.0

Portfolio Diversification

CAPREIT's property portfolio continues to be diversified by geography and balanced among demographic sectors and asset types. 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,	2012	%	2011	%
Affordable	2,470	6.6	1,443	4.7
Mid-tier	18,172	48.8	16,770	54.0
Luxury	13,213	35.5	11,468	37.0
Total Residential Suites	33,855	90.9	29,681	95.7
MHC Land Lease Sites	3,370	9.1	1,333	4.3
Total Residential Suites and MHC Land Lease Sites	37,225	100.0	31,014	100.0

Portfolio by Geography

AS AT DECEMBER 31,	2012	%	2011	%
Residential Suites				
Ontario				
Greater Toronto Area	15,728	42.3	15,262	49.2
Ottawa	1,527	4.1	1,527	4.9
London/Kitchener/Waterloo	1,649	4.4	903	2.9
Other Ontario	1,410	3.8	1,410	4.6
	20,314	54.6	19,102	61.6
Québec				
Greater Montréal Region	4,436	11.9	3,203	10.3
Québec City	2,728	7.3	1,909	6.1
	7,164	19.2	5,112	16.4
British Columbia				
Greater Vancouver Region	1,948	5.2	1,948	6.3
Victoria	815	2.2	815	2.6
	2,763	7.4	2,763	8.9
Alberta				
Edmonton	310	0.8	310	1.0
Calgary	1,475	4.0	1,070	3.5
	1,785	4.8	1,380	4.5
Nova Scotia				
Halifax	1,588	4.3	1,083	3.5
Saskatchewan				
Saskatoon	133	0.3	133	0.4
Regina	108	0.3	108	0.4
	241	0.6	241	0.8
Total Residential Suites	33,855	90.9	29,681	95.7
MHC Land Lease Sites				
Ontario	2,676	7.2	1,333	4.3
British Columbia	130	0.3	—	—
Alberta	318	0.9	—	—
Saskatchewan	246	0.7	—	—
Total MHC Land Lease Sites	3,370	9.1	1,333	4.3
Total Residential Suites and MHC Land Lease Sites	37,225	100.0	31,014	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.

CAPREIT has exceeded its growth objective for 2012 with a total gross number of 6,984 suites and sites acquired for the year ended 2012, as historically, CAPREIT has targeted acquiring between 1,500 and 2,000 suites and sites on an annual basis.

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, comprised of 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 are scheduled to 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

($ THOUSANDS)
AS AT DECEMBER 31, 2012 AND 2011

YEAR OF LEASE MATURITY	PROPERTIES	SUITES	%	OPTION EXERCISE PRICES 26TH YEAR	OPTION EXERCISE PRICES 35TH YEAR	PREPAID LEASE AMOUNT (1)
2033	10	3,099	81.3	$ 202,071	$ 242,596	$ 136,101
2034	2	161	4.2	19,300	23,150	13,700
2035	1	200	5.2	14,200	17,000	9,000
2037	2	355	9.3	47,200	56,000	33,500
Total Operating Leasehold Interests Portfolio	15	3,815	100.0	$ 282,771	$ 338,746	$ 192,301

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

Portfolio of Land Leasehold Interests

In the absence of any new arrangements negotiated between CAPREIT and the landowners of the four parcels on which CAPREIT has land leasehold interests, CAPREIT's interests in one property matures in 2045, two properties in 2068 and one property in 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

($ THOUSANDS)
YEAR ENDED DECEMBER 31,

YEAR OF LEASE MATURITY	SUITES	%	ANNUAL GROUND RENT 2012	ANNUAL GROUND RENT 2011
2045	473	45.0	$ 1,000	$ 974
2068 (1)	306	29.1	312	210
2070	272	25.9	1,118	1,088
Total Land Leasehold Interests Portfolio	1,051	100.0	$ 2,430	$ 2,272

(1) A land leasehold interest was purchased in the third quarter of 2012.

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 rent increases, capitalization and discount rates provided by the external appraiser to determine the fair value of the investment properties for interim reporting purposes. Capitalization rates employed by the appraiser are based on recently closed transactions, generally the last three months, and other current market indicators for similar properties. 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. 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. 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 reduced 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.

iii) **Options to Purchase the Related Operating Leasehold Leases:** CAPREIT utilizes the DC method at the reversion date (option exercise 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 about 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:

($ THOUSANDS) AS AT DECEMBER 31,	2012	2011
Balance, Beginning of the Year	$ 3,713,737	$ 3,049,980
Add:		
Acquisitions	791,268	321,524
Property Capital Investments (1)	133,286	116,579
Capitalized Leasing Costs (2)	1,038	143
Less:		
Dispositions	(109,589)	(5,732)
Realized Loss on Dispositions	(1,613)	(95)
Unrealized Gain on Remeasurement at Fair Value	298,228	231,338
Investment Properties at Fair Value, End of the Year	$ 4,826,355	$ 3,713,737

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

For the years ended December 31, 2012, and 2011, the unrealized gain on remeasurement of investment properties is primarily the result of changes in net operating income and capitalization rates offset by certain capital investments not having an immediate effect on stabilized NOI and thus not being reflected in the fair value of the investment properties at the measurement date.

Realized loss on dispositions for the year ended December 31, 2012 is primarily due to the writeoff of the remaining net CMHC fees, net deferred financing fees, and the transaction costs related to the respective dispositions. Unlike property capital investments and capitalized leasing costs, CMHC fees, deferred financing costs and transaction costs are not taken into consideration to fair value investment properties.

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

($ MILLIONS) AS AT	DEC 2011 FAIR VALUE	CHANGE DUE TO CHANGE IN RATES (1)	STABILIZED NOI	NET ACQUISITIONS	DEC 2012 FAIR VALUE	DEC 2011 RATES (1)	DEC 2012 RATES (1)
Greater Toronto Area	$ 1,958	$ 178	$ 73	$ 56	$ 2,265	5.65%	5.07%
Other Ontario	339	31	15	75	460	5.78%	5.38%
Québec	468	56	4	320	848	6.03%	5.52%
British Columbia	451	30	16	—	497	4.62%	4.27%
Alberta	220	25	17	68	330	5.58%	4.94%
Nova Scotia	160	4	10	52	226	6.11%	5.98%
Saskatchewan	24	2	1	—	27	6.69%	6.14%
MHC Land Lease Sites	94	5	1	73	173	6.04%	6.25%
Total	$ 3,714	$ 331	$ 137	$ 644	$ 4,826		

(1) Weighted average capitalization rates excluding implied capitalization rates on Operating and Land Leasehold Interests. See note 6 to the accompanying audited consolidated annual financial statements for further valuation assumption details including discount rates as at December 31, 2012 for Operating and Land Leasehold Interests.

As at December 31, 2012, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of investment properties:

($ MILLIONS) AS AT DECEMBER 31, 2012	CHANGE (BASIS POINTS) (1)	ESTIMATED (DECREASE) INCREASE
Weighted Average Capitalization Rate	+25	$ (217)
Weighted Average Capitalization Rate	–25	$ 239

(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, 2011				PROPERTIES ACQUIRED SINCE DECEMBER 31, 2011	
	2012		2011		2012		2011 [1]		2012	
	AMR	OCC. % [2]	AMR	OCC. % [2]	AMR	OCC. %	AMR	OCC. %	AMR	OCC. %
Affordable	$ 862	97.7	$ 808	97.1	$ 843	97.4	$ 808	97.1	$ 889	98.1
Mid-tier	$ 989	98.1	$ 958	98.6	$ 987	98.5	$ 957	98.6	$ 1,004	94.6
Luxury	$ 1,115	97.3	$ 1,104	98.4	$ 1,130	97.6	$ 1,103	98.4	$ 1,033	95.7
Average Residential Suites	$ 1,030	97.8	$ 1,009	98.5	$ 1,036	98.1	$ 1,008	98.5	$ 992	95.8
Average MHC Land Lease Sites	$ 439	99.2	$ 615	99.8	$ 632	99.8	$ 615	99.8	$ 313	98.8
Overall Portfolio Average	$ 975	97.9	$ 991	98.5	$ 1,018	98.2	$ 990	98.5	$ 794	96.7

(1) Prior year's comparable AMR and occupancy have been restated for properties disposed of between January 1, 2012 and December 31, 2012.

(2) As per the purchase agreements for two properties acquired between July 1, 2011 and June 30, 2012, CAPREIT receives monthly escrow payments for the positive differences, if any, between: (a) the product derived from multiplying 97.0% by the gross rent roll for such month less; (b) the actual rent earned for such month, with all applicable sales taxes. CAPREIT will continue to receive escrow payments if the actual occupancy rates are less than 97.0% up to a maximum of $1.5 million for each property, after which rental revenue will be based on actual occupancy. The occupancy rates in the tables are reflected at 97.0% for these two properties.

AMR is defined as actual residential rents, net of vacancies, divided by the total number of suites in the property and does not include revenues from parking, laundry or other sources. Average monthly rents increased in all demographic sectors of the residential suite portfolio, resulting in a 2.1% increase in overall average monthly rent as at December 31, 2012 compared to last year while occupancy decreased marginally to 97.8% compared to 98.5% for last year. The increases in average monthly rents were due to higher rent guideline increases, a combination of ongoing successful sales and marketing strategies, above guideline increases, and continued strength in the residential rental sector in the majority of CAPREIT's regional markets. As at December 31, 2012, the AMR of the affordable properties increased compared to last year, partially as a result of acquisitions in higher rent geographic regions. For the MHC land lease portfolio, average monthly rents decreased as at December 31, 2012, compared to last year, primarily due to the acquisition of 2,032 MHC land lease sites acquired in the second quarter of 2012 in lower rent geographic regions. Management believes MHC land lease sites provide secure and stable cash flows due to long-term tenancies, high occupancies, steady increases in average monthly rents, and significantly lower capital and maintenance costs.

Average monthly rents for residential properties owned prior to December 31, 2011 also increased as at December 31, 2012 to $1,036 from $1,008 as at December 31, 2011, an increase of 2.8% from last year. As at December 31, 2012, occupancy remained strong at 98.1%.

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,	2012			2011		
	CHANGE IN AMR		% TURNOVERS & RENEWALS [1]	CHANGE IN AMR		% TURNOVERS & RENEWALS [1]
	$	%		$	%	
Suite Turnovers	20.3	2.0	26.8	13.2	1.3	31.1
Lease Renewals	34.2	3.3	70.0	14.3	1.4	70.3
Weighted Average of Turnovers and Renewals	30.3	2.9		14.0	1.4	

(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, 2012, resulted in average monthly rent increasing by approximately $20 or 2.0%, compared to an increase of approximately $13 or 1.3% for last year due to strengthening market conditions including an improving Alberta economy.

Pursuant to Management's focus on increasing overall portfolio rents for the year ended December 31, 2012, average monthly rents on lease renewals increased by approximately $34 or 3.3%, compared to an increase of approximately $14 or 1.4% for last year. The higher rate of growth in average monthly rents on lease renewals during the year are due primarily to the higher guideline increases for 2012 (Ontario – 3.1%, British Columbia – 4.3%), which compares more favourably to the permitted guideline increases in 2011 (Ontario – 0.7%, British Columbia – 2.3%) and, increases due to above guideline increases ("AGI") achieved in Ontario. For 2013, the permitted guideline increases in Ontario and British Columbia have been set at 2.5% and 3.8%, respectively. Management continues to pursue applications in Ontario for AGIs where it believes increases are supported by market conditions above the annual guideline to raise average monthly rents on lease renewals (see discussion in the Future Outlook section).

Portfolio Average Monthly Rents and Occupancy by Geography

	Total Portfolio				Properties Owned Prior to December 31, 2011				Properties Acquired Since December 31, 2011	
As at December 31,	2012		2011		2012		2011 [1]		2012	
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %
Residential Suites										
Ontario										
Greater Toronto Area	$ 1,134	98.5	$ 1,101	98.9	$ 1,140	98.6	$ 1,104	98.8	$ 1,070	97.4
Ottawa	913	99.9	887	100.0	913	99.9	887	100.0	—	—
London/Kitchener/Waterloo	828	93.0	863	97.2	869	95.8	863	97.2	778	89.7
Other Ontario	1,057	99.4	1,022	99.4	1,057	99.4	1,022	99.4	—	—
	$ 1,093	98.3	$ 1,074	98.9	$ 1,109	98.7	$ 1,075	98.9	$ 960	94.5
Québec										
Greater Montréal Region	$ 846	96.1	$ 781	97.5	$ 779	95.9	$ 781	97.5	$ 1,020	96.5
Québec City	907	97.5	812	96.9	843	98.2	812	96.9	1,056	95.7
	$ 869	96.6	$ 792	97.2	$ 803	96.8	$ 792	97.2	$ 1,034	96.2
British Columbia										
Greater Vancouver Region	$ 1,036	98.4	$ 1,005	98.8	$ 1,036	98.4	$ 1,005	98.8	$ —	—
Victoria	864	96.3	855	96.7	864	96.3	855	96.7	—	—
	$ 986	97.8	$ 961	98.2	$ 986	97.8	$ 961	98.2	$ —	—
Alberta										
Edmonton	$ 1,072	99.0	$ 1,054	99.4	$ 1,072	99.0	$ 1,054	99.4	$ —	—
Calgary	1,096	98.7	1,044	98.4	1,103	98.7	1,044	98.4	1,076	98.8
	$ 1,092	98.8	$ 1,046	98.6	$ 1,096	98.8	$ 1,046	98.6	$ 1,076	98.8
Nova Scotia										
Halifax	$ 1,012	96.0	$ 1,053	97.0	$ 1,072	95.5	$ 1,053	97.0	$ 884	97.0
Saskatchewan										
Saskatoon	$ 882	97.0	$ 845	97.7	$ 882	97.0	$ 845	97.7	$ —	—
Regina	966	100.0	912	100.0	966	100.0	912	100.0	—	—
	$ 919	98.3	$ 875	98.8	$ 919	98.3	$ 875	98.8	$ —	—
Total Residential Suites	$ 1,030	97.8	$ 1,009	98.5	$ 1,036	98.1	$ 1,008	98.5	$ 992	95.8
MHC Land Lease Sites										
Ontario	$ 466	99.6	$ 615	99.8	$ 632	99.8	$ 615	99.8	$ 302	99.3
British Columbia	383	97.7	—	—	—	—	—	—	383	97.7
Alberta	348	97.2	—	—	—	—	—	—	348	97.2
Saskatchewan	292	99.2	—	—	—	—	—	—	292	99.2
Total MHC Land Lease Sites	$ 439	99.2	$ 615	99.8	$ 632	99.8	$ 615	99.8	$ 313	98.8
Total Residential Suites and MHC Land Lease Sites	$ 975	97.9	$ 991	98.5	$ 1,018	98.2	$ 990	98.5	$ 794	96.7

(1) Prior year's comparable AMR and occupancy have been restated for properties disposed of between January 1, 2012 and December 31, 2012.

All residential properties acquired since December 31, 2011 except Québec City, have lower average monthly rents, due to acquisitions in lower rent geographic regions and lower occupancy levels compared to properties owned by CAPREIT prior to December 30, 2011, resulting in lower AMR and occupancy for the total portfolio. Management expects the properties acquired since December 31, 2011 will be fully integrated with CAPREIT's strategies and systems in the medium term, resulting in improved performance.

CAPREIT acquired a large and well-established national portfolio of 12 MHC communities in the second quarter of 2012, comprised of 2,032 land lease sites located in Ontario, Saskatchewan, Alberta and British Columbia. In the third quarter of 2012, CAPREIT acquired five MHC sites located in Bowmanville and Grand Bend, Ontario. The acquisition of the 12 MHC communities were in lower rent geographic regions resulting in lower overall AMR for the total MHC portfolio. Management believes the acquisition of the MHC land lease sites will be accretive in the long term.

Management continues 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 residential properties owned prior to December 31, 2011 increased in all regional markets of the portfolio except for the Greater Montréal Region, while the overall average occupancy level remained at a nearly full level of 98.1% as at December 31, 2012.
- Ontario, where residential suites represent about 60% of the total residential suite portfolio, experienced an increase of 3.2% in average monthly rents for its properties owned prior to December 31, 2011. Occupancy levels remained nearly full at 98.7%. Management expects the Ontario rental market to remain strong and benefit from the guideline increase of 2.5% in 2013.
- Québec, representing about 21% of the total residential suite portfolio, experienced an increase of 1.4% in average monthly rents for its properties owned prior to December 31, 2011, compared to last year, while occupancy levels decreased marginally to 96.8% from 97.2% last year. Management expects the Québec rental market to remain stable.
- British Columbia experienced an increase of 2.6% in average monthly rents for its total residential portfolio as at December 31, 2012, while occupancy levels decreased slightly to 97.8% from 98.2% last year. Management expects the British Columbia rental market to remain strong and benefit from the guideline increase of 3.8% in 2013.
- Improving economic conditions in Alberta resulted in an increase of 4.8% in average monthly rents for its properties owned prior to December 31, 2011, and occupancy slightly increased to 98.8% from 98.6% last year. Management believes the Alberta market should continue to improve over the medium term.

Overall average monthly rents for the residential suite portfolio as at December 31, 2012 increased by approximately 2.1%, as compared to December 31, 2011. 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, 2012 and 2011 as well as the amortization of tenant inducements, loss from vacancies, and bad debt expense included in net rental revenue for the same years.

Tenant Inducements, Vacancy Loss, and Bad Debt Expense on Residential Suites and Sites

($ THOUSANDS) YEAR ENDED DECEMBER 31,		2012	% [1]		2011	% [1]
New Tenant Inducements Incurred [2]	$	1,139		$	658	
Tenant Inducements Amortized	$	881	0.2	$	940	0.3
Vacancy Loss Incurred		8,325	2.0		5,884	1.6
Total Amortization and Loss	$	9,206	2.2	$	6,824	1.9
Bad Debt Expense	$	3,018	0.7	$	1,582	0.4

(1) As a percentage of total operating revenues.

(2) New Tenant Inducements increased compared to last year in specific regions such as Halifax, London, and Montréal, including the impact of acquisitions.

RESULTS OF OPERATIONS

Total Operating Revenues by Geography

($ THOUSANDS) FOR THE YEAR ENDED DECEMBER 31,	2012	2011
Residential Suites		
Ontario		
Greater Toronto Area	$ 215,151	$ 202,483
Ottawa	8,802	8,610
London/Kitchener/Waterloo	14,359	9,460
Other Ontario	18,555	18,243
	$ 256,867	$ 238,796
Québec		
Greater Montréal Region	$ 36,396	$ 23,068
Québec City	25,397	19,549
	$ 61,793	$ 42,617
British Columbia		
Greater Vancouver Region	$ 26,282	$ 23,637
Victoria	8,704	8,546
	$ 34,986	$ 32,183
Alberta		
Edmonton	$ 4,413	$ 4,149
Calgary	19,409	16,673
	$ 23,822	$ 20,822
Nova Scotia		
Halifax	$ 17,715	$ 14,866
Saskatchewan		
Saskatoon	$ 1,415	$ 1,320
Regina	1,240	1,182
	$ 2,655	$ 2,502
Total Residential Suites	$ 397,838	$ 351,786
MHC Land Lease Sites		
Ontario	$ 12,949	$ 10,169
British Columbia	347	—
Alberta	785	—
Saskatchewan	502	—
Total MHC Land Lease Sites	$ 14,583	$ 10,169
Total Residential Suites and MHC Land Lease Sites	$ 412,421	$ 361,955

Results of Operations

($ THOUSANDS) FOR THE YEAR ENDED DECEMBER 31,	2012	% (1)	2011	% (1)
Operating Revenues				
Net Rental Revenues	$ 392,024	95.1	$ 343,105	94.8
Other (2)	20,397	4.9	18,850	5.2
Total Operating Revenues	$ 412,421	100.0	$ 361,955	100.0
Operating Expenses				
Realty Taxes	49,483	12.0	44,885	12.4
Utilities	42,403	10.3	38,764	10.7
Other	82,619	20.0	72,149	19.9
Total Operating Expenses	174,505	42.3	155,798	43.0
NOI	$ 237,916	57.7	$ 206,157	57.0

(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, 2012, total operating revenues increased by 13.9%, compared to last year, due to the contributions from acquisitions, higher rent guideline increases, increased average monthly rents on the residential suite portfolio, and continuing high stable occupancies. 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 and ancillary revenues. Ancillary revenues, such as parking, laundry and antenna income, increased by 8.2% for the year ended December 31, 2012, as Management continued its focus on maximizing the revenue potential of its property portfolio. For the year ended December 31, 2011, ancillary revenues included the positive impact of non-recurring items of $0.7 million. Excluding the non-recurring items of $0.7 million, ancillary income increased by 12% compared to last year due to the contributions from acquisitions and CAPREIT's ability to maximize profitability from non-residential rental revenues.

Estimated Net Rental Revenue Run-Rate

($ THOUSANDS) AS AT DECEMBER 31,	2012	2011
Residential Rent Roll [1], [2]	$ 418,199	$ 352,572
Commercial Rent Roll [1], [2]	11,623	8,681
Annualized Net Rental Revenue Run-Rate	$ 429,822	$ 361,253

(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 owned 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, 2012 and 2011, net of average historical vacancy loss, tenant inducements and bad debt. The estimated annualized Net Rental Revenue Run-Rate improved by 19.0% to $429.8 million from $361.3 million, partially as a result of new acquisitions within the past twelve months. Net rental revenue net of dispositions for the twelve months ended December 31, 2012 was $386.3 million (2011 — $343.1 million).

Operating Expenses

Overall operating expenses as a percentage of operating revenues improved in the year ended December 31, 2012, compared to last year as a result of: (i) diversification of the portfolio into regions with lower taxation rates, (ii) lower utility costs, and (iii) successful energy-saving initiatives and enhanced procurement strategies.

Realty Taxes

For the year ended December 31, 2012, realty taxes as a percentage of operating revenues continued their downward trend to 12.0%, compared to 12.4% for last year. The decrease was 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 operating revenues, utility costs for the year ended December 31, 2012 decreased to 10.3% from 10.7% for last year.

CAPREIT's utility costs can be highly variable from year to year depending on the energy consumption and rates. The table below provides CAPREIT's utility costs by type.

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2012	% [1]	2011	% [1]
Electricity	$ 20,300	4.9	$ 17,874	4.9
Natural Gas	11,121	2.7	11,583	3.2
Water	10,982	2.7	9,307	2.6
Total	$ 42,403	10.3	$ 38,764	10.7

(1) As a percentage of total operating revenues.

For the year ended December 31, 2012, electricity costs as a percentage of total operating revenues remained unchanged at 4.9% compared to last year, primarily due to lower electricity consumption resulting from warmer weather in the 2012 winter months, energy saving initiatives, and effects of sub-metering offset by an increase in electricity rates. As at December 31, 2012, tenants who pay their hydro charges directly, represent 27.5% of the total 15,002 recently sub-metered suites in Ontario and Alberta.

For the year ended December 31, 2012, natural gas costs as a percentage of total operating revenues decreased to 2.7% compared to 3.2% for last year, primarily due to lower natural gas rates and consumption resulting from warmer weather in the 2012 winter months.

The table below provides information on CAPREIT's fixed natural gas contracts for the fiscal years 2013 and 2014:

AS AT DECEMBER 31,	2013	2014
Fixed Weighted Average Cost per GJ [1]	$ 3.36	$ —
Total of CAPREIT's Estimated Requirements	26.77%	—

(1) Fixed weighted average cost per gigajoule ("GJ") excludes estimated transportation costs of $1.21, $1.06 and $1.03 per GJ for 2013, 2014 and 2015, respectively, and other administrative costs.

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, Repair and Maintenance ("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, 2012 and 2011.

FOR THE YEAR ENDED DECEMBER 31,	2012		2011		INCREASE (DECREASE) %		
($ THOUSANDS)	NOI	NOI MARGIN (%)	NOI	NOI MARGIN (%)	REVENUE CHANGE (%)	OPERATING EXPENSE CHANGE (%)	NOI CHANGE (%)
Residential Suites							
Ontario							
Greater Toronto Area	$ 123,114	57.2	$ 114,334	56.5	6.3	4.4	7.7
Ottawa	4,704	53.4	4,497	52.2	2.2	(0.4)	4.6
London/Kitchener/Waterloo	7,594	52.9	5,225	55.2	51.8	59.7	45.3
Other Ontario	10,816	58.3	9,891	54.2	1.7	(7.3)	9.4
	$ 146,228	56.9	$ 133,947	56.1	7.6	5.5	9.2
Québec							
Greater Montréal Region	$ 20,128	55.3	$ 12,403	53.8	57.8	52.5	62.3
Québec City	13,564	53.4	11,146	57.0	29.9	40.8	21.7
	$ 33,692	54.5	$ 23,549	55.3	45.0	47.4	43.1
British Columbia							
Greater Vancouver Region	$ 16,268	61.9	$ 14,213	60.1	11.2	6.3	14.5
Victoria	5,831	67.0	5,515	64.5	1.8	(5.2)	5.7
	$ 22,099	63.2	$ 19,728	61.3	8.7	3.5	12.0
Alberta							
Edmonton	$ 3,018	68.4	$ 2,556	61.6	6.4	(12.4)	18.1
Calgary	11,235	57.9	9,305	55.8	16.4	10.9	20.7
	$ 14,253	59.8	$ 11,861	57.0	14.4	6.8	20.2
Nova Scotia							
Halifax	$ 11,682	65.9	$ 9,909	66.7	19.2	21.7	17.9
Saskatchewan							
Saskatoon	$ 755	53.4	$ 713	54.0	7.2	8.7	5.9
Regina	801	64.6	762	64.5	4.9	4.5	5.1
	$ 1,556	58.6	$ 1,475	59.0	6.1	7.0	5.5
Total Residential Suites	$ 229,510	57.7	$ 200,469	57.0	13.1	11.2	14.5
MHC Land Lease Sites							
Ontario	$ 7,387	57.0	$ 5,688	55.9	27.3	24.1	29.9
British Columbia	245	70.6	—	—	—	—	—
Alberta	504	64.2	—	—	—	—	—
Saskatchewan	270	53.8	—	—	—	—	—
Total MHC Land Lease Sites	$ 8,406	57.6	$ 5,688	55.9	43.4	37.8	47.8
Total Residential Suites and MHC Land Lease Sites	$ 237,916	57.7	$ 206,157	57.0	13.9	12.0	15.4

For the year ended December 31, 2012, NOI increased by 15.4% and the NOI margin improved to 57.7% from 57.0%, for last year. The significant increase in NOI in specific regions of the portfolio was primarily the result of acquisitions completed in the prior 12 months and higher operating revenues. CAPREIT remains focused on continuing to further improve NOI and NOI margin 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. For a comprehensive analysis of stabilized NOI growth or decline compared to last year by geography, refer to the Stabilized Portfolio Performance section.

STABILIZED PORTFOLIO PERFORMANCE

FOR THE YEAR ENDED DECEMBER 31,	2012		2011		INCREASE (DECREASE) %		
($ THOUSANDS)	NOI	NOI MARGIN (%)	NOI	NOI MARGIN (%)	REVENUE CHANGE (%)	OPERATING EXPENSE CHANGE (%)	NOI CHANGE (%)
Residential Suites							
Ontario							
Greater Toronto Area	$ 110,784	57.7	$ 106,972	56.7	1.8	(0.6)	3.6
Ottawa	4,702	53.4	4,497	52.2	2.2	(0.4)	4.6
London/Kitchener/Waterloo	5,091	53.1	5,141	54.3	1.3	4.1	(1.0)
Other Ontario	10,073	57.7	9,222	54.2	2.5	(5.4)	9.2
	$ 130,650	57.4	$ 125,832	56.3	1.8	(0.7)	3.8
Québec							
Greater Montréal Region	$ 10,383	53.3	$ 10,152	53.3	2.3	2.3	2.3
Québec City	11,300	56.7	11,146	57.0	1.9	2.6	1.4
	$ 21,683	55.0	$ 21,298	55.2	2.1	2.4	1.8
British Columbia							
Greater Vancouver Region	$ 12,576	61.3	$ 11,845	60.0	4.0	0.7	6.2
Victoria	5,831	67.0	5,515	64.5	1.8	(5.2)	5.7
	$ 18,407	63.0	$ 17,360	61.4	3.3	(0.9)	6.0
Alberta							
Edmonton	$ 3,018	68.4	$ 2,556	61.6	6.4	(12.4)	18.1
Calgary	10,121	57.5	9,295	55.7	5.6	1.4	8.9
	$ 13,139	59.7	$ 11,851	56.9	5.7	(1.0)	10.9
Nova Scotia							
Halifax	$ 10,135	67.2	$ 9,909	66.7	1.5	—	2.3
Saskatchewan							
Saskatoon	$ 755	53.4	$ 713	54.0	7.2	8.7	5.9
Regina	801	64.6	762	64.5	4.9	4.5	5.1
	$ 1,556	58.6	$ 1,475	59.0	6.1	7.0	5.5
Total Residential Suites	$ 195,570	58.2	$ 187,725	57.1	2.3	(0.3)	4.2
MHC Land Lease Sites							
Ontario	$ 5,530	54.6	$ 5,674	55.9	(0.3)	2.6	(2.5)
Total MHC Land Lease Sites	$ 5,530	54.6	$ 5,674	55.9	(0.3)	2.6	(2.5)
Total Residential Suites and MHC Land Lease Sites	$ 201,100	58.1	$ 193,399	57.1	2.2	(0.2)	4.0
Stabilized Suites and Sites	26,696		26,696				

Stabilized properties for the year ended December 31, 2012 are defined as all properties owned by CAPREIT continuously since December 31, 2010, and therefore, do not take into account the impact on performance of acquisitions or dispositions completed during 2012 and 2011. As at December 31, 2012, stabilized suites and sites represent 74.0% of CAPREIT's overall portfolio (excluding co-ownerships).

As at December 31, 2012, CAPREIT has generated more than six years (28 consecutive quarters) of stable or improved year-over-year NOI growth for stabilized properties. For the year ended December 31, 2012, operating revenues increased by 2.2% and operating costs decreased by 0.2% compared to last year. As a result, stabilized NOI increased by 4.0% for the year ended December 31, 2012.

For the year ended December 31, 2012, the NOI margin for properties acquired since December 31, 2010 was 55.7%.

Ontario:

NOI for the stabilized Ontario portfolio increased by 3.8% during the year ended December 31, 2012 compared to last year, primarily due to higher operating revenues, lower heating and hydro costs, insurance costs and realty taxes offset by slightly higher vacancies and increased bad debt, R&M, water, and onsite costs. The NOI margin improved to 57.4% for the year ended December 31, 2012, compared to 56.3% for 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 2013 is 2.5%.

Québec:

NOI for the stabilized Québec portfolio increased by 1.8% during the year ended December 31, 2012, compared to last year, primarily due to higher operating revenues partially offset by higher bad debt, R&M, vacancies, wages, advertising, onsite, and realty taxes costs. For the year ended December 31, 2012, the NOI margin remained stable at 55.0% 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:

NOI for the stabilized British Columbia portfolio increased by 6.0% during the year ended December 31, 2012, compared to last year, primarily due to higher operating revenues and lower heating costs partially offset by higher water costs. For the year ended December 31, 2012, the NOI margin increased to 63.0% from 61.4% compared to last year. Management believes the British Columbia portfolio will continue to generate steady returns in the medium term. The rent guideline increase for 2013 is 3.8%.

Alberta:

NOI for the stabilized Alberta portfolio increased by a significant 10.9% during the year ended December 31, 2012 compared to last year, primarily due to higher operating revenues, lower vacancies, R&M, advertising and heating costs partially offset by higher realty taxes. For the year ended December 31, 2012, the NOI margin increased to 59.7% compared to 56.9% for last year due to improved rental rates, occupancies, and lower operating costs. Management believes the Alberta market should continue to improve over the medium term.

Nova Scotia:

NOI for the stabilized Nova Scotia portfolio increased by 2.3% for the year ended December 31, 2012 compared to last year, primarily due to higher operating revenues, and lower heating costs partially offset by higher vacancies, R&M, and wages costs. For the year ended December 31, 2012, the NOI margin increased to 67.2% from 66.7% for last year. Management believes its presence primarily in downtown Halifax locations will serve to maintain or increase occupancy levels and average monthly rents in the medium term.

MHC Land Lease Sites:

NOI for the stabilized MHC land lease sites portfolio decreased by 2.5% for the year ended December 31, 2012 compared to last year, primarily due to higher wages, R&M and realty taxes costs partially offset by lower water and advertising costs. For the year ended December 31, 2012, the NOI margin decreased to 54.6% from 55.9% for last year. Management believes its MHC land lease portfolio will provide accretive growth in the long term.

NET INCOME AND OTHER COMPREHENSIVE INCOME (LOSS)

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2012	2011
Net Operating Income	$ 237,916	$ 206,157
(Less) Plus:		
Trust Expenses	(13,904)	(14,797)
Unrealized Gain on Remeasurement of Investment Properties	298,228	231,338
Realized Loss on Disposition of Investment Properties	(1,613)	(95)
Remeasurement of Exchangeable Units	(904)	(2,126)
Unit-based Compensation Expenses	(13,333)	(13,936)
Interest on Mortgages Payable and Other Financing Costs	(85,273)	(82,833)
Interest on Bank Indebtedness	(6,954)	(5,793)
Interest on Exchangeable Units	(354)	(444)
Other Income	3,503	1,899
Amortization	(2,195)	(1,613)
Severance and Other Employee Costs	—	(1,352)
Unrealized and Realized Loss on Derivative Financial Instruments	(2,854)	(233)
Net Income	$ 412,263	$ 316,172
Other Comprehensive Income (Loss)		
Amortization of Losses from AOCL to Interest and Other Financing Costs	$ 2,000	1,052
Change in Fair Value of Derivative Financial Instruments	(2,218)	(17,776)
Change in Fair Value of Investments	3,168	3,799
Realized Gain on Sale of Investments	(1,451)	—
Other Comprehensive Income (Loss)	1,499	(12,925)
Comprehensive Income	$ 413,762	$ 303,247

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and advisory services, trustees' and officers' insurance premiums, and other general and administrative expenses. Trust expenses decreased for the year ended December 31, 2012, to $13.9 million from $14.8 million for last year mainly due to lower consulting, compensation costs, and legal fees and one time insurance recoveries, offset by an increase in information technology, travel, and office costs.

Unrealized Gain on Remeasurement of Investment Properties

CAPREIT recognizes 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. A description of the key components of the change in the fair value of investment properties is included in the Investment Properties section.

Realized Loss on Disposition of Investment Properties

The realized loss on disposition of investment properties for the year ended December 31, 2012 of $1.6 million represents the difference between the net proceeds from the disposition, compared to the fair value of the respective properties at the date of disposition.

Remeasurement of Exchangeable Units

CAPREIT accounts for its Exchangeable Units as a financial liability, remeasures such liability at each reporting period, and includes this remeasurement in the consolidated statement of income and comprehensive income. During the year, pursuant to the terms of the Exchangeable Units, 150,000 Exchangeable Units were exchanged for 150,000 Trust Units. The lower change in the market price of CAPREIT's Trust Units and lower number of Exchangeable Units outstanding for the year ended December 31, 2012, compared to December 31, 2011, resulted in a lower remeasurement expense of $0.9 million, compared to $2.1 million for last year. A description of the key components of the remeasurement of Exchangeable Units is included in note 13 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2012.

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 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2012).

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, 2012 decreased to $13.3 million from $13.9 million for last year, mainly due to a decrease in the remeasurement expense due to the lower increase in the market price of CAPREIT's Trust Units compared to last year, offset by the increase in amortization due to the cumulative impact of three years of amortization expense for the RUR awards issued since 2010. In addition, in connection with the equity offerings in October 2011, May 2012 and December 2012, a total of 224,250, 232,500, and 231,150 Unit Options were granted to the President and CEO, respectively, resulting in a higher amortization expense in 2012 compared to last year. The table below demonstrates the impact of each component of CAPREIT's plans on the total compensation expense.

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2012	2011
Remeasurement of Unit-based Compensation Liabilities	$ 10,053	$ 12,165
Amortization of Fair Value on Grant Date of Unit-based Compensation	3,280	1,771
Total	$ 13,333	$ 13,936

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, 2012, to $85.2 million from $82.8 million last year, due to acquisitions and top up financings. However, as a percentage of operating revenues, mortgage interest expense decreased to 20.7% for the year ended December 31, 2012, compared to 22.9% 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 15 to the accompanying audited consolidated annual financial statements and the Liquidity and Financial Condition section of this report.

Interest on Bank Indebtedness

Interest on bank indebtedness relates to borrowings under the Credit Facilities (see Liquidity and Capital Resources discussion).

Other Income

Other income primarily consists of dividends received from investments (see notes 2 and 7 to the accompanying audited consolidated annual financial statements) and gains realized on the sale of investments. Other income for the year ended December 31, 2012 increased to $3.5 million from $1.9 million last year primarily due to the sale of investments. During the year ended December 31, 2012, CAPREIT sold investments and realized a gain of $1.5 million, which was included in other income.

Effective December 5, 2012, CAPREIT entered into third party external management agreements to perform certain asset management duties and property services with a third party real estate investment trust in the United States, which owns and operates 16 manufactured home communities in Colorado, Texas, Arizona, and Michigan. Included in other income for the year ended December 31, 2012, is $0.1 million from asset management and property management fees.

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 were $1.4 million 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 refinanced on ten-year terms and 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, 2012. 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. For the year ended December 31, 2012, there was a loss on derivative financial instruments of approximately $2.9 million.

ii) Interest rate contracts for which hedge accounting is being applied: As at December 31, 2012, CAPREIT has a $65 million interest rate swap agreement fixing the interest rate at 3.6%, which matures in September 2022, 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 ten-year term. The related floating rate credit facility is for a five-year term, on expiry of the term it is expected to be refinanced for an additional five-year term. At each reporting date, the hedging derivative will be marked-to-market with the ineffective portion recognized in net income.

Additional information on the above instruments is included in notes 15 and 16 to the accompanying audited consolidated annual financial statements.

OTHER COMPREHENSIVE INCOME ("OCI")

Included in OCI are the following:

i) Amortization of losses from Accumulated Other Comprehensive Loss ("AOCL") to interest and other financing costs: are primarily comprised of amortization of $2.0 million for the year ended December 31, 2012 of realized losses of $29.4 million on forward contracts entered during 2005 and 2011 included in AOCL.

ii) Change in fair value of the derivative financial instruments for year ended December 31, 2012 is comprised of:

   a. $65.0 million swap agreement: loss recorded in OCI of $0.4 million for the year ended December 31, 2012. A description of the swap agreement has been provided in the Liquidity and Financial Condition section.

   b. $312 million forward interest rate hedge agreement: loss recorded in OCI of $2.8 million for the year ended December 31, 2012.

      CAPREIT entered into a $312 million forward interest rate hedge agreement to hedge interest rates for the 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, "Financial Instruments: Recognition and Measurement" ("IAS 39") with the effective portion of the intrinsic value of the contract derivative recognized in OCI.

   c. $55.0 million swap agreement: settlement of $1.0 million for the year ended December 31, 2012 of previously unrealized losses in OCI 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 derivative matured in July 2012.

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. The marked-to-market gain on the investment for the year ended December 31, 2012 was $3.2 million.

iv) Realized gain on sale of investments: for the year ended December 31, 2012, CAPREIT sold investments and reversed the realized gains in OCI of $1.5 million.

Additional information on the above instruments and investments is included in note 16 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 (in thousands) used in calculating non-IFRS financial measures on a per Unit basis:

	WEIGHTED AVERAGE NUMBER OF UNITS		OUTSTANDING NUMBER OF UNITS
YEAR ENDED DECEMBER 31,	2012	2011	2012
Trust Units	88,762	76,039	99,413
Exchangeable Units [(1), (5)]	332	411	261
Units under the DUP [(2)]	121	88	140
Basic Weighted Average Number of Units	89,215	76,538	99,814
Plus:			
Dilutive Units under the LTIP [(2), (3)]	702	501	1,516
Dilutive Units under the SELTIP [(2), (3)]	303	189	818
Units Rights under the RUR Plan [(2)]	249	157	268
Dilutive Unexercised Options under the UOP [(2), (4)]	124	84	— [(6)]
Diluted Weighted Average Number of Units	90,593	77,469	102,416

(1) See note 12 to the accompanying audited consolidated annual financial statements for details of Exchangeable Units.

(2) See notes 13 and 14 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 13 to the accompanying audited consolidated annual financial statements).

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

(5) During the year ended 2012, pursuant to the terms of the Exchangeable Units, 150 Exchangeable Units were exchanged for 150 Trust Units.

(6) 916 unexercised options outstanding under the UOP.

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

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2012	2011
Distributions Declared on Trust Units	$ 97,903	$ 82,816
Distributions Declared on Exchangeable Units	354	444
Distributions Declared on Awards Outstanding under Unit-based Compensation Plans [(1)]	2,953	2,794
Total Distributions Declared	101,210	86,054
Less:		
Distributions on Trust Units Reinvested	(20,421)	(16,215)
Distributions on Unit Awards Reinvested [(1)]	(2,953)	(2,794)
Net Distributions Paid	$ 77,836	$ 67,045
Percentage of Distributions Reinvested	23.1%	22.1%

(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 14 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, 2012 to 23.1%, from 22.1% for last year. Also, as the price of CAPREIT's Trust Units has steadily risen during the year since December 31, 2011, 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 12 and 13 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 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 also considers these ratios to be important measures of the sustainability of the level of distributions.

A reconciliation of net income to FFO is as follows:

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,	2012	2011
Net Income	$ 412,263	$ 316,172
Adjustments:		
Unrealized Gain on Remeasurement of Investment Properties	(298,228)	(231,338)
Realized Loss on Disposition of Investment Properties	1,613	95
Remeasurement of Exchangeable Units	904	2,126
Remeasurement of Unit-based Compensation Liabilities	10,053	12,165
Interest on Exchangeable Units	354	444
Amortization of Property, Plant and Equipment	2,195	1,522
FFO	$ 129,154	$ 101,186
FFO per Unit – Basic	$ 1.448	$ 1.322
FFO per Unit – Diluted	$ 1.426	$ 1.306
Total Distributions Declared	$ 101,210	$ 86,054
FFO Payout Ratio	78.4%	85.0%
Net Distributions Paid	$ 77,836	$ 67,045
Excess FFO over Net Distributions Paid	$ 51,318	$ 34,141
FFO Effective Payout Ratio	60.3%	66.3%

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, and amortization of losses on certain hedging instruments. Management relies on NFFO on a per Unit basis as it facilitates better comparability to historical performance and provides a better indicator of CAPREIT's long-term cash flow generation capability than other measures. See the discussions in the Net Income and Other Comprehensive Income (Loss) and Risks and Uncertainties sections for additional information on hedging instruments currently in place.

A reconciliation of FFO to NFFO is as follows:

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,	2012	2011
FFO	$ 129,154	$ 101,186
Adjustments:		
Unrealized and Realized Loss on Derivative Financial Instruments	2,854	233
Amortization of losses from AOCL to interest and other financing costs	2,000	1,104
Realized Gain on Sale of Investments [1]	(1,455)	—
Severance and Other Employee Costs	—	1,352
NFFO	$ 132,553	$ 103,875
NFFO per Unit – Basic	$ 1.486	$ 1.357
NFFO per Unit – Diluted	$ 1.463	$ 1.341
Total Distributions Declared	$ 101,210	$ 86,054
NFFO Payout Ratio	76.4%	82.8%
Net Distributions Paid	$ 77,836	$ 67,045
Excess NFFO over Net Distributions Paid	$ 54,717	$ 36,830
Effective NFFO Payout Ratio	58.7%	64.5%

(1) Included in Other Income in the Net Income and Other Comprehensive Income (Loss) section.

NFFO for the year ended December 31, 2012 increased by 27.6%, compared to last year primarily due to the contributions from acquisitions, and higher net operating income for properties owned prior to December 31, 2011.

For the year ended December 31, 2012, basic NFFO per Unit increased by 9.5% compared to the same period last year despite an approximate 17% increase in the weighted average number of Units outstanding. Management expects per Unit FFO and NFFO and related payout ratios to improve in the medium term as a result of NOI contributions from recent acquisitions.

Comparing distributions declared to NFFO, the NFFO payout ratios for the year ended December 31, 2012 improved to 76.4%, compared to 82.8% for last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the year ended December 31, 2012, to 58.7% from 64.5% 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 in 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:

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,	2012	2011
NFFO	$ 132,553	$ 103,875
Adjustments:		
Provision for Maintenance Property Capital Investments [1]	(13,758)	(12,341)
Amortization of Fair Value on Grant Date of Unit-based Compensation	3,280	1,741
AFFO	$ 122,075	$ 93,275
AFFO per Unit – Basic	$ 1.368	$ 1.219
AFFO per Unit – Diluted	$ 1.348	$ 1.204
Distributions Declared	$ 101,210	$ 86,054
AFFO Payout Ratio	82.9%	92.3%
Net Distributions Paid	$ 77,836	$ 67,045
Excess AFFO over Net Distributions Paid	$ 44,239	$ 26,230
Effective AFFO Payout Ratio	63.8%	71.9%

(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).

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 will position the portfolio for improved operating performance over the long term.

For the year ended December 31 2012, CAPREIT made property capital investments (excluding disposed properties) of $129.8 million, compared to $116.6 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 and common area, 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 systems 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 disposed properties, head office assets, tenant improvements and signage) is summarized by category below:

Property Capital Investments by Category

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2012	%	2011	%
Building Improvements	$ 60,924	47.0	$ 59,920	51.4
Suite Improvements	29,771	22.9	22,787	19.5
Common Area	16,008	12.3	11,202	9.6
Energy-saving Initiatives	2,963	2.3	2,384	2.1
Equipment	7,393	5.7	8,091	6.9
Boilers and Elevators	10,644	8.2	10,698	9.2
Appliances	2,050	1.6	1,523	1.3
Total	$ 129,753	100.0	$ 116,605	100.0

The significant portfolio growth generated in 2012 has led CAPREIT to adjust its multi-year capital investment programs to increase the anticipated levels for 2013. Based on a revised multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments of approximately $160 million to $170 million during 2013, including approximately $67 million targeted at acquisitions completed over the past 2 years and approximately $13 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 2013 through 2016 for properties owned as of December 31, 2012. 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

($ THOUSANDS)	PROPERTIES HELD AS AT DECEMBER 31, 2012 EXCLUDING 2012 ACQUISITIONS ESTIMATED RANGE (1), (2)	2012 ACQUISITIONS ESTIMATE (1)
2013	$ 59,000 – $ 63,000	$ 30,000
2014	$ 18,000 – $ 22,000	$ 21,000
2015	$ 14,000 – $ 18,000	$ 1,800
2016	$ 9,000 – $ 13,000	$ 200

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

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, $4.8 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:

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2012	2011
Total Property Capital Investments (1)	$ 129,753	$ 116,605
Less: Estimated Maintenance Property Capital Investments (2)	(13,758)	(12,341)
Stabilizing and Value-enhancing Property Capital Investments	$ 115,995	$ 104,264

(1) Excludes capital investments for disposed properties, head office assets, 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 2008 through 2012, 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 2008 and held as at December 31, 2012 (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	31	5,603	58.4%	6.2%
2nd	32	5,982	21.9%	5.1%
3rd	31	5,753	12.6%	4.5%
4th	32	6,473	7.1%	3.0%
	126	23,811	100.0%	4.7%

(1) As a percentage of total property capital investments over the five-year period to December 31, 2012.

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. Management aims to maintain an optimal degree of leverage relative to the gross book value of CAPREIT's assets depending on a number of factors at any given time which include expected cash flow requirements, impact on near-term and long-term financial performance, current and expected state of the credit markets as well as any risks among other considerations. 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 Financial Condition) 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 Credit Facilities 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:

($ THOUSANDS) AS AT		DECEMBER 31, 2012	DECEMBER 31, 2011
Mortgages Payable		$ 2,189,556	$ 1,848,190
Bank Indebtedness		147,316	74,132
Unit-based Compensation Liabilities		40,844	28,975
Exchangeable Units		6,507	9,176
Unitholders' Equity		2,429,214	1,740,663
Total Capital		$ 4,813,437	$ 3,701,136
	THRESHOLD		
Total Debt to Gross Book Value (1)	Maximum 70.00%	47.25%	50.27%
Total Debt to Gross Historical Cost (3)		56.71%	58.55%
Tangible Net Worth (4)	Minimum $1,200,000	$ 2,476,565	$ 1,778,814
FOR THE FOUR QUARTERS ENDED		DECEMBER 31, 2012	DECEMBER 31, 2011
Debt Service Coverage Ratio (times) (2), (5)	Minimum 1.20	1.52	1.38
Interest Coverage Ratio (times) (2), (6)	Minimum 1.50	2.51	2.20

(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 gross book value of CAPREIT's assets as per CAPREIT's financial statements, determined on a fair value basis for investment properties, 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, calculated as CAPREIT's assets, as disclosed under IFRS, plus accumulated amortization on property, plant and equipment, CMHC fees, and deferred loan costs and minus fair value adjustment on investment properties.

(4) As per the Credit Facilities agreement, the tangible net worth is generally represented by Unitholders' Equity and effective July 1, 2011, Unit-based rights and compensation liabilities or assets, including Exchangeable Units are added back. Based on the renewed and amended CAPREIT's Credit Facilities agreement effective June 30, 2012, the tangible net worth requirement increased to $1,200 million from $700 million previously.

(5) As per the Credit Facilities agreement and DOT, the 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) As per the Credit Facilities agreement and DOT, the interest coverage ratio is defined as EBITDA less taxes paid divided by interest payments.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

Management ensures there is adequate overall liquidity by maintaining sufficient available credit facilities to fund maintenance and property capital investment commitments, distributions to Unitholders and to 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 assessment of CAPREIT's liquidity position continues to be stable for the foreseeable future based on its evaluation of capital resources as summarized below:

i) CAPREIT's business continues to be stable and is 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 the Credit Facilities will be sufficient to fund its ongoing property capital investments. For the year ended December 31, 2012, CAPREIT's NFFO payout ratio was 76.4%, compared to 82.8% for last year, and the effective NFFO payout ratio was 58.7% compared to 64.5% for last year which demonstrated a greater retained portion of annual NFFO. 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 2013 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages maturing during 2013 of approximately $335.9 million, which have an effective interest rate of approximately 3.38%, and refinancing approximately $62.9 million principal repayments through 2013 with new mortgages at lower interest rates.

iii) Management has successfully renewed and amended the Credit Facilities aggregating to $420 million effective June 30, 2012, which comprise a revolving three-year Acquisition and Operating Facility, and a Bridge Loan, 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. On renewal, the Credit Facilities agreement was amended, to combine the Acquisition and Operating Facility and the Land Lease Facility into one credit facility for a total of $280 million. In addition, Management secured a Bridge Loan aggregating to $140 million in conjunction to renewing the existing Credit Facilities, in order to fund specific acquisitions. The Bridge Loan is a term credit facility with a maturity date one year from the initial drawdown of the advance, which was August 31, 2012 and any principal amount repaid under the facility may not be reborrowed. As at December 31, 2012, the Bridge Loan is no longer available for borrowing, as it was used to fund the specific acquisitions in the third and fourth quarter of 2012 and was fully repaid from the net proceeds of the equity offering completed on December 4, 2012.

iv) Effective September 28, 2012, CAPREIT has a $65 million credit facility on two of the MHC land lease sites bearing interest at the banker's acceptance rate plus 1.4% per annum. This credit facility is a five-year non-revolving term credit, and any principal amount repaid under this facility may not be reborrowed. On expiry of the term, it is expected to be refinanced for an additional five-year term. There is an interest rate swap agreement on this facility, fixing the banker's acceptance rate to 2.20%, maturing in September 2022. The swap agreement fixes the all-in rate of the loan at 3.60% for a five-year term.

v) 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.

vi) On April 26, 2012, CAPREIT announced it had agreed to sell, subject to regulatory approval, 6,850,000 Units for $22.75 per Unit for aggregate gross proceeds of $155.8 million on a bought-deal basis with an over-allotment option. The transaction closed on May 17, 2012, and under the over-allotment option, 900,000 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.

vii) On November 12, 2012, CAPREIT announced it had agreed to sell, subject to regulatory approval, 6,700,000 Units for $24.00 per Unit for aggregate gross proceeds of $160.8 million on a bought-deal basis with an over-allotment option. The transaction closed on December 4, 2012, and under the over-allotment option, 1,005,000 additional Units were also issued on December 13, 2012. CAPREIT used the net proceeds of the offering to repay its borrowings under its Bridge Loan and a portion of 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.

CAPREIT is in compliance with all its investment and debt restrictions and financial covenants contained in the DOT, the LBA and the Credit Facilities. Under the terms of the LBA, total indebtedness of CAPREIT is limited to greater of (i) 60% of Gross Book Value determined on a fair value basis or, (ii) 70% of Gross Book Value determined on a historical basis, and may only be increased above such limits with CMHC's consent. Under the LBA, financial covenants are not significantly different than those required under the DOT or Credit Facilities other than as described above.

The working capital deficiency, as presented on CAPREIT's consolidated balance sheet as at December 31, 2012, 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, 2012 and 2011:

($ THOUSANDS) AS AT DECEMBER 31, 2012	ACQUISITION AND OPERATING FACILITY [1], [2]	LAND LEASE FACILITY [1]	TOTAL
Facility	$ 280,000	$ —	$ 280,000
Less:			
Bank Indebtedness	(147,316)	—	(147,316)
Letters of Credit	(6,388)	—	(6,388)
Available Borrowing Capacity	$ 126,296	$ —	$ 126,296
Weighted Average Floating Interest Rate	3.27%	—	3.27%

($ THOUSANDS) AS AT DECEMBER 31, 2011	ACQUISITION AND OPERATING FACILITY [1]	LAND LEASE FACILITY [1]	TOTAL
Facility	$ 270,000	$ 10,000	$ 280,000
Less:			
Bank Indebtedness	(74,132)	—	(74,132)
Letters of Credit	(10,247)	(86)	(10,333)
Available Borrowing Capacity	$ 185,621	$ 9,914	$ 195,535
Weighted Average Floating Interest Rate	3.67%	—	3.67%

(1) Effective June 30, 2012, the Land Lease Facility of $10 million was combined with the Acquisition and Operating Facility.
(2) As at December 31, 2012, the Bridge Loan aggregating to $140 million was fully repaid from the net proceeds of the equity offering completed on December 4, 2012.

CAPREIT's key liquidity metrics are summarized as follows:

AS AT DECEMBER 31,	2012	2011
Mortgage Debt to Gross Book Value	44.27%	48.33%
Total Debt to Gross Book Value	47.25%	50.27%
Total Debt to Gross Historical Cost [1]	56.71%	58.55%
Total Debt to Total Capitalization	47.82%	50.11%
Debt Service Coverage Ratio (times) [2]	1.52	1.38
Interest Coverage Ratio (times) [2]	2.51	2.20
Weighted Average Mortgage Interest Rate [3]	3.87%	4.48%
Weighted Average Mortgage Term to Maturity (years)	5.4	5.7

(1) Based on the historical cost of investment properties.
(2) Based on the trailing four quarters ended December 31, 2012.
(3) Weighted average mortgage interest rate includes deferred financing costs and fair value adjustments on an effective interest basis. Including the amortization of the realized component of the loss on settlement of $29.4 million included in AOCL, the effective portfolio weighted average interest rate at December 31, 2012 would be 4.05% (December 31, 2011 – 4.57%).

As at December 31, 2012, the overall leverage represented by the ratio of total debt to gross book value improved to 47.25%, as compared to 50.27% last year, mainly due to the increases in the fair value of investment properties and lower leveraged acquisitions. As at December 31, 2012, CAPREIT's total debt improved to 47.82% of total market capitalization compared to 50.11% for last year due to the rise in CAPREIT's Trust Unit price since December 31, 2011, combined with the equity offerings completed in May 2012 and December 2012.

The effective portfolio weighted average interest rate has steadily declined from 4.48% as at December 31, 2011, to 3.87% as at December 31, 2012, which Management expects will result in continued significant interest rate savings in future years. Management believes that as CAPREIT's refinancing plan continues to be realized, there is scope to further reduce the effective portfolio weighted average interest rate based on foreseeable market conditions. Management is also focused on ensuring the portfolio weighted average term to maturity remains above the five-year range or longer and expects to gradually extend the term. As at December 31, 2012, the weighted average mortgage term to maturity has decreased to 5.4 years from 5.7 years for the same period last year, primarily due to the assumption of mortgages on acquisitions with a short remaining weighted average term of approximately 2.2 years.

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 bear interest rates based on a ten-year Government of Canada bond rate between a floor rate of 3.00% and a maximum of 3.62%, before the impact of credit spread.

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,	2012	2011
Percentage of CMHC-Insured Mortgages [1]	92.90%	96.50%
Percentage of Fixed-Rate Mortgages	98.97%	98.21%

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

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

($ THOUSANDS) AS AT DECEMBER 31,	2012	2011
Balance, Beginning of the Year	$ 1,848,190	$ 1,633,861
Add:		
New Borrowings	1,713	148,113
Assumed	334,948	47,026
Refinanced	358,556	289,232
Less:		
Mortgage Repayments	(58,962)	(52,107)
Mortgages Matured	(248,954)	(219,507)
Mortgages Repaid on Dispositions of Investment Properties	(53,534)	(2,117)
Change in Deferred Financing Costs, Fair Value Adjustments, Net	7,599	3,689
Balance, End of the Year	$ 2,189,556	$ 1,848,190

The following table presents the refinancings for the year ended December 31, 2012, and the weighted average interest rates obtained. Total mortgage renewals and mortgage top-up amounts were below Management's revised mid-year plan due to changing capital requirements as a result of the equity offering completed in December 2012.

($ THOUSANDS)	ORIGINAL MORTGAGE AMOUNT	ORIGINAL STATED INTEREST RATE [1]	NEW MORTGAGE AMOUNT	NEW STATED INTEREST RATE [1],[2]	WEIGHTED AVERAGE TERM ON NEW MORTGAGES (YRS)	TOP-UP AMOUNT
First Quarter	$ 25,822	3.88%	$ 37,002	2.55%	6.9	$ 11,180
Second Quarter	3,608	4.55%	6,435	3.10%	10.0	2,827
Third Quarter	125,995	5.39%	176,401	3.10%	8.2	50,406
Fourth Quarter	88,490	4.41%	140,431	2.88%	10.1	51,941
Total and Weighted Average	$ 243,915	4.86%	$ 360,269	2.95%	8.8	$ 116,354

(1) Weighted average.
(2) Excludes CMHC and Other Financing Costs and hedge impact.

For purposes of estimating top-up financing potential, the following table provides annualized 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 $575 million and $625 million in total mortgage renewals and refinancings for 2013. Based on this mortgage maturity profile, Management believes it will be in a position to achieve its mortgage renewal and refinancing plan for 2013.

($ THOUSANDS) AS AT DECEMBER 31, 2012	MORTGAGE MATURITIES [1]	MORTGAGES ON THE SAME PROPERTIES MATURING IN OTHER YEARS [1]	TOTAL MORTGAGES	NOI OF PROPERTIES WITH MATURING MORTGAGE(S) [2],[3]
2013	$ 335,924	$ 34,753	$ 370,677	$ 54,715
2014	300,954	70,399	371,353	43,921
2015	154,849	6,992	161,841	20,937
2016	60,335	2,026	62,361	8,922
2017	164,958	(22,735)	142,223	15,400
2018 Onward	749,417	(91,435)	657,982	118,672
Total	$ 1,766,437	$ —	$ 1,766,437	$ 262,567

(1) Mortgage balance due upon maturity.
(2) NOI for the twelve months ended December 31, 2012.
(3) Projected NOI included for acquisitions since December 31, 2011.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2012, is as follows:

($ THOUSANDS)

YEAR	PRINCIPAL REPAYMENTS	MORTGAGE MATURITIES	MORTGAGE BALANCE	% OF TOTAL MORTGAGE BALANCE	INTEREST RATE (%) [1],[2]
2013	$ 62,860	$ 335,924	$ 398,784	18.3	3.38
2014	51,544	300,954	352,498	16.2	3.75
2015	46,579	154,849	201,428	9.2	3.59
2016	41,805	60,335	102,140	4.7	4.55
2017	39,045	164,958	204,003	9.3	4.25
2018	38,843	69,707	108,550	5.0	3.80
2019	36,902	92,636	129,538	5.9	4.91
2020	34,774	54,648	89,422	4.1	4.66
2021	27,983	260,506	288,489	13.2	4.12
2022	16,570	238,452	255,022	11.7	3.12
2023 – 2027	19,461	33,468	52,929	2.4	5.08
Total	**$ 416,366**	**$ 1,766,437**	**$ 2,182,803**	**100.0**	**3.87** [2]
Deferred Financing Costs, Fair Value Adjustments, Net			6,753		
Total			**$ 2,189,556**		

(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 $29.4 million included in AOCL, the effective portfolio weighted average interest rate as at December 31, 2012 would be 4.05% (December 31, 2011 - 4.57%).

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 to refinance its mortgage principal repayments.

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

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 offerings and over-allotments as at December 31, 2012:

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) PERIOD	PRICE PER UNIT	GROSS PROCEEDS	TRANSACTION COSTS	NET PROCEEDS	UNITS ISSUED
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
May 2012					
Bought-deal	$ 22.75	$ 155,838	$ 6,897	$ 148,941	6,850,000
Over-allotment	$ 22.75	20,475	819	19,656	900,000
Total		$ 176,313	$ 7,716	$ 168,597	7,750,000
December 2012					
Bought-deal	$ 24.00	$ 160,800	$ 7,232	$ 153,568	6,700,000
Over-allotment	$ 24.00	24,120	965	23,155	1,005,000
Total		$ 184,920	$ 8,197	$ 176,723	7,705,000

In connection with the equity offerings and the exercise of the over-allotment options in October 2011, May 2012 and December 2012, a total of 224,250, 232,500, and 231,150 Unit Options were granted to the President and CEO under the UOP at weighted average exercise prices of $20.30, $22.75, and $24.11 per Unit, respectively, with expiration dates of October 2021, May 2022, and December 2022.

YEAR ENDED DECEMBER 31,	2012
Market Capitalization ($ thousands)	$ 2,550,146
Number of Units Outstanding	102,415,506
LTIP and SELTIP Units	2,333,341
Deferred Units	139,907
RUR Plan Units	268,397
Exchangeable Units	261,311
Number of Unit Options Outstanding and Exercisable	915,900
Ownership by Trustees, Officers and Senior Managers	3.8%

Normal Course Issuer Bid

On a periodic basis, CAPREIT may apply to the Toronto Stock Exchange ("TSX") for approval of a Normal Course Issuer Bid ("NCIB"). Pursuant to regulations of NCIBs, CAPREIT will receive approval to purchase and cancel a specified number of Trust Units, representing 10% of the public float of its Trust Units at the time of the TSX approval. The NCIB will terminate on the earlier of the termination date or at such time as the purchases under the bid are completed. CAPREIT believes the purchase of its outstanding Trust Units from time to time may be an appropriate use of its resources and can provide liquidity to Unitholders who desire to sell their Trust Units.

The table below summarizes the NCIBs in place since January 1, 2011. No Trust Units were acquired and cancelled under these NCIBs. Management has not renewed the NCIB as at December 31, 2012, as currently it does not believe that the purchase of CAPREIT's outstanding Trust Units is an appropriate use of its resources.

PERIOD COVERED UNDER EACH NCIB	APPROVAL LIMIT
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:

YEAR ENDED DECEMBER 31,	2012	2011
Taxable to Unitholders as Other Income	14.59%	10.77%
Taxable to Unitholders as Eligible Dividend Income	1.72%	2.19%
Taxable to Unitholders as Capital Gain Income	18.98%	0.26%
Income Tax Deferral	64.71%	86.78%
Total	100.00%	100.00%
Total Effective Non-taxable Portion of Distributions	74.20%	86.91%

The portion of CAPREIT's distributions to Canadian resident Unitholders treated as taxable for the year ended December 31, 2012 increased over the prior year, primarily due to higher recapture of capital cost allowance and capital gains resulting from the disposition of properties in the current year, partially offset by the realized loss on the interest rate forward contract.

Section 5

SELECTED CONSOLIDATED QUARTERLY INFORMATION

	Q4 12	Q3 12	Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11
Overall Portfolio AMR	$ 975	$ 972	$ 960	$ 995	$ 991	$ 991	$ 982	$ 978
Operating Revenues (000s) (1)	$ 112,109	$ 109,118	$ 95,932	$ 95,262	$ 94,564	$ 92,824	$ 88,235	$ 86,332
NOI (000s) (1)	$ 62,651	$ 65,813	$ 56,714	$ 52,738	$ 52,563	$ 55,039	$ 51,991	$ 46,564
NOI Margin (1)	55.9%	60.3%	59.1%	55.4%	55.6%	59.3%	58.9%	53.9%
Net Income (000s)	$ 162,982	$ 96,703	$ 120,300	$ 32,278	$ 226,356	$ 22,980	$ 57,173	$ 9,663
FFO (000s)	$ 32,243	$ 39,742	$ 30,657	$ 26,512	$ 23,774	$ 28,689	$ 26,591	$ 22,132
NFFO (000s)	$ 33,556	$ 39,866	$ 31,329	$ 27,802	$ 25,223	$ 29,252	$ 26,848	$ 22,552
Total Debt to Gross Book Value	47.25%	50.97%	50.83%	50.11%	50.27%	56.55%	55.57%	53.57%
FFO Per Unit – Basic	$ 0.342	$ 0.434	$ 0.350	$ 0.318	$ 0.295	$ 0.381	$ 0.354	$ 0.296
NFFO Per Unit – Basic	$ 0.356	$ 0.435	$ 0.358	$ 0.333	$ 0.312	$ 0.388	$ 0.357	$ 0.301
Weighted Average								
Number of Units (000s) – Basic	94,210	91,667	87,509	83,395	80,715	75,397	75,143	74,844
– Diluted	95,635	93,134	88,880	84,640	81,790	76,395	76,048	75,586

(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 2012 increased by 18.6% over the same quarter in 2011, while NOI increased by a significant 19.2%, driven by higher revenue and lower utility, realty taxes, and wages costs offset by increase in R&M costs as a percentage of total operating revenues, compared to the same period last year. Net income in the fourth quarter of 2012 decreased over the same period last year by $63.4 million, mainly due to a lower unrealized gain on remeasurement of investment properties of $134.2 million, compared to $204.3 million for the same period last year and a higher realized loss on disposition of investment properties of $1.1 million, compared to $nil for the same period last year offset by higher NOI of $10.1 million. Higher NFFO was primarily due to higher NOI during the fourth quarter of 2012.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table presents a summary of selected financial information for the fiscal years indicated below:

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS) YEAR ENDED DECEMBER 31,	2012	2011	2010
Income Statement			
Operating Revenues	$ 412,421	$ 361,955	$ 338,959
Net Income	$ 412,263	$ 316,172	$ 529,048
Distributions			
Distributions Declared	$ 97,903	$ 82,816	$ 72,230
Distributions per Unit	$ 1.097	$ 1.080	$ 1.080
Balance Sheet			
Investment Properties	$ 4,826,355	$ 3,713,737	$ 3,049,980
Total Assets	$ 4,921,546	$ 3,804,650	$ 3,136,263
Mortgages Payable	$ 2,189,556	$ 1,848,190	$ 1,633,861
Bank Indebtedness	$ 147,316	$ 74,132	$ 39,358

Section 6

ACCOUNTING POLICIES AND CRITICAL ESTIMATES

Accounting Policies and New Accounting Standards

As at February 26, 2013, 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, 2012:

IFRS 11, Joint Arrangements ("IFRS 11")

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 ("IFRS 12")

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 ("IAS 28")

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, all of CAPREIT's co-ownership arrangements will be accounted for using proportionate consolidation and as the same methodology is applied currently, there will be no changes expected to CAPREIT's financial reporting for 2013.

IFRS 13, Fair Value Measurement ("IFRS 13")

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 in 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 requirement is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The change is not expected to have a significant impact on CAPREIT's financial reporting for 2013.

IFRS 10, Consolidated Financial Statements ("IFRS 10")

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. CAPREIT is continuing to assess the impact of this standard on its financial reporting for 2013.

IAS 27, Separate Financial Statements ("IAS 27")

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 2013.

IFRS 9, Financial Instruments ("IFRS 9")

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. Management is assessing the impact of the above amendment but does not expect CAPREIT to be significantly impacted on adoption in its current form.

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 judgement 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.

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 judgement, estimates and assumptions about market conditions in effect as at the balance sheet dates. See note 6 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 12 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 15 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 in future years.

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, 2012, 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, 2012.

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, 2012 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 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.

Management also maintains internal controls that ensure continued compliance with the Specified Investment Flow-Through ("SIFT") Rules allowing CAPREIT to maintain its qualification under the REIT Exception (see Taxation-Related Risks under the Risks and Uncertainties section). These controls include training of key staff with respect to entering into any new business activities, including any new vendor and commercial leasing arrangements.

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. During August 2012, CAPREIT implemented SAP, Real Estate 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 2012 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

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

Section 7

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and the activities of CAPREIT. The following is a description of the principal risks in CAPREIT's business, defined as either those that although unlikely, can have a significant impact on CAPREIT or those that are significant to CAPREIT's day-to-day operations. Investors should carefully consider these risks before investing in CAPREIT 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.

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. 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 Management's own observations of market transactions. Downturns in the real estate market could negatively affect CAPREIT's operating revenues and cash flows could significantly impact the fair values of the investment properties as well as certain financial ratios and covenants.

Related to Ownership and Operation of Real Property

Real Property Ownership

The illiquid nature of real property investments 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 the residential sector of the real estate market, CAPREIT is exposed to adverse effects on that segment 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. Comprehensive environmental and structural studies are performed and studied before and upon acquisition of every property by an independent, qualified engineering firm at the request of CAPREIT. Using the result of these studies, decisions whether to acquire are made and a multi-year capital investment plan is established beginning with the most urgent and critical work identified.

Leasehold Interests

CAPREIT's long-term leasehold interests are subject to additional risks as unlike 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 leasehold interests, 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, 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 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 on 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 61.8% of the overall portfolio (by number of suites and sites) in Ontario (42% 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 2012, CAPREIT entered into 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.

Environmental Matters

Environmental and ecological legislation and policies have become increasingly important, and generally restrictive, in recent years. CAPREIT aims to mitigate the adverse impacts of new environmental legislation by minimizing the negative impact of its operations on the environment such as reducing energy consumption and waste-generation at its properties. In addition, 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 CAPREIT's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims against CAPREIT. 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, additional Phase II or Phase III environmental assessments are obtained. 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 financial 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 prepares building condition reports and commits to a multi-year property capital investment plan for each property as necessary. 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

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, and the risk that existing indebtedness may not be refinanced or that the terms of 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 manage its interest rate risk by obtaining fixed-rate mortgage financing and/or 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 on favourable terms, CAPREIT may be required to obtain a conventional mortgage at terms historically less favourable than a CMHC-insured mortgage.

CAPREIT's three-year revolving Acquisition and Operating Facility of $280 million matures on June 30, 2015 is at a floating interest rate and, accordingly, changes in short-term borrowing rates will affect CAPREIT's costs of borrowing. 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 Facility 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 willingness/participation of banks in providing the Credit Facility.

Interest Rate Hedging

From time to time, CAPREIT uses interest rate hedging arrangements to manage its exposure to interest rate volatility, which 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

CAPREIT currently qualifies as a mutual fund trust for Canadian income tax purposes. It is the current policy of CAPREIT to distribute all of its taxable income to Unitholders and is therefore generally not subject to tax on such amount. In order to maintain its current mutual fund trust status, CAPREIT is required to comply with specific restrictions regarding its activities and the investments held by it. If CAPREIT was to cease to qualify as a mutual fund trust, the consequences could be adverse.

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 its 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 *Income Tax Act* ("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 ("designated 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 designated savings plans. CAPREIT will endeavour to ensure CAPREIT Units continue to be qualified investments for trusts governed by the designated 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 Specified Investment Flow-Through Rules ("SIFT Rules") were enacted in the Tax Act, which modify the federal income tax treatment of certain publicly traded trusts and partnerships that are SIFT 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 did not apply until the 2011 taxation year to SIFTs that were publicly traded prior to November 1, 2006.

In accordance with the Tax Act, for fiscal 2011 and 2012, CAPREIT qualified as a real estate investment trust ("REIT") for income tax purposes and, as such, was exempted from the SIFT Rules.

On December 16, 2010, the Department of Finance announced proposed amendments to the real estate investment trust exemption rule and, on October 24, 2012, released legislation to implement such amendments. These notable amendments:

i) Allow REIT subsidiaries to hold certain non-capital property in respect of their real estate investment activities;
ii) Allow REITs to hold up to 10% of their non-portfolio property as non-qualifying REIT property without losing REIT status (with an associated clarification of the circumstances under which property can be considered to be ancillary REIT property);
iii) Allow REITs to derive up to 10% of their revenues from sources that are not qualifying sources;
iv) Clarify that a trust's revenue for purposes of the two revenue tests in the definition "real estate investment trust" is to be computed on a gross, rather than net, basis and that it will include capital gains but will not include recapture or other amounts that are on account of capital;
v) Allow REITs to earn, as qualifying REIT revenue, gains realized by virtue of foreign currency fluctuations in respect of revenues derived from foreign real or immovable property including certain financing and hedging arrangements in respect of such property;
vi) Ensure that amounts distributed to a REIT, by an entity in which the REIT has a significant interest, will retain their character for purposes of the revenue tests; and,
vii) Allow an entity to hold investments in a REIT without those investments being treated as Canadian real, immovable, or resource property in determining whether the entity itself is a SIFT.

These legislations, once passed, reduce the likelihood of REITs such as CAPREIT being treated as a SIFT in a given year.

A REIT is defined under the SIFT Rules as a trust that is resident in Canada throughout the taxation year and that satisfies all of the following criteria:

i) At each time in the taxation year the total fair market value at that time of all non-portfolio properties that are qualified REIT properties held by the trust is at least 90% of the total fair market value at that time of all non-portfolio properties held by the trust;
ii) Not less than 90% of the trust's gross REIT revenue for the taxation year is from one or more of the following: rent from real or Immovable properties, interest, dispositions of real or immovable properties that are capital properties, dividends, royalties, and dispositions of eligible resale properties;
iii) Not less than 75% of the trust's gross REIT revenue for the taxation year is from one or more of the following: rent from real or immovable properties, interest from mortgages, or hypothecs, on real or Immovable properties, and dispositions of real or immovable properties that are capital properties,
iv) At each time in the taxation year an amount, that is equal to 75% or more of the equity value of the trust at that time, is the amount that is the total fair market value of all properties held by the trust each of which is a real or immovable property that is a capital property, an eligible resale property, an indebtedness of a Canadian corporation represented by a bankers' acceptance, a property described by either paragraph (a) or (b) of the definition "qualified investment" In section 204, or a deposit with a credit union; and,
v) Investments in the trust are, at any time in the taxation year, listed or traded on a stock exchange or other public market.

For this purpose, "real or immovable property" includes a security of any trust, corporation or partnership that itself satisfies the above criteria, but does not include any depreciable property of a prescribed class for which the rate of capital cost allowance exceeds 5%.

Excluded from the definition of a SIFT is a partnership, such as CAPLP and CAPLP2, 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 harmonized sales tax ("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. Effective April 1, 2013, however, British Columbia will revert back to the original PST and federal GST. British Columbia consumers will only pay PST on those goods and services that were subject to PST before the implementation of the HST and all permanent PST exemptions will be re-implemented.

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*, enacted on June 19, 2012, set Ontario's annual rent increase guideline to no more than 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 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 judgements 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, 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-ended mutual fund 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 to 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

Numerous other developers, managers and owners of properties compete with CAPREIT in seeking residents. The 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, the increased condominium construction in the GTA could impact the rental market and affect residential rental fundamentals in the future.

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. The sustained low interest rates may also have effects on vacancy rates, rent levels, refurbishing costs and other factors affecting CAPREIT's business and profitability.

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

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, 2012 were $8.3 million and $13.2 million, respectively (December 31, 2011 – $8.5 million and $13.7 million, 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 of 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:

($ THOUSANDS) YEAR ENDED DECEMBER 31,	2012	2011
Short-Term Employee Benefits (1)	$ 3,170	$ 4,857
Unit-based Compensation – Grant Date Amortization	2,819	1,512
	5,989	6,369
Unit-based Compensation – Fair Value Remeasurement	7,367	7,690
Total	$ 13,356	$ 14,059

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

Previously, CAPREIT entered into construction management agreements with a company that was owned by two trustees and officers of CAPREIT to provide construction management services (based on 4.5% of construction costs up to $20.0 million, 3.0% for the next $15.0 million and 1.0% thereafter) to carry out the capital improvements for the properties. Effective January 1, 2012, CAPREIT terminated its construction management agreement and entered into a new construction management agreement with a non-related party on substantially similar terms. CAPREIT had related party management fees until the balance of the work on the previous contract was completed. The total construction management fees for the year ended December 31, 2012 (excluding reimbursable expenses of $nil and HST/GST) was $0.1 million, and have been capitalized to income properties.

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, 2012 was $0.9 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 25 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 financial statements of CAPREIT.

Section 8

SUBSEQUENT EVENT

On January 31, 2013, CAPREIT completed the acquisition of a mid-tier apartment complex in Calgary, Alberta consisting of six three-storey buildings totalling 263 residential suites. The purchase price of $47.3 million was satisfied by the assumption of an existing $7.2 million mortgage bearing interest at 6.95% maturing in October 2017, with the remaining balance funded from CAPREIT's Acquisition and Operating Facility.

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 2013 is 2.5%. An amendment to the *Residential Tenancies Act, 2006* enacted on June 19, 2012, set Ontario's annual rent increase guideline to not more than 2.5% beginning in 2013. 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 AGI for: (i) eligible capital expenditures; (ii) unusually high increases in property taxes and/or utility costs; and (iii) increases in eligible security costs. The maximum AGI permitted in connection with eligible capital expenditures is three percent per year to a maximum of nine percent over a three-year period. These same limitations do not apply to AGI applications related to unusually high increases in property taxes and/or utilities, or increases in eligible security costs.

In line with its focus to maximize average monthly rents, CAPREIT continues to pursue AGIs where it believes 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 cumulative AGI applications filed as at December 31, 2012 and December 31, 2011:

	DECEMBER 31, 2012	DECEMBER 31, 2011
Number of Units and Sites Filed	11,583	9,320
Applications Settled		
Number of Applications	63	42
Term Weighted Average Total Increase [1]	3.20%	2.49%
Weighted Average Term (years) [1], [2]	1.62	1.34
Applications Outstanding		
Number of Applications	12	21
Term Weighted Average Total Increase [1]	5.91%	4.31%
Weighted Average Term (years) [1], [2]	2.14	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.

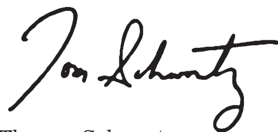
As at December 31, 2012, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' 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 26, 2013



Thomas Schwartz
President and Chief Executive Officer

Scott Cryer
Chief Financial Officer

Independent Auditor's Report

February 26, 2013

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, 2012 and December 31, 2011 and the consolidated statements of income and comprehensive income (loss), unitholders' equity and cash flows for the years then ended, 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.

Auditor's 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 audit 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, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

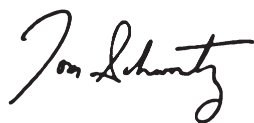
Chartered Accountants, Licensed Public Accountants

Consolidated Balance Sheets

(CA$ THOUSANDS) AS AT	NOTE	DECEMBER 31, 2012	DECEMBER 31, 2011
Non-Current Assets			
Investment properties	6	$ 4,826,355	$ 3,713,737
Other non-current assets	7	81,073	81,743
		4,907,428	3,795,480
Current Assets			
Other current assets	7	14,118	9,170
		$ 4,921,546	$ 3,804,650
Non-Current Liabilities			
Mortgages payable	9	$ 1,790,772	$ 1,559,480
Bank indebtedness	10	147,316	74,132
Unit-based compensation financial liabilities	11, 12	2,144	1,646
Other non-current liabilities	8	—	2,703
		1,940,232	1,637,961
Current Liabilities			
Mortgages payable	9	398,784	288,710
Unit-based compensation financial liabilities	11, 12	38,700	27,329
Accounts payable and accrued liabilities		64,295	50,375
Other current liabilities	8	11,158	21,727
Security deposits		23,377	21,261
Exchangeable Units	11	6,507	9,176
Distributions payable		9,279	7,448
		552,100	426,026
		$ 2,492,332	$ 2,063,987
Unitholders' Equity			
Unit Capital		$ 1,544,750	$ 1,172,058
Accumulated other comprehensive loss ("AOCL")	19	(22,511)	(24,010)
Retained earnings		906,975	592,615
		$ 2,429,214	$ 1,740,663
		$ 4,921,546	$ 3,804,650

See accompanying notes to consolidated financial statements.

Signed on behalf of the Trustees:



Thomas Schwartz
Trustee

Michael Stein
Trustee

Consolidated Statements of Income and Comprehensive Income (Loss)

(CA$ THOUSANDS) FOR THE YEAR ENDED DECEMBER 31,	NOTE	2012	2011
Operating Revenues			
Revenue from investment properties		$ 412,421	$ 361,955
Operating Expenses			
Realty taxes		49,483	44,885
Property operating costs		125,022	110,913
		174,505	155,798
Net Rental Income		237,916	206,157
Trust expenses		13,904	14,797
Unit-based compensation expenses	12	13,333	13,936
Fair value adjustments of investment properties	6	(298,228)	(231,338)
Realized loss on disposition of investment properties	5	1,613	95
Amortization of property, plant and equipment		2,195	1,613
Severance and other employee costs	20	—	1,352
Operating Income		505,099	405,702
Fair value adjustments of Exchangeable Units	11	904	2,126
Loss on derivative financial instruments	16	2,854	233
Interest and other financing costs	21	92,581	89,070
Other income		(3,503)	(1,899)
Net Income		$ 412,263	$ 316,172
Other Comprehensive Income (Loss)			
Amortization of losses from AOCL to interest and other financing costs	19	$ 2,000	$ 1,052
Change in fair value of derivative financial instruments	16	(2,218)	(17,776)
Change in fair value of investments		3,168	3,799
Realized gain on sale of investments		(1,451)	—
Other Comprehensive Income (Loss)		$ 1,499	$ (12,925)
Comprehensive Income		$ 413,762	$ 303,247

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

(CA$ THOUSANDS)	NOTE	UNIT CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
Unitholders' Equity, January 1, 2012		$ 1,172,058	$ 592,615	$ (24,010)	$ 1,740,663
Unit Capital					
New Units Issued	13	349,365	—	—	349,365
Distribution Reinvestment Plan	13	20,122	—	—	20,122
Unit Option Plan	12, 13	2,796	—	—	2,796
Employee Unit Purchase Plan	12	409	—	—	409
		372,692	—	—	372,692
Retained Earnings and Other Comprehensive Income					
Net Income		—	412,263	—	412,263
Other comprehensive income		—	—	1,499	1,499
		—	412,263	1,499	413,762
Distributions on Trust Units					
Distributions declared and paid	14	—	(88,624)	—	(88,624)
Distributions payable	14	—	(9,279)	—	(9,279)
		—	(97,903)	—	(97,903)
Unitholders' Equity, December 31, 2012		$ 1,544,750	$ 906,975	$ (22,511)	$ 2,429,214

	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	12, 13	3,412	—	—	3,412
Long-Term Incentive Plan	12, 13	366	—	—	366
Employee Unit Purchase Plan	12	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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(CA$ THOUSANDS)

FOR THE YEAR ENDED DECEMBER 31,	NOTE	2012	2011
Cash Provided By (Used In):			
Operating Activities			
Net income		$ 412,263	$ 316,172
Items related to operating activities not affecting cash:			
Fair value adjustment – investment properties		(298,228)	(231,338)
Fair value adjustment – Exchangeable Units		904	2,126
Fair value adjustment – utility contracts		—	(10)
Gain on Sale of Investments		(1,455)	—
Loss on disposition of investment properties	5	1,613	95
Loss on derivative financial instruments	16	2,854	233
Amortization of property, plant and equipment		2,195	1,613
Amortization of other financing costs	21	1,496	4,541
Amortization of loss on derivative financial instruments from AOCL	19	2,000	1,052
Unit-based compensation expenses		13,333	13,936
Straight-line rent adjustment		(151)	(220)
		136,824	108,200
Net income items related to financing and investing activities	23	85,388	81,233
Changes in non-cash operating assets and liabilities	23	(11,995)	(423)
Cash Provided By Operating Activities		210,217	189,010
Investing Activities			
Acquisition of investment properties	23	(445,682)	(270,536)
Capital investments	23	(131,280)	(117,336)
Disposition of investments		6,830	—
Disposition of investment properties	23	55,644	3,609
Change in restricted cash		(503)	(350)
Investment income received		3,334	1,899
Cash Used In Investing Activities		(511,657)	(382,714)
Financing Activities			
Mortgage financings		360,269	437,345
Mortgage principal repayments		(58,962)	(52,107)
Mortgages repaid on maturity		(248,954)	(219,507)
Financing costs on mortgages payable		(1,772)	(1,478)
CMHC premiums on mortgages payable		(5,223)	(7,940)
Interest paid on mortgages payable	23	(82,490)	(77,447)
Bank indebtedness		73,184	34,774
Interest paid on bank indebtedness	23	(5,865)	(5,241)
Interest paid on Exchangeable Units	23	(367)	(444)
Proceeds on issuance of Units	23	347,570	147,537
Net cash distributions to Unitholders	23	(75,950)	(66,138)
Cash Provided By Financing Activities		301,440	189,354
Changes in Cash and Cash Equivalents During the Year		—	(4,350)
Cash and Cash Equivalents, Beginning of the Year		—	4,350
Cash and Cash Equivalents, End of the Year		$ —	$ —

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

DECEMBER 31, 2012 (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-ended mutual fund 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 2 Limited Partnership, a wholly owned consolidated subsidiary of CAPREIT was formed on June 13, 2012. It was formed to complete the acquisition on June 29, 2012 of 14 properties (see note 4).

CR Advisors Limited Partnership and CR Property Management Limited Partnership, wholly-owned consolidated subsidiaries of CAPREIT, were formed on December 5, 2012 to provide property and asset services to a third party real estate investment trust domiciled in the United States, which owns and operates 16 manufactured home communities in Colorado, Texas, Arizona, and Michigan.

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

CAPREIT has prepared these consolidated annual financial statements in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of consolidated annual financial statements.

These consolidated annual financial statements, which were approved by CAPREIT's Board of Trustees on February 26, 2013, have been prepared on the basis of IFRS issued and effective, or available for early adoption, as at December 31, 2012.

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 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 deconsolidated 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 that 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 properties.

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 6 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 10 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 accrued liabilities 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 include cash and short term investments with an original maturity of three months or less, as well as restricted cash held by CAPREIT, and 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, Financial Instruments: Disclosures ("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 15 for a detailed discussion of valuation methods used for financial instruments quoted on an active market and instruments valued using observable data.

Derivatives

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently re-measured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. For CAPREIT's accounting policy on hedging, see Hedging relationships section below.

Derivatives designated for CAPREIT's own use are measured at fair value with changes therein recognized directly through statement of income and comprehensive income (loss) under net income.

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 (loss).

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 designated its interest rate swap agreement and forward interest rate contracts as cash flow hedges. At the inception of the transaction, CAPREIT documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. CAPREIT also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of income and comprehensive income/loss under 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 (loss).

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 value of cash flow hedges, derivatives and investments. The components of AOCL are disclosed in note 19.

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 11, 12 and 13.
(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 18.

CAPREIT and its wholly owned subsidiaries satisfied certain conditions available to Real Estate Investment Trusts ("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.

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, Earnings per Share, 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 at February 26, 2013, 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, 2012:

IFRS 11, Joint Arrangements ("IFRS 11")

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 ("IFRS 12")

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 ("IAS 28")

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, all of CAPREIT's co-ownership arrangements will be accounted for using proportionate consolidation and as the same methodology is applied currently, there will be no changes expected to CAPREIT's financial reporting for 2013.

IFRS 13, Fair Value Measurement ("IFRS 13")

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 in 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 requirement is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. The change is not expected to have a significant impact on CAPREIT's financial reporting for 2013.

IFRS 10, Consolidated Financial Statements ("IFRS 10")

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. CAPREIT is continuing to assess the impact of this standard on its financial reporting for 2013.

IAS 27, Separate Financial Statements ("IAS 27")

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 ("IFRS 10"). 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 2013.

IFRS 9, Financial Instruments ("IFRS 9")

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. CAPREIT is assessing the impact of the above amendment but does not expect CAPREIT to be significantly impacted on adoption in its 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 judgements 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 the 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.

The fair value of investment properties is established by a qualified, independent appraiser annually. Each quarter, CAPREIT utilizes market assumptions for rent increases, capitalization and discount rates provided by the external appraiser to determine the fair value of the investment properties for interim reporting purposes. Capitalization rates employed by the appraiser are based on recently closed transactions, generally the last three months, and other current market indicators for similar properties.

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 6 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 15; 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 12; 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 12.

Note 4

RECENT INVESTMENT PROPERTY ACQUISITIONS

CAPREIT completed the following investment property acquisitions since January 1, 2011, which have contributed to the operating results effective from their respective acquisition dates:

FOR THE YEAR ENDED DECEMBER 31, 2012	SUITE OR SITE COUNT	REGION(S)	TOTAL ACQUISITION COSTS	MORTGAGE FUNDING	INTEREST RATE	MATURITY DATE
November 1, 2012	980	Greater Montréal Region	$ 183,516	$ 82,048	4.39%	September 1, 2013
August 31, 2012 (1)	405	Calgary	69,501	31,208 (2)	3.38% (2)	— (2)
July 19, 2012 (3)	5	Bowmanville and Grand Bend	499	— (4)	— (4)	— (4)
June 29, 2012 (5)	3,562	Various	461,428	183,939 (6)	3.99% (6)	— (6)
May 31, 2012 (7)	2,032	Various	76,324	37,753 (8)	5.33% (8)	— (8)
	6,984		$ 791,268	$ 334,948		

(1) The acquisition comprised two mid-tier properties. One property is a fee simple interest, and the other is a land leasehold interest.

(2) Mortgages assumed on acquisition comprised $13,405 maturing on January 1, 2014, and $17,803 maturing on September 1, 2014, at a weighted average stated interest rate of 3.38%.

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

(4) The acquisition was funded from CAPREIT's Acquisition and Operating Facility (see note 10).

(5) The acquisition comprised 14 properties consisting of 3,562 suites (1,027 affordable, 1,403 mid-tier and 1,132 luxury) located in Ontario, Québec and Nova Scotia.

(6) Mortgages assumed on acquisition comprised $183,939 at a weighted average term to maturity of 2.6 years, at a weighted average stated interest rate of 3.99%.

(7) The acquisition comprised 12 manufactured home communities ("MHC") consisting of 2,032 land lease sites located in Ontario, Saskatchewan, Alberta and British Columbia.

(8) Mortgages assumed on acquisition comprised $37,753 at a weighted average term to maturity of 3.0 years, at a weighted average stated interest rate of 5.33%.

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)	— (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 (4)	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 10).

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

(4) The acquisition comprised three mid-tier and two luxury properties.

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

Note 5
INVESTMENT PROPERTY DISPOSITIONS

The tables below summarize the investment property dispositions completed since January 1, 2011. These dispositions do not meet the definition of discontinued operations under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

Dispositions Completed During the Year Ended December 31, 2012

DISPOSITION DATE	SUITE COUNT	REGION(S)	SALE PRICE	CASH PROCEEDS	MORTGAGE DISCHARGED
October 31, 2012	438	Various [1]	$ 60,700	$ 29,944	$ 29,018
May 31, 2012	199	Greater Toronto Area	33,500	17,974	15,030
February 22, 2012	136	Greater Toronto Area	17,500	7,726	9,485
	773		$ 111,700	$ 55,644	$ 53,533

(1) The disposition comprised five properties consisting of 438 suites located in Mississauga, Oakville and Toronto, Ontario.

Disposition 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

A loss of $1,613 was recognized for the year ended December 31, 2012 (December 31, 2011 – $95) in connection with the property dispositions.

Note 6
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 rent increases, capitalization and discount rates provided by the external appraiser to determine the fair value of the investment properties. Cap rates employed by the appraiser are based on recently closed transactions for similar 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 (option exercise 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 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 December 31, 2012 and December 31, 2011:

AS AT DECEMBER 31, 2012 TYPE OF INTEREST	FAIR VALUE	RATE TYPE	MAX	MIN	WEIGHTED AVERAGE
Fee Simple Interests – Apartments and Townhomes	$ 3,996,120	Capitalization rate	6.50%	3.50%	5.19%
MHC Land Lease Sites	173,620	Capitalization rate	7.52%	5.87%	6.25%
Operating Leasehold Interests (1), (2)	471,185	Discount rate (3)	7.75%	6.00%	6.36%
Land Leasehold Interests (1)	185,430	Discount rate	7.75%	7.15%	7.52%
Total Investment Properties	$ 4,826,355				

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 values of Operating Leasehold Interests subject to a contractual air rights lease and Land Leasehold Interests subject to land leases reflect 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 freehold interests of $36,645 as at December 31, 2012 and $27,017 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 December 31, 2012, and December 31, 2011.

Reconciliation of carrying amounts of investment properties

FOR THE YEAR ENDED DECEMBER 31,	2012	2011
Balance at the beginning of the year	$ 3,713,737	$ 3,049,980
Additions:		
Acquisitions	791,268	321,524
Property capital investments	133,286	116,579
Capitalized leasing costs (1)	1,038	143
Dispositions	(109,589)	(5,732)
Realized loss on disposition of investment properties	(1,613) (2)	(95)
Unrealized fair value adjustments	298,228	231,338
Balance at the end of the year	$ 4,826,355	$ 3,713,737

(1) Comprises tenant inducements, straight-line rent, and direct leasing costs.

(2) Comprises write-offs of net CMHC fees, net deferred financing costs, and transaction costs related to the respective dispositions in 2012.

Note 7
OTHER ASSETS

AS AT	DECEMBER 31, 2012	DECEMBER 31, 2011
Other Non-Current Assets		
Property, plant and equipment [1]	$ 15,613	$ 12,584
Accumulated amortization of property, plant and equipment	(9,750)	(7,555)
Net property, plant and equipment	5,863	5,029
Investments [2]	34,526	38,187
Prepaid CMHC premiums, net [3]	38,626	36,575
Deferred loan costs, net [4]	2,058	1,952
Total	$ 81,073	$ 81,743
Other Current Assets		
Prepaid expenses	$ 2,096	$ 1,496
Other receivables	5,188	3,824
Restricted cash	3,744	3,241
Deposits	3,090	609
Total	$ 14,118	$ 9,170

(1) Consists of head office and regional offices' leasehold improvements, corporate and information technology systems.
(2) CAPREIT sold investments with a realized gain of $1,455 (December 31, 2011 – $nil).
(3) Represents prepaid CMHC premiums on mortgages payable net of accumulated amortization of $9,347 (December 31, 2011 – $7,871).
(4) Represents deferred loan costs related to the revolving credit facilities net of accumulated amortization of $4,866 (December 31, 2011 – $3,659).

Note 8
OTHER LIABILITIES

AS AT	NOTE	DECEMBER 31, 2012	DECEMBER 31, 2011
Other Non-Current Liabilities			
Hedge liability	16(b)	$ —	$ 2,703
Total		$ —	$ 2,703
Other Current Liabilities			
Hedge liability	16(b)	$ 4,352	$ 15,214
Accrued loss on natural gas contracts		—	620
Mortgage interest payable		6,806	5,893
Total		$ 11,158	$ 21,727

Note 9
MORTGAGES PAYABLE

Mortgages payable bear interest at a weighted average effective rate of 4.05% (December 31, 2011 – 4.57%), and mature between 2013 and 2027. The effective interest rate as at December 31, 2012 includes 0.18% (December 31, 2011 – 0.09%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of $29,390 included in AOCL. All but $22,497 or 1.0% of CAPREIT's mortgages payable are financed at fixed interest rates. The investment properties at fair value of $4,691,975 have been pledged as security as at December 31, 2012. As at December 31, 2012, unamortized deferred financing costs of $5,506 and fair value adjustments of ($12,259) are netted against mortgages payable.

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

AS AT DECEMBER 31, 2012	PRINCIPAL AMOUNT	% OF TOTAL PRINCIPAL
2013	$ 398,784	18.3
2014	352,498	16.2
2015	201,428	9.2
2016	102,140	4.7
Subsequent to 2016 (1)	1,127,953	51.6
	2,182,803	100.0
Deferred financing costs and fair value adjustments	6,753	
	$ 2,189,556	

AS AT	DECEMBER 31, 2012	DECEMBER 31, 2011
Represented by:		
Mortgages Payable – non-current (1)	$ 1,790,772	$ 1,559,480
Mortgages Payable – current (2)	398,784	288,710
	$ 2,189,556	$ 1,848,190

(1) *Included in mortgages payable as at December 31, 2012 is a $65 million non-amortizing credit facility on two of the MHC Land Lease sites.*

(2) *Included in mortgages payable as at December 31, 2011 is a $55 million non-amortizing credit facility on two of the MHC Land Lease sites.*

Note 10
BANK INDEBTEDNESS

CAPREIT renewed and amended the existing acquisition and operating facility ("Acquisition and Operating Facility") and secured a new bridge loan ("Bridge Loan") (collectively, the "Credit Facilities") aggregating to $420,000 effective June 30, 2012. The Credit Facilities are 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. On renewal, the Credit Facilities agreement was amended, to combine the Acquisition and Operating Facility and the Land Lease Facility into one credit facility for a total of $280,000 for a revolving three year term. In addition, CAPREIT secured the Bridge Loan aggregating to $140,000 in order to fund specific acquisitions. The Bridge Loan is a term credit facility and any principal amount repaid may not be reborrowed, and its maturity date is a year from the initial drawdown of the advance, which was August 31, 2012. As of December 31, 2012, the Bridge Loan is no longer available for borrowing, as it was used to fund the specific acquisitions in the third and fourth quarter of 2012 and was fully repaid from the net proceeds of the equity offering completed on December 4, 2012.

AS AT DECEMBER 31, 2012	ACQUISITION AND OPERATING FACILITY [1], [2]	LAND LEASE [1]	TOTAL
Facility	$ 280,000	$ —	$ 280,000
Less:			
Bank Indebtedness	(147,316)	—	(147,316)
Letters of Credit	(6,388)	—	(6,388)
Available Borrowing Capacity	$ 126,296	$ —	$ 126,296
Weighted Average Floating Interest Rate	3.27%	—	3.27%

AS AT DECEMBER 31, 2011	ACQUISITION AND OPERATING FACILITY [1]	LAND LEASE [1]	TOTAL
Facility	$ 270,000	$ 10,000	$ 280,000
Less:			
Bank Indebtedness	(74,132)	—	(74,132)
Letters of Credit	(10,247)	(86)	(10,333)
Available Borrowing Capacity	$ 185,621	$ 9,914	$ 195,535
Weighted Average Floating Interest Rate	3.67%	—	3.67%

(1) Effective June 30, 2012, the Land Lease Facility of $10 million was combined with the Acquisition and Operating Facility.
(2) As at December 31, 2012, the Bridge Loan aggregating to $140 million was fully repaid from the net proceeds of the equity offering completed on December 4, 2012.

Note 11
UNIT-BASED COMPENSATION FINANCIAL LIABILITIES

Units are issuable pursuant to CAPREIT's Unit-based compensation plans, namely, the Unit Option Plan ("UOP"), the Employee Unit Purchase Plan ("EUPP"), the Unit Purchase Plan ("UPP"), the Long-term Incentive Plan ("LTIP"), the Senior Executive Long-term Incentive Plan ("SELTIP"), the Deferred Unit Plan ("DUP") and the Restricted Unit Rights ("RUR") Plan (each of which is more fully described in note 12). As at December 31, 2012, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 7,000,000 Units (December 31, 2011 – 7,000,000). The maximum available for future issuance under all Unit incentive plans as at December 31, 2012 is 511,020 Units (December 31, 2011 – 1,113,760 Units).

The Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans as at December 31, 2012 and 2011 are as follows:

(NUMBER OF UNITS) YEAR ENDED DECEMBER 31, 2012	UOP	DUP	RUR	SELTIP/ LTIP [1]	EXCH. UNITS [2]	TOTAL
Units, Unit Rights and Unit Options outstanding as at January 1, 2012	590,750	108,639	170,555	2,340,841	411,311	3,622,096
Issued, cancelled or granted during the year:						
Issued or granted	463,650	25,667	89,098	—	—	578,415
Exercised or settled	(138,500)	—	—	—	(150,000)	(288,500)
Cancelled	—	—	(2,728)	(7,500)	—	(10,228)
Distributions reinvested	—	5,601	11,472	—	—	17,073
Units, Unit Rights and Unit Options outstanding as at December 31, 2012	915,900	139,907	268,397	2,333,341	261,311	3,918,856

(NUMBER OF UNITS) YEAR ENDED DECEMBER 31, 2011	UOP	DUP	RUR	SELTIP/ LTIP [1]	EXCH. UNITS [2]	TOTAL
Units, Unit Rights and Unit Options outstanding as at 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 at December 31, 2011	590,750	108,639	170,555	2,340,841	411,311	3,622,096

(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 261,311 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, $6,507 as at December 31, 2012 (December 31, 2011 – $9,176), which approximates the closing bid price of the Trust Units. 150,000 Exchangeable Units were converted to 150,000 Trust Units in the current year (see note 13(b)).

The table below summarizes the change in the total Unit-based compensation financial liability for the years ended December 31, 2012 and 2011 including the reversal of liabilities as a result of settlements for Trust Units.

AS AT	DECEMBER 31, 2012	DECEMBER 31, 2011
Total Unit-based compensation financial liabilities, beginning of the year	$ 28,975	$ 16,410
Unit-based compensation expenses	13,296	13,906
Settlement of Unit-based compensation awards for Trust Units	(1,427)	(1,341)
Total Unit-based compensation financial liabilities, end of the year	$ 40,844	$ 28,975

The Unit-based compensation financial liabilities comprise:

AS AT	DECEMBER 31, 2012	DECEMBER 31, 2011
Current		
LTIP	$ 19,293	$ 15,112
SELTIP	10,229	7,096
DUP	3,484	2,424
RUR	1,859	—
UOP	3,835	2,697
	38,700	27,329
Non-Current		
RUR	2,144	1,646
Total Unit-based compensation financial liabilities	$ 40,844	$ 28,975

Units or Unit-based compensation financial liabilities held by trustees, officers and other senior management

As at December 31, 2012, 3.8% (December 31, 2011 – 4.4%) 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, 2011. No Trust Units were acquired and cancelled under these NCIBs. CAPREIT has not renewed the NCIB as at December 31, 2012.

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

Note 12
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 years ended December 31, 2012 and 2011, as follows:

YEAR ENDED DECEMBER 31,	2012	2011
UOP	$ 2,564	$ 2,415
LTIP	4,182	7,153
SELTIP	3,132	1,893
DUP	1,060	1,154
RUR Plan	2,358	1,291
EUPP	37	30
	$ 13,333	$ 13,936

a) UOP

Under the terms of the UOP, options are granted to trustees, officers and key 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. On May 17, 2012, there were 232,500 options granted to the President and CEO in connection with CAPREIT's May 2012 Equity Offering at an exercise price of $22.75 with an expiration date of May 16, 2022. On December 4, 2012, there were 201,000 options granted to the President and CEO in connection with CAPREIT's December 2012 Equity Offering at an exercise price of $24.00 with an expiration date of December 3, 2022 and, on December 13, 2012, there were 30,150 options granted to the President and CEO in connection with the over-allotment option of CAPREIT's December 2012 Equity Offering at an exercise price of $24.85 with an expiration date of December 12, 2022.

A summary of Unit option activity for the year ended December 31, 2012 and 2011 is presented below. All Unit options are exercisable as at December 31, 2012 and 2011.

(NUMBER OF UNITS) FOR THE YEAR ENDED DECEMBER 31,	2012	2011
Balance, beginning of the year	590,750	541,000
Granted	463,650	224,250
Exercised	(138,500)	(174,500)
Balance, end of the year	915,900	590,750

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 outstanding in the respective years were as follows:

AS AT	DECEMBER 31, 2012	DECEMBER 31, 2011
Number of Units	915,900	590,750
Weighted average issue price	$ 21.14	$ 17.51
Weighted average risk free rate (%)	1.7	1.6
Weighted average distribution yield (%)	4.5	4.8
Weighted average expected years	9.0	7.4
Weighted average volatility (%)	23.6	22.4
Weighted average Unit option value	$ 4.19	$ 4.57

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 will 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. No LTIP or SELTIP awards were granted for the year ended December 31, 2012 (2011 – nil). There are currently no plans to grant additional awards under the LTIP and the SELTIP.

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

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

(NUMBER OF UNITS) YEAR ENDED DECEMBER 31,	2012 LTIP	2012 SELTIP	2011 LTIP	2011 SELTIP
Balance, beginning of the year	1,522,927	817,914	1,619,187	817,914
Settled during the year	—	—	(96,260)	—
Cancelled	(7,500)	—	—	—
Balance, end of the year	1,515,427	817,914	1,522,927	817,914

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

INSTALMENT RECEIPTS YEAR ENDED DECEMBER 31,	2012 LTIP	2012 SELTIP	2011 LTIP	2011 SELTIP
Balance, beginning of the year	$ 19,758	$ 12,318	$ 21,357	$ 12,583
Principal repayments during the year	(848)	(288)	(1,599)	(265)
Balance, end of the year	$ 18,910	$ 12,030	$ 19,758	$ 12,318

The Instalment Receipts are recognized as a deduction from Unit-based compensation liability. During the years ended December 31, 2012 and 2011, interest payments in the amounts of $1,512 and $1,557, 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, 2012	DECEMBER 31, 2011
Number of Units	1,515,427	1,522,927
Weighted average loan rate (%)	4.66	4.66
Weighted average issue price	$ 15.49	$ 15.49
Weighted average loan balance per Unit – current	$ 12.39	$ 12.89
Weighted average loan balance per Unit – at maturity	$ 9.56	$ 9.56
Weighted average risk free rate (%)	1.4	1.4
Weighted average distribution yield (%)	4.5	4.8
Weighted average expected years	4.8	5.8
Weighted average volatility (%)	23.6	26.0
Weighted average Unit value	$ 12.73	$ 9.92

SELTIP

AS AT	DECEMBER 31, 2012	DECEMBER 31, 2011
Number of Units	817,914	817,914
Weighted average loan rate (%)	4.96	4.96
Weighted average issue price	$ 17.66	$ 17.66
Weighted average loan balance per Unit – current	$ 14.63	$ 14.99
Weighted average loan balance per Unit – at maturity	$ 13.40	$ 13.40
Weighted average risk free rate (%)	1.8	1.9
Weighted average distribution yield (%)	4.5	4.8
Weighted average expected years	23.4	24.4
Weighted average volatility (%)	26.0	26.5
Weighted average Unit value	$ 12.51	$ 8.68

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 2012 is 100% (2011 – 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.

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, 2012			DECEMBER 31, 2011		
	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	$ 16.94	$ 22.31	108,639	$ 15.34	$ 17.14	74,103
Granted during the year	23.98	—	25,667	20.47	—	29,635
Additional Unit Distributions	23.64	—	5,601	19.68	—	4,901
Outstanding, end of the year	$ 18.50	$ 24.90	139,907	$ 16.94	$ 22.31	108,639

d) RUR Plan

In 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, on vesting, are exercisable for Units. RUR Plan Units will be issued from treasury on 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 on 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.

The fair value of the 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, 2012			DECEMBER 31, 2011		
	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	$ 16.67	$ 22.31	170,555	$ 14.19	$ 17.14	72,887
Granted during the year	22.37	—	89,098	18.37	—	99,537
Additional Unit Distributions	23.56	—	11,472	19.72	—	8,577
Cancelled during the year	16.77	—	(2,728)	18.03	—	(10,446)
Outstanding, end of the year	$ 18.86	$ 24.90	268,397	$ 16.67	$ 22.31	170,555

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 on issuance of the Units.

Note 13

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, Financial Instruments: Presentation. 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	2012	2011
Units outstanding, beginning of the year		82,754,453	74,176,908
Issued or granted during the year in connection with the following:			
New Units Issued	(a)	15,455,000	7,475,000
Exchangeable Units	(b)	150,000	—
Distribution Reinvestment Plan ("DRIP")	(c)	897,117	865,099
EUPP	(d)	17,480	16,350
UOP	(e)	138,500	174,500
LTIP	(f)	—	46,596
Units outstanding, end of the year		99,412,550	82,754,453

a) New Units Issued

		PRICE PER UNIT		GROSS PROCEEDS		TRANSACTION COSTS		NET PROCEEDS	UNITS ISSUED
December 2012 (the "December 2012 Equity Offering")									
Bought-Deal (December 4, 2012)	$	24.00	$	160,800	$	7,232	$	153,568	6,700,000
Over-allotment (December 13, 2012)	$	24.00		24,120		965		23,155	1,005,000
Total			$	184,920	$	8,197	$	176,723	7,705,000
May 2012 (the "May 2012 Equity Offering")									
Bought-Deal (May 17, 2012)	$	22.75	$	155,838	$	6,897	$	148,941	6,850,000
Over-allotment (May 17, 2012)	$	22.75		20,475		819		19,656	900,000
Total			$	176,313	$	7,716	$	168,597	7,750,000
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

b) Exchangeable Units

During the year, pursuant to the terms of the Exchangeable Units, 150,000 Exchangeable Units were exchanged for 150,000 Trust Units.

c) Distribution Reinvestment Plan ("DRIP")

The terms of the DRIP grant participants the right to receive an additional amount equal to 5% of their monthly distributions paid in the form of additional Units. The total consideration for Units issued represents the amount of cash distributions reinvested in additional Units.

d) 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.

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 the first quarter of 2011, CAPREIT issued 46,596 Trust Units to settle 96,260 previously issued LTIP Units.

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,		2012		2011
Distributions declared on Trust Units	$	97,903	$	82,816
Distributions Per Unit	$	1.097	$	1.080

Note 15

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.

As at December 31, 2012, the fair value of CAPREIT's mortgages payable is estimated to be $2,316,000 (December 31, 2011 – $2,023,000) 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 at December 31, 2012, 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	OTHER UNOBSERVABLE INPUTS	TOTAL
Assets				
Restricted cash	$ 3,744 (1)	$ —	$ —	$ 3,744
Investments	$ 34,526 (2)	$ —	$ —	$ 34,526
Liabilities				
Derivative financial instruments – interest	$ —	$ (418) (3)	$ —	$ (418)
Derivative financial instruments – forward interest rate hedge	$ —	$ (3,934) (4)	$ —	$ (3,934)
Total	$ 38,270	$ (4,352)	$ —	$ 33,918

(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) 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.

(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 16(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.

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 at December 31, 2012, 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, 2012 and 2011, a 100 basis point change in interest rates would have the following effect:

		INCREASE (DECREASE) IN NET INCOME		INCREASE (DECREASE) IN OCI	
	CHANGE IN INTEREST RATES (BASIS POINTS)	2012	2011	2012	2011
Floating rate debt	+100	$ (1,275)	$ (1,094)	$ —	$ —
Floating rate debt	–100	$ 1,275	$ 1,094	$ —	$ —
Forward interest rate hedge	+100	$ —	$ —	$ 3,469	$ 17,387
Forward interest rate hedge	–100	$ —	$ —	$ (3,793)	$ (19,885)
Interest rate swap agreements	+100	$ —	$ —	$ 5,445	$ 412
Interest rate swap agreements	–100	$ —	$ —	$ (5,985)	$ (414)

CAPREIT's objective of managing interest rate risk is to minimize the volatility of earnings. As at December 31, 2012, interest rate risk has been minimized as all but $22,497 or 1.0% of mortgages payable is financed at fixed interest rates, with maturities staggered over a number of years.

Liquidity risk

Liquidity risk is the risk CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 92.9% of CAPREIT's mortgages are CMHC-insured (excluding $97,103 in mortgages on the MHC portfolio), which reduces the risk of mortgage refinancings. CAPREIT's overall risk for mortgage refinancings is further reduced as the unamortized mortgage insurance premiums are transferable between approved lenders and are effective for the full amortization period of the underlying mortgages, ranging between 25 to 35 years. To mitigate the risk associated with the refinancing of maturing debt, CAPREIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAPREIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments, distributions to Unitholders and provide future growth in its business. As at December 31, 2012, CAPREIT had undrawn lines of credit (excluding the Bridge Loan) in the amount of $126,296 (December 31, 2011 – $185,621) and $nil (December 31, 2011 – $nil) on the Bridge Loan to fund specific acquisitions.

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at December 31, 2012 are as follows:

	2013	2014–2015	2016–2017	2018 ONWARD
Mortgages payable	$ 398,784	$ 553,926	$ 306,143	$ 923,950
Bank indebtedness	—	147,316	—	—
Mortgage interest [1]	79,664	115,619	86,126	117,353
Bank indebtedness interest [1]	4,798	2,386	—	—
Other liabilities	75,453	—	—	—
Security deposits	23,377	—	—	—
Exchangeable Units	6,507	—	—	—
Distributions payable	9,279	—	—	—
	$ 597,862	$ 819,247	$ 392,269	$ 1,041,303

(1) Based on current in-place interest rates for the remaining term to maturity.

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 16

REALIZED AND UNREALIZED GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

a) Contracts for which hedge accounting is no longer effective

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

CAPREIT settled these Interest Rate Forward Contracts in 2009. The associated cumulative unamortized loss of $9,908 included in AOCL at September 30, 2008 is being amortized to mortgage interest expense over the original terms of the hedged contracts. For the year ended December 31, 2012, $270 (December 31, 2011 – $270) was amortized from AOCL to mortgage interest expense.

b) Contracts for which hedge accounting is being applied

As at December 31, 2012, CAPREIT has a $65,000 interest rate swap agreement fixing the banker's acceptance rate at 2.20%, which matures in September 2022, for which hedge accounting was being applied. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a ten-year term (see note 9 for further details). The related floating rate credit facility is for a five-year, non-revolving term with an effective interest rate of 3.60%, and any principal that is repaid may not be reborrowed. On expiry of the term, it is expected to be refinanced for an additional five-year term. The mark-to-market loss of $418 has been set up in other liabilities as at December 31, 2012.

The interest rate swap agreement has been summarized as follows:

AS AT	DECEMBER 31, 2012	DECEMBER 31, 2011
Change in intrinsic value in OCI	$ (418)	$ —
Hedge liability in AOCL, end of the year	$ (418)	$ —

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 for ten-year terms and will bear interest rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before the credit spread. The change in the intrinsic value of the forward interest rate hedge has been included in OCI (see note 19). 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, 2012 and 2011, the mark-to-market cumulative unrealized losses of $3,934 and $16,349, respectively, has been set up in other liabilities.

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

AS AT	DECEMBER 31, 2012	DECEMBER 31, 2011
Hedge liability, beginning of the year	$ (16,349)	$ —
Change in intrinsic value included in OCI	(2,831)	(20,573)
Loss on derivative financial instruments	(3,131)	397
Cash settlement of derivatives	18,377	3,827
Hedge liability, end of the year	$ (3,934)	$ (16,349)
Hedge liability in AOCL, beginning of the year	$ (20,540)	$ —
Change in intrinsic value included in OCI	(2,831)	(20,573)
Amortization from AOCL to interest and other financing costs	949	33
Hedge liability in AOCL, end of the year	$ (22,422)	$ (20,540)

CAPREIT had a $55,000 interest rate swap agreement fixing the interest rate at 5.706%, which matured in July 2012, for which hedge accounting was being applied. The mark-to-market losses of $nil and $2,176 was set up in other liabilities as at December 31, 2012 and December 31, 2011, respectively.

AS AT	DECEMBER 31, 2012	DECEMBER 31, 2011
Hedge liability, beginning of the year	$ (1,568)	$ (3,586)
Settlement of previously unrealized losses included in OCI	1,031	2,656
Change in ineffective portion included in loss on derivative financial instruments	61	(630)
Change in accrued mortgage interest included in interest and other financing costs	476	(8)
Hedge liability, end of the year	$ —	$ (1,568)
Hedge liability in AOCL, beginning of the year	$ (1,031)	$ (3,687)
Settlement of previously unrealized losses included in OCI	1,031	2,656
Hedge liability in AOCL, end of the year	$ —	$ (1,031)

c) Natural gas contracts

During the third quarter of 2010, through the use of floating-to-fixed derivative financial instruments, CAPREIT hedged a significant portion of its variable rate natural gas commitments, which was marked-to-market through OCI on an ongoing basis. During the first quarter of 2011, the instrument was settled resulting in a gain of $141 through OCI.

Note 17
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 (see note 10) 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 Credit Facilities 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 Large Borrowers Agreement ("LBA") and the Credit Facilities.

Under the terms of CAPREIT's LBA with CMHC, total indebtedness of CAPREIT is limited to greater of (i) 60% of Gross Book Value determined on a fair value basis or, (ii) 70% of Gross Book Value determined on a historical basis, and may only be increased above such limits with CMHC's consent.

The LBA provides for, among 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.

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

AS AT		DECEMBER 31, 2012	DECEMBER 31, 2011
Mortgages payable		$ 2,189,556	$ 1,848,190
Bank indebtedness		147,316	74,132
Unit-based compensation financial liabilities		40,844	28,975
Exchangeable Units		6,507	9,176
Unitholders' equity		2,429,214	1,740,663
Total capital		$ 4,813,437	$ 3,701,136
	THRESHOLD		
Total debt to gross book value [1]	Maximum 70.00%	47.25%	50.27%
Tangible net worth [3]	Minimum $1,200,000	$ 2,476,565	$ 1,778,814
Debt service coverage ratio (times) [2], [4]	Minimum 1.20	1.52	1.38
Interest coverage ratio (times) [2], [5]	Minimum 1.50	2.51	2.20

(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 gross book value of CAPREIT's assets as per CAPREIT's financial statements, determined on a fair value basis for the investment properties, 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) *As per the Credit Facilities agreement, the tangible net worth is generally represented by Unitholders' Equity and effective July 1, 2011, Unit-based rights and compensation liabilities or assets, including Exchangeable Units are added back. Based on the renewed and amended CAPREIT's Credit Facilities effective June 30, 2012, the tangible net worth requirement increased to $1,200 million from $700 million, previously.*

(4) *As per the Credit Facilities agreement and DOT, the debt service coverage ratio is defined as earnings before interest, income taxes, depreciation and amortization and other adjustments including non-cash costs ("EBITDA") less income taxes paid divided by the sum of principal and interest payments.*

(5) *As per the Credit Facilities agreement and DOT, the interest coverage ratio is defined as EBITDA less taxes paid divided by interest payments.*

Note 18

DEFERRED INCOME TAXES

For fiscal 2011 and 2012, CAPREIT is a "mutual fund trust" as defined under the *Income Tax Act (Canada)* (the "Tax Act") and as a Real Estate Investment Trust ("REIT") eligible for the 'REIT Exemption' in accordance with the rules affecting the tax treatment of publicly traded trusts. Accordingly, CAPREIT is not taxable on its income provided all of its taxable income is distributed to its Unitholders.

On December 16, 2010, the Government of Canada proposed technical amendments clarifying the definition of a REIT for Canadian income tax purposes. The proposed amendments included the following clarifications as applicable to the Trust:

i) Amounts distributed to a REIT by an entity in which the REIT has a significant interest will retain the source character of income earned by the subsidiary entity, and

ii) The revenue requirements in the definition of a REIT will be amended by replacing the term "revenues" with the term "gross REIT revenue".

The proposed changes outlined above in their current form will allow CAPREIT, with greater certainty, to qualify as a REIT for Canadian income tax purposes. On October 24, 2012, legislation was tabled by the Government of Canada, which, among other changes, implemented the December 16, 2010 technical amendments. In accordance with IAS 12, Income Taxes, the December 16, 2010 technical amendments were considered substantively enacted, effective November 21, 2012, when the legislation was introduced for First Reading by the Government of Canada.

CAPREIT is not currently taxable and, accordingly, no current income taxes have been recorded for 2012 (2011 – $nil).

Note 19

ACCUMULATED OTHER COMPREHENSIVE LOSS

YEAR ENDED DECEMBER 31,	2012	2011
AOCL balance, beginning of the year	$ (24,010)	$ (11,085)
Other comprehensive income (loss):		
Amortization from AOCL to interest and other financing costs [1], [2]	2,000	1,052
Settlement on derivative financial instruments (note 16(b))	613	2,656
Change in instrinsic value of derivative financial instruments (note 16(b))	(2,831)	(20,573)
Change in fair value of derivative financial instruments (note 16(c))	—	141
Change in fair value of investments	3,168	3,799
Realized gain on sale of investments	(1,451)	—
Other comprehensive income (loss)	1,499	(12,925)
AOCL balance, end of the year	$ (22,511)	$ (24,010)

	DECEMBER 31, 2012	DECEMBER 31, 2011
AOCL comprise:		
Loss on derivative financial instruments		
Cumulative realized loss [1]	$ (9,908)	$ (9,908)
Accumulated amortization to interest and other financing costs	4,008	2,935
Unamortized balance of loss on cash flow hedges previously settled	(163)	(141)
Gain (loss) on interest rate swap agreements	(418)	(1,031)
Loss on forward interest rate hedge [2]	(23,404)	(20,573)
Accumulated amortization to interest and other financing costs	982	33
Change in fair value of investments	7,843	4,675
Realized gain on sale of investments	(1,451)	—
AOCL balance, end of the year	$ (22,511)	$ (24,010)

(1) *The cumulative realized loss on derivative financial instruments aggregating to $9,908 will be amortized as mortgage interest expense to net income over periods ending 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.*

(2) *The realized loss component of the $22,511 OCI loss on forward interest rate hedge is $19,482, which will be amortized as mortgage interest expense to net income over the original terms of the hedged contracts; each hedged contract has a ten year term. The estimated amount of the amortization expected to be reclassified to net income from AOCL in the next 12 months is $1,965.*

Note 20

SEVERANCE AND OTHER EMPLOYEE COSTS

For the year ended December 31, 2011, $1,352 of severance and other employee costs were incurred including the costs related to the departure of the former Chief Financial Officer.

Note 21

INTEREST AND OTHER FINANCING COSTS

YEAR ENDED DECEMBER 31,	2012	2011
Interest on mortgages payable [1]	$ 83,503	$ 80,634
Amortization of CMHC premiums and fees	1,770	2,199
Interest on bank indebtedness and deferred loan costs [2]	6,954	5,793
Interest on Exchangeable Units	354	444
	$ 92,581	$ 89,070

(1) *Includes amortization of deferred financing costs, fair value adjustments and OCI hedge interest of $575 (December 31, 2011 – $2,454).*

(2) *Includes amortization of deferred financing costs of $1,151 (December 31, 2011 – $940).*

Note 22
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,	2012	2011
Assets	$ 167,408	$ 141,670
Liabilities	71,716	70,484
Revenues	14,780	14,419
Expenses	(10,487)	(1,937)
Net Income	25,267	16,356
Cash Provided By (Used In):		
Operating Activities	$ 7,125	$ 4,902
Financing Activities	$ (4,088)	$ (2,260)
Investing Activities	$ (3,382)	$ (3,530)

Note 23
SUPPLEMENTAL CASH FLOW INFORMATION

a) Net income items related to investing and financing activities

YEAR ENDED DECEMBER 31,	2012	2011
Dividend and interest income on investments	$ (3,334)	$ (1,899)
Interest paid on Exchangeable Units	367	444
Interest paid on mortgages payable	82,490	77,447
Interest paid on bank indebtedness	5,865	5,241
	$ 85,388	$ 81,233

b) Changes in non-cash operating assets and liabilities

YEAR ENDED DECEMBER 31,	2012	2011
Prepaid expenses	$ (604)	$ 75
Tenant inducements and direct leasing costs	(887)	77
Other receivables	(1,430)	2,274
Other assets	(1,313)	(1,270)
Deposits on purchases	(2,442)	245
Deposits	(39)	51
Accounts payable and other liabilities	(8,157)	(3,965)
Security deposits	2,877	2,090
	$ (11,995)	$ (423)

c) Net cash distributions to Unitholders

YEAR ENDED DECEMBER 31,	2012	2011
Distributions declared to Unitholders	$ (97,903)	$ (82,816)
Add: Distributions payable at beginning of year	(7,448)	(6,678)
Less: Distributions payable at end of year	9,279	7,448
Less: Distributions to participants in the DRIP	20,122	15,908
	$ (75,950)	$ (66,138)

d) Capital investments

YEAR ENDED DECEMBER 31,	2012	2011
Capital investments	$ (136,315)	$ (119,226)
Change in capital investments included in accounts payable and other liabilities	5,035	1,890
	$ (131,280)	$ (117,336)

e) Acquisition of investment properties

YEAR ENDED DECEMBER 31,	2012	2011
Acquired properties	$ (791,268)	$ (321,524)
Fair value adjustment of assumed debt	10,638	3,962
Assumed debt	334,948	47,026
Net disbursement	$ (445,682)	$ (270,536)

f) Disposition of investment properties

YEAR ENDED DECEMBER 31,	2012	2011
Proceeds	$ 111,700	$ 5,975
Closing costs	(2,523)	(249)
Mortgages assumed by purchasers and discharged	(53,533)	(2,117)
Net proceeds	$ 55,644	$ 3,609

g) Issuance of Trust Units

YEAR ENDED DECEMBER 31,	2012	2011
Issuance of Trust Units	$ 352,570	$ 148,879
Conversion of Exchangeable Units to Trust Units	(3,573)	—
Settlement of Unit-based Compensation Awards for Trust Units	(1,427)	(1,342)
Proceeds on issuance of Trust Units	$ 347,570	$ 147,537

Note 24
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 as at December 31, 2012 were $8,264 and $13,214, respectively (December 31, 2011 – $8,455 and $13,742, 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 of 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 comprises:

YEAR ENDED DECEMBER 31,	2012	2011
Short-term employee benefits	$ 3,170	$ 4,857
Unit-based compensation – grant date amortization	2,819	1,512
	5,989	6,369
Unit-based compensation – fair value remeasurement	7,367	7,690
Total	$ 13,356	$ 14,059

b) Previously, CAPREIT had entered into a construction management agreement with a company that was 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. Effective January 1, 2012, CAPREIT terminated its construction management agreement and entered into a new construction management agreement with a non-related party on substantially similar terms. CAPREIT continued to incur related party management fees until the balance of the work on the previous contract has been completed. The total construction management fees for the years ended December 31, 2012 and 2011 (excluding reimbursable expenses of $nil and $651 and HST/GST) were $107 and $1,671, respectively, and have been capitalized to income properties. As at December 31, 2012, there were construction management fees outstanding of $nil (December 31, 2011 – $89) 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, 2012 and 2011 were $868 and $785, 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 two years are as follows:

	2013	2014
Minimum annual rent	$ 458	$ 382

Note 25
COMMITMENTS

Natural gas

Through the combination of fixed and variable price contracts, CAPREIT is committed as at December 31, 2012, in the aggregate amount of $3,693 for its natural gas and transport requirements. These commitments, which range from one to three years, fix the price of natural gas and transport for a portion of CAPREIT's requirements as summarized below.

AS AT DECEMBER 31,	2013	2014
Fixed Weighted Average Cost per GJ [1]	$ 3.36	$ —
Total of CAPREIT's Estimated Requirements	26.77%	—

(1) Fixed weighted average cost per gigajoule ("GJ") excludes estimated transportation costs of $1.21, $1.06 and $1.03 per GJ for the remainder of 2013, 2014 and 2015, respectively, and other administrative costs.

Land Leasehold Interests

On August 31, 2012, CAPREIT acquired a property with a land lease expiring February 28, 2068. The lease provides for annual rent and additional rent calculated from the results of property operations. The minimum annual rent for the next five years under the lease agreement is $149.

Four of the investment 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, 2012 and 2011, total expenses under these four leases were $2,430 and $2,272, respectively.

In addition, CAPREIT has one leasehold interest, expiring on May 31, 2014, in a land parcel used in conjunction with an existing freehold property. In the first quarter of 2012, CAPREIT disposed of a property with a leasehold interest, expiring on September 30, 2013, in a land parcel used in conjunction with an existing freehold property. Total expenses under these two leases during the years ended December 31, 2012 and 2011 were $9 and $22, respectively.

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

	2013	2014	2015	2016	2017	THEREAFTER
Minimum annual rent	$ 1,327	$ 1,325	$ 1,323	$ 1,323	$ 1,323	$ 43,969

Property capital investments

Commitments primarily related to capital investments in investment properties of $21,171 were outstanding as at December 31, 2012 (December 31, 2011 – $12,034).

Note 26
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 27
SUBSEQUENT EVENT

On January 31, 2013, CAPREIT completed the acquisition of a mid-tier apartment complex in Calgary, Alberta consisting of six three-storey buildings totalling 263 residential suites. The purchase price of $47.3 million was satisfied by the assumption of an existing $7.2 million mortgage bearing interest at 6.95% maturing in October 2017, with the remaining balance funded from CAPREIT's Acquisition and Operating Facility.

Five-Year Review

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS)	REPORTING UNDER IFRS			REPORTING UNDER CANADIAN GAAP	
YEAR ENDED DECEMBER 31,	2012	2011	2010	2009	2008
Operating Revenues [1]	$ 412,421	$ 361,955	$ 338,959	$ 321,159	$ 310,563
Net Operating Income ("NOI") [1]	$ 237,916	$ 206,157	$ 190,339	$ 174,432	$ 168,336
Net Operating Income Margin (%) [1]	57.7	57.0	56.2	54.3	54.2
Net Income (Loss) [2]	$ 412,263	$ 316,172	$ 529,048	$ 15,716	$ (3,477)
Income From Discontinued Operations [3]	—	—	—	705	17,770
Normalized Funds From Operations ("NFFO")	$ 132,553	$ 103,875	$ 92,026	$ 83,380	$ 80,993
Cash Distributions	$ 101,210	$ 86,054	$ 75,526	$ 73,805	$ 72,754
NFFO Payout Ratio (%)	76.4	82.8	82.1	88.5	89.8
Non-taxable Distributions (%)	74.2	86.9	72.5	99.9	56.1
NFFO Per Unit – Basic	$ 1.486	$ 1.357	$ 1.371	$ 1.263	$ 1.238
Cash Distributions Per Unit	$ 1.097	$ 1.080	$ 1.080	$ 1.080	$ 1.080
Weighted Average Number of Units (000s)	89,215	76,538	67,130	66,016	65,412
Number of Suites and Sites – total	37,225	31,014	28,947	28,916	28,892
Number of Suites and Sites – CAPREIT's share	36,070	29,859	27,792	27,761	27,737
Income Properties [4]	$ 4,826,355	$ 3,713,737	$ 3,049,980	$ 2,148,761	$ 2,135,921
Unitholders' Equity	$ 2,429,214	$ 1,740,663	$ 1,355,445	$ 457,184	$ 485,933
Overall Portfolio Occupancy (%) [1]	97.9	98.5	98.4	98.1	98.5
Mortgage Debt to Gross Book Value (%)	44.3	48.3	51.8	57.3	57.1
Interest Coverage (times)	2.51	2.20	2.07	2.06	2.06
Weighted Average Mortgage Interest Rate (%) [5]	3.87	4.48	4.82	5.07	5.30
Weighted Average Mortgage Term (years)	5.4	5.7	4.9	5.1	5.0
Cumulative Compounded Return (%)	736	614	417	294	306
Unit Price at End of Year	$ 24.90	$ 22.31	$ 17.14	$ 14.06	$ 15.74

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

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

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

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

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

Unitholder Information

Board of Trustees

Thomas Schwartz
President and
Chief Executive Officer

Michael Stein
Chairman and Chief Executive
Officer of MPI Group Inc.

Paul Harris [3]
Partner, Davies, Ward,
Phillips & Vineberg LLP
(a law firm)

Harold Burke [2]
Principal, Dundee Real Estate
Asset Management (a real
estate management firm)

Stanley Swartzman [1] [2] [3]
Corporate Director

Edwin F. Hawken [1] [2]
Corporate Director

David Williams [1] [3]
Corporate Director

David Ehrlich
Partner, Stikeman Elliott LLP
(a law firm)

[1] Investment Committee
[2] Audit Committee
[3] Compensation and
Governance Committee

Officers

Thomas Schwartz
President and
Chief Executive Officer

Michael Stein
Chairman

Scott Cryer
Chief Financial Officer

Mark Kenney
Chief Operating Officer

Maria Amaral
Chief Accounting Officer

Corinne Pruzanski
General Counsel and
Corporate Secretary

Head Office

11 Church Street, Suite 401
Toronto, Ontario M5E 1W1
Tel: 416.861.9404
Fax: 416.861.9209

website: www.capreit.net

Investor Information

Analysts, Unitholders and others seeking financial data should visit CAPREIT's website at www.capreit.net or contact:
Thomas Schwartz
President and
Chief Executive Officer
Tel: 416.861.9404
E-mail: ir@capreit.net

Registrar and Transfer Agent
Computershare Trust
Company of Canada
100 University Avenue,
9th Floor
Toronto, Ontario M5J 2Y1
Tel: 1.800.663.9097
E-mail:
caregistry@computershare.com

Auditors
PricewaterhouseCoopers LLP

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 2012 –
July 2012: $0.090

August 2012 –
December 2012: $0.093

Annual Meeting of Unitholders

The Annual Meeting of Unitholders will be held at 4:30 p.m. EDT on Tuesday, May 21, 2013 at
One King West Hotel
1 King Street West
Toronto, Ontario M5H 1A1

UP

www.capreit.net