CAPREIT

FINANCIAL REVIEW
FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2012

CAPREIT

11 CHURCH STREET, SUITE 401 TORONTO ON, CANADA M5E 1W1
TEL: 416 861 9404 FAX: 416 861 9330

August 8, 2012

Report to Unitholders

Our record pace of acquisitions in 2011 and through the first six months of 2012 is making a strong and accretive contribution to our operating and financial performance in 2012. Combined with our solid organic growth in same property Net Operating Income (NOI), we are confident we will generate another year of record results this year.

For the six months ended June 30, 2012, total operating revenues increased by 9.5% due to the contribution from acquisitions, a 1.7% increase in average monthly rents in our residential suite portfolio, and continuing strong occupancies of 98.3%. The increase in average monthly rent was due to our proven and effective sales and marketing programs, continued strength in the residential rental sector in the majority of our markets, and the higher rent guideline increases in Ontario and British Columbia. Our annualized net rental revenue run-rate, based on the average monthly rents in place and our share of residential suites and sites as at June 30, 2012, increased to $411.1 million, up 19.9% from $342.8 million at the same time last year.

Operating costs decreased as a percentage of revenues in the quarter resulting in a solid improvement in our NOI margin to 57.2% from 56.5% for the same six month period last year. Importantly, for the three and six months ended June 30, 2012, stabilized NOI increased by a significant 2.7% and 4.1%, respectively, compared to the same periods last year. The second quarter was our 26th consecutive quarter of stable or improved year-over-year same property NOI. Overall NOI rose 11.1% in the first six months of 2012 compared to last year.

Normalized Funds from Operations (NFFO) increased by 19.7% in the first six months of 2012 due primarily to the contribution from acquisitions, higher average monthly rents and high stable occupancies. Our NFFO payout ratio improved significantly to 81.0% from 84.7% last year.

Our balance sheet and financial position remained strong as at June 30, 2012 with debt service ratios well within our guidelines and conservative coverage ratios. Our weighted average interest rate declined further to 4.20%, and we continue to focus on extending our debt maturities. To date total financings of $201.7 million, including $135.7 million for mortgage renewals and $66.0 million in top-up financings, have been closed or committed with an average term to maturity of 9.4 years and a weighted average interest rate of 2.81%, well below the rate for the maturing mortgages. Looking ahead, we expect to raise between $350 million and $375 million in total renewals and refinancings this year.

The significant growth in our property portfolio continued in the second quarter of 2012. So far this year we have purchased a total of 5,594 apartment and townhouse suites and manufactured home community (MHC) land lease sites, significantly outpacing last year's portfolio growth and our target of purchasing between 1,500 and 2,000 suites per year.

On May 31, 2012 we completed the acquisition of a large and well-established national portfolio of 12 manufactured home communities comprised of 2,032 land lease sites located in Ontario, Saskatchewan, Alberta and British Columbia for approximately $76.3 million.

On June 29, 2012 we then completed the purchase of 14 apartment and townhouse properties aggregating 3,562 rental suites located in the Ontario, Québec, and Nova Scotia for a total purchase price of approximately $461.4 million.

To finance these acquisitions, on May 17, 2012 we completed a $176.3 million equity offering, issuing approximately 7.8 million Trust Units, including the full overallotment option, at a price of $22.75 per Unit.

Despite the 14% increase in the weighted average number of Units outstanding resulting from this transaction, NFFO per Unit rose 5.0% through the first six months of 2012 compared to the same period last year.

Looking ahead, we believe we will continue to generate strong and accretive growth in the quarters and years ahead.

[Signed]
Thomas Schwartz
President and Chief Executive Officer

[Signed]
Michael Stein
Chairman

CAPREIT

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

THREE AND SIX MONTHS ENDED JUNE 30, 2012

AUGUST 8, 2012

TABLE OF CONTENTS

SECTION I

SECTION II

SECTION III

SECTION IV

SECTION V

SECTION VI

SECTION VII

SECTION VIII

SECTION I

FORWARD-LOOKING DISCLAIMER

The following Management's Discussion and Analysis ("MD&A") of Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") results of operations and financial condition for the three and six months ended June 30, 2012 and 2011, should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report.

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, projected costs, capital investments, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to acquisition and capital investment strategy and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including: that the Canadian economy will generally experience growth, however, may be adversely impacted by the global economy; that inflation will remain low; that interest rates will remain low in the medium term; that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates; that conditions within the real estate market, including competition for acquisitions, will become more favourable; that the Canadian capital markets will continue to provide CAPREIT with access to equity and/or debt at reasonable rates; that vacancy rates for CAPREIT properties will be consistent with historical norms; that rental rates will grow at levels similar to the rate of inflation on renewal; that rental rates on turnovers will remain stable; that CAPREIT will effectively manage price pressures relating to its energy usage; and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions, Management believes they are reasonable as of the date hereof, there can be no assurance actual results will be consistent with these forward-looking statements; they may prove to be incorrect. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond CAPREIT's control, that may cause CAPREIT or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: reporting investment properties at fair value, real property ownership, leasehold interests, co-ownerships, investment restrictions, operating risk, energy costs and hedging, environmental matters, insurance, capital investments, indebtedness, interest rate hedging, taxation, harmonization of federal goods and services tax and provincial sales tax, government regulations, controls over financial accounting, legal and regulatory concerns, the nature of units of CAPREIT ("Trust Units") and of CAPREIT's subsidiary, CAPREIT Limited Partnership ("Exchangeable Units") (collectively, the "Units"), unitholder liability, liquidity and price fluctuation of Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, continued growth and risks related to acquisitions. There can be no assurance the expectations of CAPREIT's Management will prove to be correct. For a detailed discussion of risk factors, refer to CAPREIT's MD&A contained in CAPREIT's 2011 Annual report in the Risks and Uncertainties section. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

NON-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 III 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 III under Non-IFRS Financial Measures. These non-IFRS measures should not be construed as alternatives to net income (loss) or cash flow from operating activities determined in accordance with IFRS as indicators of CAPREIT's performance.

OVERVIEW

CAPREIT is an unincorporated open-ended real estate investment trust created by a declaration of trust (the "DOT") dated February 3, 1997 under the laws of the Province of Ontario, as most recently amended and restated on November 13, 2009. CAPREIT owns interests in multi-unit residential rental properties, including apartments, townhomes and manufactured home communities located in and near major urban centres across Canada. As at June 30, 2012, CAPREIT had owning interests in 36,273 residential units, comprised of 32,908 residential suites and 14 manufactured home communities ("MHC"), comprising 3,365 land lease sites. As at June 30, 2012, CAPREIT had 854 employees (778 employees as at December 31, 2011).

The tables below summarize acquisitions and dispositions of properties for the six months ended June 30, 2012 and for the year ended December 31, 2011:

Acquisitions Completed During the Six Months Ended June 30, 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)
Total		5,594		$ 537,752	$ 221,692		

(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 were comprised of $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 the Ontario, Québec, and Nova Scotia.

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

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	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	Montréal	32,240	15,108	3.30%	January 1, 2022
Total		2,660		$ 321,524	$ 195,139		

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

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

(3) The acquisition comprised seven sites in Bowmanville and one site in Grand Bend.

(4) The acquisition was funded from CAPREIT's land lease facility (see Liquidity and Financial Condition section).

Dispositions Completed During the Six Months Ended June 30, 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
Total		335		$ 51,000	$ 25,700	$ 24,515

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, Cost Controls, Capital Investments, Portfolio Growth, and Financial Management.

For a comprehensive description of CAPREIT's business strategies, refer to CAPREIT's MD&A for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report.

KEY PERFORMANCE INDICATORS

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

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

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

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

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

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

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

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

PERFORMANCE MEASURES

The following table presents an overview of certain key IFRS and non-IFRS financial measures and operational results of CAPREIT for the three and six months ended June 30, 2012 and 2011. Management believes that these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. During the periods, monthly cash distributions declared to Unitholders remained at $0.09 per Unit.

	Three Months Ended June 30		Six Months Ended June 30	
	2012	**2011**	**2012**	**2011**
Portfolio Performance				
Overall Portfolio Occupancy (1)			**98.4%**	98.4%
Overall Portfolio Average Monthly Rents (1)			**$ 960**	$ 982
Operating Revenues (000s)	**$ 95,932**	$ 88,235	**$ 191,194**	$ 174,567
NOI (000s)	**$ 56,714**	$ 51,991	**$ 109,452**	$ 98,555
NOI Margin	**59.1%**	58.9%	**57.2%**	56.5%
Operating Performance (2)				
FFO Per Unit – Basic	**$ 0.350**	$ 0.354	**$ 0.669**	$ 0.650
NFFO Per Unit – Basic	**$ 0.358**	$ 0.357	**$ 0.692**	$ 0.659
Weighted Average Number of Units - Basic (000s)	**87,509**	75,143	**85,452**	74,994
Cash Distributions Per Unit	**$ 0.270**	$ 0.270	**$ 0.540**	$ 0.540
FFO Payout Ratio	**80.6%**	78.9%	**83.8%**	85.9%
NFFO Payout Ratio	**78.8%**	78.1%	**81.0%**	84.7%
Liquidity and Leverage				
Total Debt to Gross Book Value (1)			**50.83%**	54.32%
Total Debt to Gross Historical Cost (1),(3)			**59.25%**	61.32%
Weighted Average Mortgage Interest Rate (1)			**4.20%**	4.66%
Weighted Average Mortgage Term (years) (1)			**5.0**	5.3
Debt Service Coverage (times) (4)			**1.44**	1.34
Interest Coverage (times) (4)			**2.34**	2.12
Available Liquidity – Acquisition and Operating Facility (000s) (1)			**$ 29,578**	$ 112,636
Other				
Number of Suites and Sites Acquired	**5,594**	1,344	**5,594**	1,427
Number of Suites Disposed (1)	**199**	–	**335**	143
Closing Price of Trust Units			**$ 23.78**	$ 19.34
Market Capitalization (millions) (5)			**$ 2,239**	$ 1,504

(1) As at June 30.
(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, Operating Leasehold Interests, Land Leasehold Interests, and Fee Simple Interests – MHC Land Lease Sites.

For a comprehensive description of the different forms of property interests listed above, refer to CAPREIT's MD&A for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report.

Portfolio by Type of Property Interest

As at June 30,	2012	%	2011	%
Fee Simple Interests – Apartments and Townhomes	**28,194**	**77.7**	23,742	79.7
Operating Leasehold Interests	**3,815**	**10.5**	3,815	12.9
Land Leasehold Interests	**899**	**2.5**	899	3.0
Total Residential Suites	**32,908**	**90.7**	28,456	95.6
Fee Simple Interests – MHC Land Lease Sites	**3,365**	**9.3**	1,325	4.4
Total Residential Suites and MHC Land Lease Sites	**36,273**	**100.0**	29,781	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 June 30,	2012	%	2011	%
Affordable	**2,470**	**6.8**	1,214	4.1
Mid-tier	**18,037**	**49.7**	16,770	56.3
Luxury	**12,401**	**34.2**	10,472	35.2
Total Residential Suites	**32,908**	**90.7**	28,456	95.6
MHC Land Lease Sites	**3,365**	**9.3**	1,325	4.4
Total Residential Suites and MHC Land Lease Sites	**36,273**	**100.0**	29,781	100.0

Portfolio by Geography

As at June 30,	2012	%	2011	%
Residential Suites				
Ontario				
Greater Toronto Area	**16,166**	**44.6**	15,033	50.5
Ottawa	**1,527**	**4.2**	1,527	5.1
London / Waterloo	**1,649**	**4.5**	903	3.0
Other Ontario	**1,410**	**3.9**	1,410	4.8
	20,752	**57.2**	18,873	63.4
Québec				
Greater Montréal Region	**3,456**	**9.5**	2,207	7.4
Québec City	**2,728**	**7.5**	1,909	6.4
	6,184	**17.0**	4,116	13.8
British Columbia				
Greater Vancouver Region	**1,948**	**5.4**	1,948	6.6
Victoria	**815**	**2.2**	815	2.7
	2,763	**7.6**	2,763	9.3
Alberta				
Edmonton	**310**	**0.9**	310	1.0
Calgary	**1,070**	**2.9**	1,070	3.6
	1,380	**3.8**	1,380	4.6
Nova Scotia				
Halifax	**1,588**	**4.4**	1,083	3.7
Saskatchewan				
Saskatoon	**133**	**0.4**	133	0.4
Regina	**108**	**0.3**	108	0.4
	241	**0.7**	241	0.8
Total Residential Suites	**32,908**	**90.7**	28,456	95.6
MHC Land Lease Sites				
Ontario	**2671**	**7.3**	1325	4.4
British Columbia	**130**	**0.4**	-	-
Alberta	**318**	**0.9**	-	-
Saskatchewan	**246**	**0.7**	-	-
Total MHC Land Lease Sites	**3,365**	**9.3**	1,325	4.4
Total Residential Suites and MHC Land Lease Sites	**36,273**	**100.0**	29,781	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 number of 5,594 suites and sites acquired within the first six months of 2012, as historically, CAPREIT has targeted acquiring between 1,500 and 2,000 suites on an annual basis.

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.

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. To the extent that the externally provided capitalization rates change or results of operations change significantly 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 same valuation methods and key assumptions as those described in CAPREIT's MD&A and audited consolidated annual financial statements contained in CAPREIT's 2011 Annual Report for the year ended December 31, 2011.

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

As at June 30, ($ Thousands)		**2012**	2011
Balance, Beginning of the Period		**$ 3,713,737**	$ 3,049,980
Add:	Acquisitions	**537,752**	196,912
	Property Capital Investments (1)	**40,657**	37,163
	Capitalized Leasing Costs (2)	**435**	70
Less:	Dispositions	**(50,093)**	(5,732)
	Realized Loss on Dispositions	**(528)**	(95)
	Unrealized Gain on Remeasurement at Fair Value	**103,632**	25,331
Investment Properties at Fair Value, End of the Period		**$ 4,345,592**	$ 3,303,629

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

For the periods ended June 30, 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.

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

Investment Properties by Geography

As at	**Dec 2011**	Change Due to Change in			**June 2012**	**Dec 2011**	**June 2012**
($ Millions)	Fair Value	Rates (1)	Stabilized NOI	Acquisitions / Dispositions	**Fair Value**	Rates (1)	**Rates (1)**
Greater Toronto Area	$ 1,958	$ 84	$ 25	$ 118	**$ 2,185**	5.65%	**5.29%**
Other Ontario	339	14	5	75	**433**	5.78%	**5.58%**
Québec	468	12	4	138	**622**	6.03%	**5.88%**
British Columbia	451	6	8	–	**465**	4.62%	**4.55%**
Alberta	220	8	4	–	**232**	5.58%	**5.30%**
Nova Scotia	160	–	2	52	**214**	6.11%	**6.10%**
Saskatchewan	24	1	–	–	**25**	6.69%	**6.44%**
MHC Land Lease Sites	94	–	3	73	**170**	6.04%	**6.44%**
Total	$ 3,714	$ 125	$ 51	$ 456	**$ 4,346**		

(1) Weighted average capitalization rates excluding implied capitalization rates on Operating and Land Leasehold Interests.
See note 6 to the accompanying unaudited consolidated interim financial statements for further valuation assumption details including discount rates as at June 30, 2012 for Land and Operating Leasehold interests.

As at June 30, 2012, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of investment properties:

As at June 30, 2012

($ Millions)	**Change (basis points) (1)**	**Estimated (Decrease) Increase in Fair Value of Investment Properties**
Weighted Average Capitalization Rate	+25	$ (187)
Weighted Average Capitalization Rate	-25	$ 205

(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 II

AVERAGE MONTHLY RENTS AND OCCUPANCY

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

As at June 30,	**Total Portfolio**				**Properties Owned Prior to June 30, 2011**				**Properties Acquired Since June 30, 2011**	
	2012		**2011**		**2012**		**2011 (1)**		**2012**	
	AMR	**Occ. %(2)**	**AMR**	**Occ. % (2)**	**AMR**	**Occ. %**	**AMR**	**Occ. %**	**AMR**	**Occ. %**
Affordable	**$ 839**	**97.6**	$ 790	97.9	**$ 797**	**96.3**	$ 790	97.9	$ 878	98.8
Mid-tier	**$ 975**	**98.6**	$ 949	98.6	**$ 970**	**98.5**	$ 947	98.6	$ 1,037	99.9
Luxury	**$ 1,107**	**98.1**	$ 1,100	97.9	**$ 1,133**	**98.0**	$ 1,101	97.8	$ 983	98.3
Average Residential Suites	**$ 1,016**	**98.3**	$ 999	98.3	**$ 1,024**	**98.2**	$ 998	98.3	$ 971	98.9
Average MHC Land Lease Sites	**$ 432**	**99.2**	$ 631	100.0	**$ 620**	**99.7**	$ 631	100.0	$ 310	98.9
Overall Portfolio Average	**$ 960**	**98.4**	$ 982	98.4	**$ 1,005**	**98.3**	$ 981	98.4	$ 774	98.9

(1) Prior period's comparable AMR and occupancy have been restated for properties disposed of between July 1, 2011 and June 30, 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 $3.0 million, 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 1.7% increase in overall average monthly rent as at June 30, 2012 to $1,016, compared to $999 for the same period last year while occupancy remained strong at 98.3%. As at June 30, 2012, the AMR of the affordable properties increased to $839 compared to $790 for the same period last year, partially as a result of acquisitions in the higher rent geographic region. The increases in average monthly rents was due to higher rental 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. For the MHC land lease portfolio average monthly rents decreased to $432 as at June 30, 2012, compared to $631 for the same period last year, primarily due to the acquisition of 2,032 MHC land lease sites in the lower rent geographic regions. Management believes the acquisition of MHC land lease sites are secure and stable due to long-term cash flows, high occupancies, steady increases in average monthly rents, and significantly lower capital and maintenance costs, which makes them accretive in the long term.

Average monthly rents for residential properties owned prior to June 30, 2011 also increased at June 30, 2012 to $1,024 from $998 at June 30, 2011, an increase of 2.6% for the same period last year. As at June 30, 2012, occupancy remained strong at 98.2%, similar to the same period last year.

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

Suite Turnovers and Lease Renewals

For the Three Months Ended June 30,	**2012**			**2011**		
	Change in AMR		**% Turnovers**	**Change in AMR**		**% Turnovers**
	$	**%**	**& Renewals(1)**	**$**	**%**	**& Renewals(1)**
Suite Turnovers	**22.7**	**2.2**	**7.8**	9.2	0.9	8.1
Lease Renewals	**34.8**	**3.3**	**18.8**	14.3	1.4	17.3
Weighted Average of Turnovers and Renewals	**31.2**	**3.0**		12.7	1.2	

For the Six Months Ended June 30,	**2012**			**2011**		
	Change in AMR		**% Turnovers**	**Change in AMR**		**% Turnovers**
	$	**%**	**& Renewals(1)**	**$**	**%**	**& Renewals(1)**
Suite Turnovers	**21.6**	**2.1**	**13.1**	8.5	0.9	13.8
Lease Renewals	**35.5**	**3.4**	**34.7**	13.7	1.3	29.4
Weighted Average of Turnovers and Renewals	**31.7**	**3.0**		12.0	1.2	

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

Suite turnovers in the residential suite portfolio (excluding co-ownerships) during the three months ended June 30, 2012 resulted in average monthly rent increasing by approximately $23 or 2.2% per suite compared to an increase of approximately $9 or 0.9% in the same period last year. For the first six months of 2012, suite turnovers also resulted in average monthly rent increasing by approximately $22 or 2.1% compared to an increase of approximately $9 or 0.9% in the same period last year due to strengthening market conditions including, the improving Alberta economy and Management's sales and marketing programs.

For the three months ended June 30, 2012 average monthly rents on lease renewals increased by approximately $35 or 3.3% per suite compared to an increase of approximately $14 or 1.4% for the same period last year. For the six months ended June 30, 2012, average monthly rents on lease renewals increased by approximately $36 or 3.4%, compared to an increase of approximately $14 or 1.3% for the same period last year. The higher rate of growth in average monthly rents on lease renewals during the current year periods 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 July 2011, the Ontario Ministry of Municipal Affairs and Housing announced the rent control guideline for 2013 will be 2.5%. 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

As at June 30,	Total Portfolio 2012 AMR	Total Portfolio 2012 Occ. %	Total Portfolio 2011 AMR	Total Portfolio 2011 Occ. %	Properties Owned Prior to June 30, 2011 2012 AMR	Properties Owned Prior to June 30, 2011 2012 Occ. %	Properties Owned Prior to June 30, 2011 2011 (1) AMR	Properties Owned Prior to June 30, 2011 2011 (1) Occ. %	Properties Acquired Since June 30, 2011 2012 AMR	Properties Acquired Since June 30, 2011 2012 Occ. %
Residential Suites										
Ontario										
Greater Toronto Area	**$ 1,116**	**98.9**	$ 1,096	99.0	**$ 1,121**	**98.8**	$ 1,096	99.0	$ 1,067	100.0
Ottawa	**898**	**100.0**	876	99.9	**898**	**100.0**	876	99.9	-	-
London / Waterloo	**864**	**98.1**	850	96.0	**867**	**96.7**	850	96.0	860	99.9
Other Ontario	**1,035**	**99.1**	1,010	98.7	**1,035**	**99.1**	1,010	98.7	-	-
	$ 1,080	**98.9**	$ 1,067	98.9	**$ 1,091**	**98.8**	$ 1,067	98.9	$ 997	100.0
Québec										
Greater Montréal Region	**$ 778**	**96.6**	$ 688	96.3	**$ 705**	**96.2**	$ 688	96.3	$ 906	97.4
Québec City	**900**	**97.8**	809	97.9	**820**	**97.1**	809	97.9	1,086	99.5
	$ 832	**97.2**	$ 744	97.1	**$ 758**	**96.6**	$ 744	97.1	$ 977	98.2
British Columbia										
Greater Vancouver Region	**$ 1,022**	**98.7**	$ 980	97.5	**$ 1,022**	**98.7**	$ 980	97.5	$ -	-
Victoria	**858**	**95.8**	853	97.7	**858**	**95.8**	853	97.7	-	-
	$ 974	**97.9**	$ 942	97.6	**$ 974**	**97.9**	$ 942	97.6	$ -	-
Alberta										
Edmonton	**$ 1,039**	**97.4**	$ 902	87.4	**$ 1,039**	**97.4**	$ 902	87.4	$ -	-
Calgary	**1,076**	**99.2**	1,028	98.2	**1,076**	**99.2**	1,028	98.2	-	-
	$ 1,068	**98.8**	$ 1,000	95.8	**$ 1,068**	**98.8**	$ 1,000	95.8	$ -	-
Nova Scotia										
Halifax	**$ 980**	**95.8**	$ 1,039	97.3	**$ 1,048**	**95.2**	$ 1,039	97.3	$ 834	97.0
Saskatchewan										
Saskatoon	**$ 854**	**97.0**	$ 825	98.5	**$ 854**	**97.0**	$ 825	98.5	$ -	-
Regina	**929**	**100.0**	890	100.0	**929**	**100.0**	890	100.0	-	-
	$ 888	**98.3**	$ 854	99.2	**$ 888**	**98.3**	$ 854	99.2	$ -	-
Total Residential Suites	**$ 1,016**	**98.3**	$ 999	98.3	**$ 1,024**	**98.2**	$ 998	98.3	$ 971	98.9
MHC Land Lease Sites										
Ontario	**$ 458**	**99.5**	$ 631	100.0	**$ 620**	**99.7**	$ 631	100.0	$ 298	99.3
British Columbia	**383**	**97.7**	-	-	**-**	**-**	-	-	383	97.7
Alberta	**349**	**97.5**	-	-	**-**	**-**	-	-	349	97.5
Saskatchewan	**292**	**98.8**	-	-	**-**	**-**	-	-	292	98.8
Total MHC Land Lease Sites	**$ 432**	**99.2**	$ 631	100.0	**$ 620**	**99.7**	$ 631	100.0	$ 310	98.9
Total Residential Suites and MHC Land Lease Sites	**$ 960**	**98.4**	$ 982	98.4	**$ 1,005**	**98.3**	$ 981	98.4	$ 774	98.9

(1) Prior period's comparable AMR and occupancy have been restated for properties disposed of between July 1, 2011 and June 30, 2012.

Overall average occupancy remained at nearly full levels at 98.4% as at June 30, 2012, similar to the same period last year as CAPREIT's strong portfolio and favourable market conditions enabled Management to continue to focus on improving resident quality, with an emphasis on maintaining or increasing rents in most of the portfolio's core markets, as summarized below:

- Average monthly rents for residential properties owned prior to June 30, 2011 increased in all regional markets of the portfolio while average occupancy levels decreased in certain regions.
- Ontario, where residential suites represent about 63% of the total residential suite portfolio, experienced an increase of 2.2% in average monthly rents for its properties owned prior to June 30, 2011, and 1.2% in average monthly rents for all its properties as at June 30, 2012 compared to the same period last year.

Management expects the property acquisitions since June 30, 2011 will be fully integrated with CAPREIT's strategies and systems in the medium term, resulting in higher performing buildings. Occupancy levels remained nearly full at 98.9%, consistent with the same period last year. Management expects the Ontario rental market to remain strong and benefit from the higher guideline increase of 3.1% in 2012 and 2.5% in 2013.

- Québec, representing about 19% of the total residential suite portfolio, experienced an increase of 1.9% in average monthly rents for its properties owned prior to June 30, 2011, compared to the same period last year. The average monthly rents for all its properties increased by 11.8% as at June 30, 2012, compared to the same period last year primarily due to acquisitions with higher average monthly rents. The occupancy levels increased to 97.2% from 97.1%. Management expects the Québec rental market to remain stable.
- British Columbia experienced an increase of 3.4% in average monthly rents for its properties owned prior to June 30, 2011 as at June 30, 2012, and 3.4% in average monthly rents for its total portfolio as at June 30, 2012. For the total British Columbia portfolio, occupancy levels increased slightly to 97.9% from 97.6% over the same period last year. Management expects the British Columbia rental market to remain strong and benefit from the higher guideline increase of 4.3% in 2012.
- Improving economic conditions in Alberta resulted in an overall 6.8% improvement in average monthly rents as at June 30, 2012, compared to the same period last year while occupancy levels also increased to 98.8% as at June 30, 2012 from 95.8% for the same period last year. Management believes the Alberta market should continue to improve over the medium term.
- In the second quarter of 2012, CAPREIT acquired a large and well-established national portfolio of 12 MHC communities comprised of 2,032 land lease sites located in Ontario, Saskatchewan, Alberta and British Columbia. Average monthly rents for MHC land lease sites as at June 30, 2012 decreased to $432 from $631 for the same period last year primarily due to the lower average monthly rents and occupancy in the acquisition portfolio.

Overall average monthly rents for the residential suite portfolio as at June 30, 2012 increased by approximately 1.7%, as compared to June 30, 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 periods ended June 30, 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 periods.

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

	Three Months Ended June 30				Six Months Ended June 30			
($ Thousands)	**2012**	% (1)	2011	% (1)	**2012**	% (1)	2011	% (1)
New Tenant Inducements Incurred	**$ 260**		$ 216		**$ 394**		$ 366	
Tenant Inducements Amortized	**$ 192**	**0.2**	$ 254	0.3	**$ 367**	**0.2**	$ 541	0.3
Vacancy Loss Incurred	**1,773**	**1.8**	1,453	1.6	**3,466**	**1.8**	3,074	1.8
Total Amortization and Loss	**$ 1,965**	**2.0**	$ 1,707	1.9	**$ 3,833**	**2.0**	$ 3,615	2.1
Bad Debt Expense	**$ 392**	**0.4**	$ 429	0.5	**$ 832**	**0.4**	$ 742	0.4

(1) As a percentage of total operating revenues.

RESULTS OF OPERATIONS

Total Operating Revenues by Geography

($ Thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Residential Suites				
Ontario				
Greater Toronto Area	**$ 52,299**	$ 49,568	**$ 104,658**	$ 98,436
Ottawa	**2,193**	2,151	**4,371**	4,288
London / Waterloo	**2,397**	2,363	**4,796**	4,720
Other Ontario	**4,622**	4,534	**9,231**	9,147
	$ 61,511	$ 58,616	**$ 123,056**	$ 116,591
Québec				
Greater Montréal Region	**$ 7,807**	$ 4,720	**$ 15,652**	$ 9,371
Québec City	**4,915**	4,853	**9,841**	9,729
	$ 12,722	$ 9,573	**$ 25,493**	$ 19,100
British Columbia				
Greater Vancouver Region	**$ 6,513**	$ 5,922	**$ 12,991**	$ 10,793
Victoria	**2,174**	2,119	**4,330**	4,214
	$ 8,687	$ 8,041	**$ 17,321**	$ 15,007
Alberta				
Edmonton	**$ 1,073**	$ 991	**$ 2,165**	$ 2,008
Calgary	**4,372**	4,157	**8,683**	8,238
	$ 5,445	$ 5,148	**$ 10,848**	$ 10,246
Nova Scotia				
Halifax	**$ 3,750**	$ 3,714	**$ 7,517**	$ 7,371
Saskatchewan				
Saskatoon	**$ 346**	$ 333	**$ 683**	$ 648
Regina	**306**	293	**610**	585
	$ 652	$ 626	**$ 1,293**	$ 1,233
Total Residential Suites	**$ 92,767**	$ 85,718	**$ 185,528**	$ 169,548
MHC Land Lease Sites				
Ontario	**$ 2,922**	$ 2,517	**$ 5,423**	$ 5,019
British Columbia	**52**	-	**52**	-
Alberta	**116**	-	**116**	-
Saskatchewan	**75**	-	**75**	-
Total MHC Land Lease Sites	**$ 3,165**	$ 2,517	**$ 5,666**	$ 5,019
Total Residential Suites and MHC Land Lease Sites	**$ 95,932**	$ 88,235	**$ 191,194**	$ 174,567

Results of Operations

	Three Months Ended June 30				Six Months Ended June 30			
($ Thousands)	**2012**	**%(1)**	**2011**	**%(1)**	**2012**	**%(1)**	**2011**	**%(1)**
Operating Revenues								
Net Rental Revenues	**$ 91,166**	**95.0**	$ 83,613	94.8	**$ 181,596**	**95.0**	$ 165,165	94.6
Other (2)	**4,766**	**5.0**	4,622	5.2	**9,598**	**5.0**	9,402	5.4
Total Operating Revenues	**95,932**	**100.0**	88,235	100.0	**191,194**	**100.0**	174,567	100.0
Operating Expenses								
Realty Taxes	**11,536**	**12.0**	10,789	12.2	**23,157**	**12.1**	21,815	12.5
Utilities	**8,519**	**8.9**	8,484	9.6	**21,060**	**11.0**	20,638	11.8
Other	**19,163**	**20.0**	16,971	19.3	**37,525**	**19.7**	33,559	19.2
Total Operating Expenses	**39,218**	**40.9**	36,244	41.1	**81,742**	**42.8**	76,012	43.5
NOI	**$ 56,714**	**59.1**	$ 51,991	58.9	**$ 109,452**	**57.2**	$ 98,555	56.5

(1) As a percentage of total operating revenues.
(2) Comprises ancillary income such as parking, laundry and antenna income.

Operating Revenues

For the three and six months ended June 30, 2012, total operating revenues increased by 8.7% and 9.5%, respectively, compared to the same periods last year due to the contributions from acquisitions, higher rent guideline increases, and increased average monthly rents on the residential suite portfolio while occupancies remained stable. As CAPREIT continues to enhance the profile of its resident base and increase the level of service to residents, it expects to continue to realize further increases in operating revenues. For the three and six months ended June 30, 2012, ancillary revenues, such as parking, laundry and antenna income, as a percentage of total operating revenues decreased to 5.0% and 5.0%, respectively, compared to 5.2% and 5.4%, respectively, for the same periods last year primarily due to the positive impact of non-recurring items of $0.7 million being included for the six months ended June 30, 2011.

Estimated Net Rental Revenue Run-Rate

As at June 30, ($ Thousands)	**2012**	**2011**
Residential Rent Roll (1),(2)	**$ 402,159**	$ 334,478
Commercial Rent Roll (1),(2)	**8,965**	8,281
Annualized Net Rental Revenue Run-Rate	**$ 411,124**	342,759

(1) Based on rent roll as at June 30, 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 June 30.

The table above shows the estimated net rental revenue run-rate, net of average historical vacancy loss, tenant inducements and bad debt and based on the average monthly rents in place and CAPREIT's share of residential suites and sites as at June 30, 2012 and 2011. The estimated annualized net rental revenue run-rate improved by 19.9% to $411.1 million from $342.8 million primarily as a result of new acquisitions within the past twelve months and higher rents. Net rental revenue for the 12 months ended June 30, 2012 was $356.0 million (2011 – $327.6 million).

Operating Expenses

Overall operating expenses as a percentage of operating revenues improved in the three and six months ended June 30, 2012 compared to the same period 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.

<u>Realty Taxes</u>

For the three and six months ended June 30, 2012, realty taxes as a percentage of operating revenues have continued their downward trend to 12.0% and 12.1%, respectively, compared to 12.2% and 12.5% for the same period last year. The decrease is primarily the result of the enhanced diversification of the portfolio into regions with lower taxation rates as well as a successful realty tax management program to mitigate rising realty taxes in certain regions.

Utilities

As a percentage of operating revenues, utility costs for the three and six months ended June 30, 2012 decreased to 8.9% and 11.0%, respectively, from 9.6% and 11.8% for the same periods 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.

	Three Months Ended June 30				Six Months Ended June 30			
($ Thousands)	**2012**	**% (1)**	2011	% (1)	**2012**	**% (1)**	2011	% (1)
Electricity	**$ 3,944**	**4.1**	$ 3,878	4.4	**$ 9,688**	**5.1**	$ 9,355	5.3
Natural Gas	**1,989**	**2.1**	2,320	2.6	**6,423**	**3.3**	6,943	4.0
Water	**2,586**	**2.7**	2,286	2.6	**4,949**	**2.6**	4,340	2.5
Total	**$ 8,519**	**8.9**	**$ 8,484**	**9.6**	**$ 21,060**	**11.0**	**$ 20,638**	**11.8**

(1) As a percentage of total operating revenues.

For the three and six months ended June 30, 2012, electricity costs as a percentage of total operating revenues decreased to 4.1% and 5.1%, respectively, compared to 4.4% and 5.3% for the same period 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 June 30, 2012, tenants who pay their hydro charges directly, represents 20.2% of the total 13,764 recently sub-metered suites in Ontario.

For the three months ended June 30, 2012, natural gas cost as a percentage of total operating revenues decreased to 2.1% compared to 2.6% primarily due to lower natural gas rates. For the six months ended June 30, 2012, natural gas cost as a percentage of total operating revenues decreased to 3.3% compared to 4.0% over the same period last year as a result of lower natural gas consumption resulting from warmer weather in the 2012 winter months.

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

As at June 30,	**Remaining 2012**	**2013**
Fixed Average Weighted Cost per GJ (1)	**$ 3.64**	$ 3.39
Total CAPREIT's Estimated Requirement	**56.89%**	18.59%

(1) Fixed weighted average cost per gigajoule ("GJ") excludes estimated transportation costs of $1.37, $1.17 and $1.06 per GJ for the remainder of 2012, 2013 and 2014, respectively, and other administrative costs.

Other Operating Expenses

Other operating expenses, which include R&M costs, wages and benefits, insurance and advertising, increased as a percentage of operating revenues for the three and six months ended June 30, 2012, to 20.0% and 19.7%, respectively, from 19.3% and 19.2%, for the same period last year. The increase was primarily due to higher R&M costs and salaries driven by a combination of factors including the integration of new properties.

NET OPERATING INCOME

Management believes NOI is a key indicator of operating performance in the real estate industry. NOI includes all rental revenues generated at the property level, less: (i) related direct costs such as utilities, realty taxes, insurance, 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 the residential suite portfolio and MHC land lease sites for the three and six months ended June 30, 2012 and 2011.

For The Three Months Ended June 30,	**2012**		**2011**		**Increase (Decrease) %**		
($ Thousands)	**NOI**	**NOI Margin (%)**	**NOI**	**NOI Margin (%)**	**Revenue Change (%)**	**Operating Expense Change (%)**	**NOI Change (%)**
Total Residential Suites	**$ 54,932**	**59.2**	$ 50,642	59.1	**8.2**	**7.9**	**8.5**
Total MHC Land Lease Sites	**$ 1,782**	**56.3**	$ 1,349	53.6	**25.7**	**18.4**	**32.1**
Total Residential Suites and MHC Land Lease Sites	**$ 56,714**	**59.1**	$ 51,991	58.9	**8.7**	**8.2**	**9.1**

For the Six Months Ended June 30,	**2012**		**2011**		**Increase (Decrease) %**		
($ Thousands)	**NOI**	**NOI Margin (%)**	**NOI**	**NOI Margin (%)**	**Revenue Change (%)**	**Operating Expense Change (%)**	**NOI Change (%)**
Total Residential Suites	**$ 106,130**	**57.2**	$ 95,793	56.5	**9.4**	**7.7**	**10.8**
Total MHC Land Lease Sites	**$ 3,322**	**58.6**	$ 2,762	55.0	**12.9**	**3.9**	**20.3**
Total Residential Suites and MHC Land Lease Sites	**$ 109,452**	**57.2**	$ 98,555	56.5	**9.5**	**7.5**	**11.1**

For the three and six months ended June 30, 2012, NOI increased by $4.7 million and $10.9 million, respectively, and the NOI margin improved to 59.1% and 57.2% from 58.9% and 56.5%, respectively, for the same periods last year. The significant improvement in the NOI contribution in specific regions of the portfolio was primarily the result of acquisitions completed in the prior 12 months and higher operating revenues. While overall the NOI and the NOI margin increased for the year to date period, CAPREIT remains focused on continuing to further improve NOI through a combination of accretive and value-enhancing acquisitions, successful sales and marketing strategies to improve revenues, and investments in capital programs to further reduce costs and enhance the quality and value of its portfolio. For a comprehensive analysis of stabilized NOI growth or decline compared to the same period last year by Geography, refer to the Stabilized Portfolio Performance section.

STABILIZED PORTFOLIO PERFORMANCE

For The Three Months Ended June 30,	2012			2011			Increase (Decrease) %		
($ Thousands)		NOI	NOI Margin (%)		NOI	NOI Margin (%)	Revenue Change (%)	Operating Expense Change (%)	NOI Change (%)
Residential Suites									
Ontario									
Greater Toronto Area	**$**	**28,623**	**59.0**	$	28,158	59.1	**1.8**	**2.0**	**1.7**
Ottawa		**1,265**	**57.7**		1,219	56.7	**2.0**	**(0.4)**	**3.8**
London / Waterloo		**1,356**	**56.7**		1,349	57.1	**1.2**	**2.2**	**0.5**
Other Ontario		**2,604**	**59.8**		2,489	58.3	**2.0**	**(1.6)**	**4.6**
	$	**33,848**	**58.9**	$	33,215	58.9	**1.8**	**1.6**	**1.9**
Québec									
Greater Montréal Region	**$**	**2,717**	**55.9**	$	2,604	55.1	**2.9**	**1.1**	**4.3**
Québec City		**2,829**	**57.5**		2,849	58.7	**1.3**	**4.2**	**(0.7)**
	$	**5,546**	**56.7**	$	5,453	57.0	**2.1**	**2.6**	**1.7**
British Columbia									
Greater Vancouver Region	**$**	**3,191**	**62.7**	$	2,918	60.0	**4.7**	**(2.3)**	**9.4**
Victoria		**1,477**	**67.9**		1,423	67.2	**2.6**	**0.1**	**3.8**
	$	**4,668**	**64.3**	$	4,341	62.2	**4.1**	**(1.7)**	**7.5**
Alberta									
Edmonton	**$**	**740**	**69.0**	$	594	59.9	**8.3**	**(16.1)**	**24.6**
Calgary		**2,508**	**57.4**		2,361	56.8	**5.2**	**3.8**	**6.2**
	$	**3,248**	**59.7**	$	2,955	57.4	**5.8**	**0.2**	**9.9**
Nova Scotia									
Halifax	**$**	**2,526**	**67.4**	$	2,490	67.0	**1.0**	**-**	**1.4**
Saskatchewan									
Saskatoon	**$**	**211**	**61.0**	$	204	61.3	**3.9**	**4.7**	**3.4**
Regina		**197**	**64.4**		193	65.9	**4.4**	**9.0**	**2.1**
	$	**408**	**62.6**	$	397	63.4	**4.2**	**6.6**	**2.8**
Total Residential Suites	**$**	**50,244**	**59.6**	$	48,851	59.2	**2.3**	**1.4**	**2.9**
MHC Land Lease Sites									
Ontario	**$**	**1,307**	**52.4**	$	1,345	53.5	**(0.7)**	**1.8**	**(2.8)**
Total MHC Land Lease Sites	**$**	**1,307**	**52.4**	$	1,345	53.5	**(0.7)**	**1.8**	**(2.8)**
Total Residential Suites and MHC Land Lease Sites	**$**	**51,551**	**59.4**	$	50,196	59.1	**2.2**	**1.4**	**2.7**
Stabilized Suites and Sites		**26,864**			26,864				

For The Six Months Ended June 30,	**2012**		**2011**		**Increase (Decrease) %**		
($ Thousands)	**NOI**	**NOI Margin (%)**	**NOI**	**NOI Margin (%)**	**Revenue Change (%)**	**Operating Expense Change (%)**	**NOI Change (%)**
Residential Suites							
Ontario							
Greater Toronto Area	**$ 55,064**	**57.0**	$ 53,868	56.4	**1.2**	**-**	**2.2**
Ottawa	**2,316**	**53.0**	2,213	51.6	**1.9**	**(1.0)**	**4.7**
London / Waterloo	**2,640**	**55.1**	2,569	54.4	**1.5**	**-**	**2.8**
Other Ontario	**4,911**	**56.5**	4,546	53.7	**2.6**	**(3.6)**	**8.0**
	$ 64,931	**56.7**	$ 63,196	56.0	**1.4**	**(0.3)**	**2.7**
Québec							
Greater Montréal Region	**$ 5,115**	**52.6**	$ 4,764	50.8	**3.7**	**-**	**7.4**
Québec City	**5,415**	**55.0**	5,440	55.9	**1.2**	**3.2**	**(0.5)**
	$ 10,530	**53.8**	$ 10,204	53.4	**2.4**	**1.5**	**3.2**
British Columbia							
Greater Vancouver Region	**$ 6,249**	**61.6**	$ 5,683	58.4	**4.3**	**(3.6)**	**10.0**
Victoria	**2,876**	**66.4**	2,639	62.6	**2.8**	**(7.7)**	**9.0**
	$ 9,125	**63.0**	$ 8,322	59.7	**3.8**	**(4.8)**	**9.6**
Alberta							
Edmonton	**$ 1,475**	**68.1**	$ 1,153	57.4	**7.8**	**(19.3)**	**27.9**
Calgary	**4,917**	**56.6**	4,538	55.1	**5.4**	**1.8**	**8.4**
	$ 6,392	**58.9**	$ 5,691	55.5	**5.9**	**(2.2)**	**12.3**
Nova Scotia							
Halifax	**$ 4,998**	**66.5**	$ 4,752	64.5	**2.0**	**(3.8)**	**5.2**
Saskatchewan							
Saskatoon	**$ 370**	**54.2**	$ 339	52.3	**5.4**	**1.3**	**9.1**
Regina	**396**	**64.9**	369	63.1	**4.3**	**(0.9)**	**7.3**
	$ 766	**59.2**	$ 708	57.4	**4.9**	**0.4**	**8.2**
Total Residential Suites	**$ 96,742**	**57.5**	$ 92,873	56.3	**2.0**	**(0.7)**	**4.2**
MHC Land Lease Sites							
Ontario	**$ 2,838**	**57.0**	$ 2,754	55.0	**(0.6)**	**(5.0)**	**3.1**
Total MHC Land Lease Sites	**$ 2,838**	**57.0**	$ 2,754	55.0	**(0.6)**	**(5.0)**	**3.1**
Total Residential Suites and MHC Land Lease Sites	**$ 99,580**	**57.5**	$ 95,627	56.3	**2.0**	**(0.8)**	**4.1**
Stabilized Suites and Sites	**26,864**		26,864				

Stabilized properties for the three and six months ended June 30, 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 June 30, 2012, stabilized suites and sites represent 76.5% of the overall portfolio.

As of June 30, 2012, CAPREIT has generated 26 consecutive quarters of stable or improved year-over-year NOI growth for stabilized properties. For the three and six months ended June 30, 2012, operating revenues increased 2.2% and 2.0%, respectively, while operating expenses increased by 1.4% and decreased by 0.8%, respectively, over the same periods last year. As a result, stabilized NOI increased by 2.7% and 4.1%, and the NOI margin improved to 59.4% and 57.5% from 59.1% and 56.3%, respectively, for the three and six months ended June 30, 2012.

For the three and six months ended June 30, 2012, the NOI margin for properties acquired since December 31, 2010, was 57.6% and 54.0%, respectively.

Ontario:

NOI for the stabilized Ontario portfolio for the three months ended June 30, 2012 increased by 1.9% compared to the same period last year primarily due to higher operating revenues partially offset by higher vacancies, R&M, water and onsite costs. The NOI margin remained stable at 58.9% compared to the same period last year. NOI for the stabilized Ontario portfolio for the six months ended June 30, 2012 increased by 2.7% compared to the same period last year, and the NOI margin improved to 56.7% from 56.0% for the same period last year due to higher operating revenues, and lower heating, hydro and realty taxes expenses offset by higher vacancies, R&M, water and onsite costs. Management believes the Ontario portfolio will remain strong and generate steady returns in the medium term. As discussed earlier, the rent guideline increase for 2012 is 3.1% and for 2013 is 2.5%.

Québec:

NOI for the stabilized Quebec portfolio for the three months ended June 30, 2012 increased by 1.7% compared to the same period last year primarily due to higher operating revenue, while the NOI margin declined to 56.7% from 57.0% due to higher operating revenues offset by higher R&M, advertising and onsite costs compared to the same period last year. NOI for the stabilized Quebec portfolio for the six months ended June 30, 2012 increased by 3.2%, and the NOI margin improved to 53.8% from 53.4% for the same period last year due to higher operating revenues, and lower wages partially offset by higher realty taxes and R&M costs. 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 for the three months ended June 30, 2012 increased by 7.5% compared to the same period last year primarily due to higher operating revenues and lower heating costs and vacancies. NOI for the stabilized British Columbia portfolio for the six months ended June 30, 2012 increased by 9.6% compared to the same period last year primarily due to higher operating revenues and lower R&M costs and vacancies. For the three months and six months ended June 30, 2012, the NOI margin increased to 64.3% and 63.0% from 62.2% and 59.7%, respectively, compared to the same periods last year. Management believes the British Columbia portfolio will continue to generate steady returns in the medium term. The rent guideline increase for 2012 is 4.3%, up from 2.3% in 2011.

Alberta:

NOI for the stabilized Alberta portfolio for the three months ended June 30, 2012 increased by 9.9% compared to the same period last year primarily due to higher operating revenues and lower heating costs and vacancies. NOI for the stabilized Alberta portfolio for the six months ended June 30, 2012 increased by 12.3% compared to the same period last year primarily due to higher operating revenues and lower vacancies, heating and R&M costs. For the three months and six months ended June 30, 2012, the NOI margin increased to 59.7% and 58.9% from 57.4% and 55.5%, respectively, compared to the same periods last year. Management believes the Alberta market should continue to improve over the medium term.

Nova Scotia:

NOI for the stabilized Nova Scotia portfolio for the three months ended June 30, 2012 increased by 1.4% compared to the same period last year primarily due to higher operating revenues. NOI for the stabilized Nova Scotia portfolio for the six months ended June 30, 2012 increased by 5.2% compared to the same period last year primarily due to higher operating revenues and lower heatings costs offset by higher vacancies, and R&M costs. For the three months and six months ended June 30, 2012, the NOI margin increased to 67.4% and 66.5% from 67.0% and 64.5%, respectively, compared to the same periods last year. Management believes its presence in downtown Halifax locations will serve to maintain or increase occupancy levels and average monthly rents in the medium term.

NET INCOME AND OTHER COMPREHENSIVE (LOSS) INCOME

	Three Months Ended June 30		Six Months Ended June 30	
($ Thousands)	**2012**	2011	**2012**	2011
Net Operating Income	**$ 56,714**	$ 51,991	**$ 109,452**	$ 98,555
(Less) Plus:				
Trust Expenses	**(3,557)**	(3,694)	**(6,806)**	(7,299)
Unrealized Gain on Remeasurement of Investment Properties	**95,783**	30,792	**103,632**	25,331
Realized Loss on Disposition of Investment Properties	**(350)**	–	**(528)**	(95)
Remeasurement of Exchangeable Units	**(550)**	49	**(632)**	(905)
Unit-based Compensation Expenses	**(5,738)**	(139)	**(7,354)**	(5,940)
Interest on Mortgages Payable and Other Financing Costs	**(20,670)**	(20,228)	**(41,671)**	(40,025)
Interest on Bank Indebtedness	**(915)**	(1,559)	**(1,993)**	(2,551)
Interest on Exchangeable Units	**(93)**	(111)	**(204)**	(222)
Other Income	**735**	465	**1,215**	930
Amortization	**(548)**	(403)	**(1,066)**	(797)
Severance and Other Employee Costs	**–**	(1,352)	**–**	(1,352)
Unrealized (Loss) Gain on Derivative Financial Instruments	**(511)**	1,362	**(1,467)**	1,206
Net Income	**$ 120,300**	$ 57,173	**$ 152,578**	$ 66,836
Other Comprehensive Income				
Amortization of Losses from AOCL to Interest and Other Financing Costs	**$ 338**	$ 251	**$ 672**	$ 495
Change in Fair Value of Derivative Financial Instruments	**(7,266)**	776	**(2,963)**	1,823
Change in Fair Value of Investments	**2,220**	1,090	**4,532**	991
Other Comprehensive (Loss) Income	**(4,708)**	2,117	**2,241**	3,309
Comprehensive Income	**$ 115,592**	$ 59,290	**$ 154,819**	$ 70,145

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 three and six months ended June 30, 2012, to $3.6 million and $6.8 million, respectively, from $3.7 million and $7.3 million for the same periods last year, mainly due to lower legal and consulting costs partially offset by higher compensation expenses.

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 upon remeasurement recognized in the consolidated statement of income for the period. 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 Property

The realized loss on disposition of investment property for the three months June 30, 2012 of $0.4 million represents the difference between the net proceeds from the disposition compared to the fair value of the property at the date of disposition as at May 31, 2012.

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. In the second quarter of 2012, 100,000 Exchangeable Units were exchanged for 100,000 Trust Units at fair value of $24.05 per Unit. The change in the market price of CAPREIT's Trust Units for the three months ended June 30, 2012, compared to June 30, 2011 was higher, therefore resulting in a higher remeasurement expense of $0.6 million compared to $0.1 million for the same period last year, partially offset by the redemption of the Exchangeable Units. For the six months ended June 30, 2012, the remeasurement expense was $0.6 million compared to $0.9 million for the same period 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, 2011 contained in CAPREIT's 2011 Annual Report.

Unit-based Compensation Expenses

Unit-based compensation benefits are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and to provide additional incentives by increasing the participants' interest, as owners, in CAPREIT. Unit-based compensation expenses include costs attributable to these incentive plans, namely the Restricted Unit Rights Plan ("RUR Plan"), Unit Option Plan ("UOP"), Deferred Unit Plan ("DUP"), Long-Term Incentive Plan ("LTIP") and Senior Executive Long-Term Incentive Plan ("SELTIP") (see notes 13 and 15 in CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report).

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 period end at fair value.

CAPREIT's Unit-based compensation expense for the three and six months ended June 30, 2012 increased to $5.7 million from $0.1 million and to $7.4 million from $5.9 million, respectively, for the same periods last year. The increase is mainly due to the increase in the market price of CAPREIT's Trust Units as well as the issuance of additional UOP, DUP and RUR awards. The table below demonstrates the impact of each component of CAPREIT's plans on the total compensation expense.

	Three Months Ended June 30		Six Months Ended June 30	
($ Thousands)	**2012**	**2011**	**2012**	**2011**
Remeasurement of Unit-based Compensation Liabilities	**$ 4,599**	$ (233)	**$ 5,793**	$ 5,241
Amortization of Fair Value on Grant Date of Unit-based Compensation	**1,139**	372	**1,561**	699
Total	**$ 5,738**	$ 139	**$ 7,354**	$ 5,940

Interest on Mortgages Payable and Other Financing Costs

Interest on mortgages, which includes the amortization of certain financing costs, increased in the three and six months ended June 30, 2012, to $20.7 million and $41.7 million, respectively, from $20.2 million and $40.0 million for the same periods last year, due to increased mortgage top ups and acquisition financing since June 30, 2011. However, as a percentage of operating revenues, mortgage interest expense decreased to 21.5% and 21.8% for the three and six months ended June 30, 2012, respectively, from 22.9% and 22.9% for the same periods last year as a result of CAPREIT's successful refinancing of mortgages at lower interest rates and higher operating revenues. Additional information on the interest on mortgages payable and other financing costs is included in note 15 to the accompanying unaudited condensed consolidated interim financial statements.

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 consists primarily of dividends received from investments (see notes 2 and 7 to the accompanying unaudited condensed consolidated interim financial statements). During the second quarter of 2012, CAPREIT sold investments and realized a gain of $0.2 million which was included in other income in the quarter.

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 six months ended June 30, 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) Gain on Derivative Financial Instruments

i) *Forward interest rate hedges for which hedge accounting is being applied*: In June 2011, CAPREIT entered into a forward interest rate hedge agreement to hedge interest rates on approximately $312 million of mortgages maturing between September 2011 and June 2013, to which hedge accounting is being applied. The maturing mortgages are expected to be refinanced on ten-year terms and are expected to bear interest rates based on 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 June 30, 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 three and six months ended June 30, 2012, there was a loss on derivative financial instruments of approximately $0.5 million and $1.5 million, respectively.

ii) *Interest rate contracts for which hedge accounting is being applied*: As at June 30, 2012, CAPREIT has a $55 million interest rate swap agreement fixing the interest rate at 5.706%, maturing in July 2012, to which hedge accounting is being applied. The agreement effectively converts borrowings on a banker's acceptance based floating rate credit facility to a fixed-rate facility for a five-year term. At each reporting date, the hedging derivative will be marked-to-market with the ineffective portion recognized in net income. The $55 million originally maturing in July 2012 has been extended at current variable rates to August 15, 2012 (See Liquidity and Financial Condition for further details).

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

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

Additional information on the above instruments is included in notes 15 and 16 to the accompanying unaudited condensed consolidated interim financial statements.

OTHER COMPREHENSIVE INCOME

Included in OCI are the following:

i) *Amortization of losses from Accumulated Other Comprehensive Loss ("AOCL") to interest and other financing costs*: are primarily comprised of amortization of $0.3 million and $0.6 million for the three and six months ended June 30, 2012, respectively, of realized losses of $15.8 million on forward contracts entered into between 2005 and 2011 included in Accumulated Other Comprehensive Loss.

ii) *Change in fair value of the derivative financial instruments:* for three and six months ended June 30, 2012 is comprised of:

a. Settlement of $0.5 million and $1.0 million for the three and six months ended June 30, 2012, respectively, of previously unrealized losses on the interest rate swap agreement entered into in 2007, which effectively converts borrowings on a banker's acceptance floating rate credit facility to a fixed-rate facility for $55 million for a five-year term. This interest rate swap agreement has been assessed as an effective hedge in accordance with International Accounting Standard ("IAS") 39, Financial Instruments: Recognition and Measurement. The difference between the effective fixed interest rate and the corresponding three-month banker's acceptance rate is adjusted to interest expense every quarter,

b. An unrealized loss of $7.1 million and $3.4 million for the three and six months ended June 30, 2012, respectively, for the change in the intrinsic value of the forward interest rate hedge included in OCI.

c. A realized loss of $0.6 million and $0.5 million for the three and six months ended June 30, 2012, respectively, for the partial settlement of the forward interest rate hedge included in OCI.

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, with the effective portion of the intrinsic value of the contract derivative recognized in OCI.

iii) *Change in fair value of investments*: represents the cumulative marked-to-market gain or loss for the period on investments accounted for as available-for-sale and the gain or loss on sale of investment shares during the period, if any. During the second quarter of 2012, CAPREIT sold investments and reversed the realized gain in OCI for $0.2 million. The marked-to-market gain on the remaining investment for the three and six months ended June 30, 2012 was $2.4 million and $4.7 million, respectively.

Additional information on the above instruments and investments is included in note 16, respectively, to the accompanying unaudited condensed consolidated interim financial statements.

SECTION III

NON-IFRS FINANCIAL MEASURES

PER UNIT CALCULATIONS

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

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

Weighted Average Number of Units

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Trust Units	**87,015**	74,649	**84,944**	74,504
Exchangeable Units (1),(5)	**377**	411	**394**	411
Units under the DUP (2)	**117**	83	**114**	79
Basic Weighted Average Number of Units	**87,509**	75,143	**85,452**	74,994
Plus:				
Dilutive Units under the LTIP (2),(3)	**686**	472	**670**	443
Dilutive Units under the SELTIP (2),(3)	**294**	171	**285**	158
Units Rights under the RUR Plan (2)	**261**	174	**232**	145
Dilutive Unexercised Options under the UOP (2),(4)	**130**	88	**121**	78
Dilutive Weighted Average Number of Units	**88,880**	76,048	**86,760**	75,818

(1) See note 11 to the accompanying unaudited condensed consolidated interim financial statements for details of Exchangeable Units.
(2) See notes 13 and 15 to the audited consolidated annual financial statements for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report 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 12 to the accompanying unaudited condensed consolidated interim financial statements).
(4) Calculated using the treasury method after taking into account the exercise prices.
(5) During the second quarter of 2012, 100,000 Exchangeable Units were exchanged for 100,000 Trust Units at a fair value of $24.05 per Unit.

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

	Three Months Ended June 30		Six Months Ended June 30	
($ Thousands)	**2012**	2011	**2012**	2011
Distributions Declared on Trust Units	**$ 23,871**	$ 20,165	**$ 46,260**	$ 40,258
Distributions Declared on Exchangeable Units	**93**	111	**204**	222
Distributions Declared on Awards Outstanding Under Unit-based Compensation Plans (1)	**734**	702	**1,444**	1,383
Total Distributions Declared	**24,698**	20,978	**47,908**	41,863
Less:				
Distributions on Trust Units Reinvested	**(5,015)**	(4,104)	**(9,977)**	(7,951)
Distributions on Unit Awards Reinvested (1)	**(734)**	(702)	**(1,444)**	(1,383)
Net Distributions Paid	**$ 18,949**	$ 16,172	**$ 36,487**	$ 32,529
Percentage of Distributions Reinvested	**23.3%**	22.9%	**23.8%**	22.3%

(1) Comprises: (i) non-cash distributions related to the DUP and the RUR plan, and (ii) retained distributions on LTIP and SELTIP Units (see notes 13 and 15 to the audited consolidated annual financial statements for the year ended, December 31, 2011 contained in CAPREIT's 2011 Annual Report 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 three and six months ended June 30, 2012 to 23.3% and 23.8%, respectively, from 22.9% and 22.3% for the same periods last year. Also, as the price of CAPREIT's Units has steadily risen during the period since June 30, 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.

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

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

A reconciliation of net income to FFO is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
($ Thousands, except per Unit amounts)	**2012**	2011	**2012**	2011
Net Income	**$ 120,300**	$ 57,173	**$ 152,578**	$ 66,836
Adjustments				
Unrealized Gain on Remeasurement of Investment Properties	**(95,783)**	(30,792)	**(103,632)**	(25,331)
Realized Loss on Disposition of Investment Properties	**350**	–	**528**	95
Remeasurement of Exchangeable Units	**550**	(49)	**632**	905
Remeasurement of Unit-based Compensation Liabilities	**4,599**	(233)	**5,793**	5,241
Interest on Exchangeable Units	**93**	111	**204**	222
Amortization of Property, Plant and Equipment	**548**	381	**1,066**	755
FFO	**$ 30,657**	$ 26,591	**$ 57,169**	$ 48,723
FFO Per Unit – Basic	**$ 0.350**	$ 0.354	**$ 0.669**	$ 0.650
FFO Per Unit – Diluted	**$ 0.345**	$ 0.350	**$ 0.659**	$ 0.643
Distributions Declared	**$ 24,698**	$ 20,978	**$ 47,908**	$ 41,863
FFO Payout Ratio	**80.6%**	78.9%	**83.8%**	85.9%
Net Distributions Paid	**$ 18,949**	$ 16,172	**$ 36,487**	$ 32,529
Excess FFO over Net Distributions Paid	**$ 11,708**	$ 10,419	**$ 20,682**	$ 16,194
FFO Effective Payout Ratio	**61.8%**	60.8%	**63.8%**	66.8%

Normalized Funds From Operations

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

A reconciliation of FFO to NFFO is as follows:

	Three Months Ended June 30		Six Months Ended June 30	
($ Thousands, except per Unit amounts)	**2012**	**2011**	**2012**	**2011**
FFO	**$ 30,657**	$ 26,591	**$ 57,169**	$ 48,723
Adjustments:				
Unrealized Loss (Gain) on Derivative Financial Instruments	**511**	(1,362)	**1,467**	(1,206)
Amortization of Loss on Derivative Financial Instruments included in Mortgage Interest	**338**	267	**672**	531
Gain on Investment (1)	**(177)**	–	**(177)**	–
Severance and Other Employee Costs	**–**	1,352	**–**	1,352
NFFO	**$ 31,329**	$ 26,848	**$ 59,131**	$ 49,400
NFFO per Unit – Basic	**$ 0.358**	$ 0.357	**$ 0.692**	$ 0.659
NFFO per Unit – Diluted	**$ 0.352**	$ 0.353	**$ 0.682**	$ 0.652
Total Distributions Declared	**$ 24,698**	$ 20,978	**$ 47,908**	$ 41,863
NFFO Payout Ratio	**78.8%**	78.1%	**81.0%**	84.7%
Net Distributions Paid	**$ 18,949**	$ 16,172	**$ 36,487**	$ 32,529
Excess NFFO over Net Distributions Paid	**$ 12,380**	$ 10,676	**$ 22,644**	$ 16,871
Effective NFFO Payout Ratio	**60.5%**	60.2%	**61.7%**	65.8%

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

NFFO for the three and six months ended June 30, 2012 increased by 16.7% and 19.7%, respectively, compared to the same periods last year primarily due to the contribution from acquisitions, and higher net operating income for properties owned prior to June 30, 2011.

For the six months ended June 30, 2012, basic NFFO per Unit increased by 5.0% compared to the same period last year despite by approximate 14% increase in the weighted average number of Units outstanding. For the three months ended June 30, 2012, basic NFFO per Unit increased by 0.3% compared to the same period last year resulting from higher NFFO, despite the approximate 16% 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 contribution from the recent acquisitions.

Comparing distributions declared to NFFO, the NFFO payout ratios for the three months ended June 30, 2012 increased to 78.8% compared to 78.1% for the same period last year. For the six months ended June 30, 2012, NFFO payout ratio improved to 81.0% compared to 84.7% for the same period last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the three and six months ended June 30, 2012, to 60.5% and 61.7%, respectively, from 60.2% and 65.8% for the same periods last year primarily due to higher NFFO during the current year period and by higher participation in distributions reinvested. Management believes NFFO will be sufficient to fund CAPREIT's distributions on an annualized basis.

Adjusted Funds From Operations

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

Management relies on an industry-based estimate to determine the amount of maintenance property capital investments as significant judgment is required to classify property capital investments as either *maintenance* or *stabilizing* or *value-enhancing* (see discussion under 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:

	Three Months Ended June 30		**Six Months Ended June 30**	
($ Thousands, except per Unit amounts)	**2012**	**2011**	**2012**	**2011**
NFFO	**$ 31,329**	$ 26,848	**$ 59,131**	$ 49,400
Adjustments:				
Maintenance Capital Expenditure Provision (1)	**(3,255)**	(2,981)	**(6,510)**	(5,963)
Amortization of Fair Value of Unit-based Compensation Financial Liabilities on Date of Grant	**1,139**	365	**1,561**	685
AFFO	**$ 29,213**	$ 24,232	**$ 54,182**	$ 44,122
AFFO per Unit – Basic	**$ 0.334**	$ 0.322	**$ 0.634**	$ 0.588
AFFO per Unit – Diluted	**$ 0.329**	$ 0.319	**$ 0.625**	$ 0.582
Distributions Declared	**$ 24,698**	$ 20,978	**$ 47,908**	$ 41,863
AFFO Payout Ratio	**84.5%**	86.6%	**88.4%**	94.9%
Net Distributions Paid	**$ 18,949**	$ 16,172	**$ 36,487**	$ 32,529
Excess AFFO Over Net Distributions Paid	**$ 10,264**	$ 8,060	**$ 17,695**	$ 11,593
Effective AFFO Payout Ratio	**64.9%**	66.7%	**67.3%**	73.7%

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

SECTION IV

PROPERTY 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.

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

Property Capital Investments by Category

Six Months Ended June 30, ($ Thousands)		**2012**	**%**		**2011**	**%**
Building Improvements	$	**13,865**	**34.3**	$	16,546	44.9
Suite Improvements		**12,635**	**31.2**		9,896	26.9
Common Area		**6,607**	**16.3**		4,703	12.8
Energy-saving Initiatives		**1,019**	**2.5**		818	2.2
Equipment		**2,990**	**7.4**		3,401	9.2
Boilers and Elevators		**2,440**	**6.1**		793	2.2
Appliances		**890**	**2.2**		685	1.8
Total	$	**40,446**	**100.0**	$	36,842	100.0

For the six months ended June 30, 2012, CAPREIT incurred property capital investments of $40.4 million. The acquisitions in 2012 has led CAPREIT to adjust its multi-year capital investments programs to increase the anticipated levels for 2012. Based on a revised multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments of approximately $130 million to $140 million during 2012, including approximately $12.5 million in investments in high-efficiency boilers and other energy-saving initiatives.

Set out in the table below is Management's current estimate, established through consultations with an independent engineering firm, of CAPREIT's investments in building improvements for 2012 through 2015 for properties owned as of June 30, 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 June 30, 2012 Excluding 2011 and 2012 Acquisitions** **Estimated Range** (1),(2)					**2012 and 2011 Acquisitions** **Estimate** (1)	
2012	$	47,000	–	$	52,000	$	27,000
2013	$	36,000	–	$	40,000	$	14,000
2014	$	12,000	–	$	15,000	$	4,000
2015	$	12,000	–	$	14,000	$	3,000

(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, $4.4 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:

Six Months Ended June 30, ($ Thousands)	**2012**	**2011**
Total Property Capital Investments (1)	$ **40,446**	$ 36,842
Less: Estimated Maintenance Property Capital Investments (2)	**(6,510)**	(5,963)
Stabilizing and Value-enhancing Capital Investments	$ **33,936**	$ 30,879

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

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

CAPITAL STRUCTURE

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

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

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

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

As at			**June 30, 2012**		**December 31, 2011**
($ Thousands)					
Mortgages Payable		**$**	**2,039,486**	$	1,848,190
Bank Indebtedness			**233,148**		74,132
Unit-based Compensation Liabilities			**35,865**		28,975
Exchangeable Units			**7,403**		9,176
Unitholders' Equity			**2,031,265**		1,740,663
Total Capital		**$**	**4,347,167**	$	3,701,136
	Threshold				
Total Debt to Gross Book Value (1),(2)	Maximum 70.00%		**50.83%**		50.27%
Total Debt to Gross Historical Cost (2),(3)			**59.25%**		58.55%
Tangible Net Worth (4)	Minimum $700,000	**$**	**2,074,533**	$	1,778,814
For the four quarters ended			**June 30, 2012**		**December 31, 2011**
Debt Service Coverage Ratio (times) (5)	Minimum 1.20		**1.44**		1.38
Interest Coverage Ratio (times) (6)	Minimum 1.50		**2.34**		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.

(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 amounts of 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 view of CAPREIT's liquidity position going forward continues to be stable based on its evaluation of capital resources as summarized below:

i) CAPREIT's operating business conditions continue to be stable and are expected to generate sufficient cash flow from operating activities to fund the current level of distributions. Management expects the combination of current level of funds reinvested from its DRIP, the retained portion of its annual NFFO, mortgage top-ups and the available borrowing capacity on its Credit Facilities will be sufficient to fund its ongoing property capital investments. For the six months ended June 30, 2012, CAPREIT's NFFO payout ratio was 81.0%, compared to 84.7% for the same period last year, and the effective NFFO payout ratio was 61.7% compared to 65.8% for the same period last year. Historically, CAPREIT has targeted a long-term annual NFFO payout ratio in the 85% to 90% range.

ii) Management believes CAPREIT is well-positioned to meet its mortgage renewals and refinancing goals for 2012 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages for the remainder of 2012 of approximately \$218.5 million, which have an effective interest rate of approximately 4.65%, and refinancing approximately \$29.8 million principal repayments through the remainder of 2012 with new mortgages at lower interest rates.

iii) Management extended the annual renewal of CAPREIT's existing Credit Facilities aggregating to \$280 million to August 15, 2012. In addition, Management expects to finalize an optional bridge loan ("Bridge Loan") aggregating to \$140 million in conjunction to renewing CAPREIT's existing Credit Facilities before August 15, 2012, in order to fund future acquisitions.

iv) CAPREIT has a \$55 million credit facility on the MHC land lease sites, which originally matured in July 2012 but was extended to September 30, 2012 at current variable rates. There was an interest rate swap agreement on this facility, fixing the interest rate at 5.706%, which matured in July 2012.

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, 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.

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 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. Under the LBA, financial covenants are not significantly different than those required under DOT or Credit Facilities other than as described above.

The working capital deficiency, as presented on CAPREIT's consolidated balance sheet as at June 30, 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 June 30, 2012 and December 31, 2011:

As at ($ Thousands)	**June 30, 2012**	**December 31, 2011**
Acquisition and Operating Facility	**$ 270,000**	$ 270,000
Less: Bank Indebtedness	**(233,148)**	(74,132)
Letters of Credit and Other	**(7,274)**	(10,247)
Available Borrowing Capacity	**$ 29,578**	$ 185,621
Weighted Average Floating Interest Rate	**3.53%**	3.67%
Land Lease Facility	**$ 10,000**	$ 10,000
Letters of Credit	**(86)**	(86)
Available Borrowing Capacity	**$ 9,914**	$ 9,914
Weighted Average Floating Interest Rate	**-**	-

CAPREIT's key liquidity metrics are summarized as follows:

As at June 30,	**2012**	**2011**
Mortgage Debt to Gross Book Value	**45.62%**	50.10%
Total Debt to Gross Book Value	**50.83%**	54.32%
Total Debt to Gross Historical Cost (1)	**59.25%**	61.32%
Total Debt to Total Capitalization	**50.38%**	55.33%
Debt Service Coverage Ratio (times) (2)	**1.44**	1.34
Interest Coverage Ratio (times) (2)	**2.34**	2.12
Weighted Average Mortgage Interest Rate (3)	**4.20%**	4.66%
Weighted Average Mortgage Term to Maturity (years)	**5.0**	5.3

(1) Based on the historical cost of investment properties.
(2) Based on the trailing four quarters ended June 30, 2012.
(3) Weighted average mortgage interest rate includes deferred financing costs and fair value adjustments on effective interest basis. Including the amortization of the realized component of the loss on settlement of $15.8 million included in AOCL, the effective portfolio weighted average interest rate at June 30, 2012 would be 4.34% (June 30, 2011 - 4.74%).

As at June 30, 2012, the overall leverage represented by the ratio of total debt to gross book value improved to 50.83%, as compared to 54.32% the same period last year, mainly due to the increases in the fair value of investment properties. As at June 30, 2012, CAPREIT's total debt improved to 50.38% of total market capitalization compared to 55.33% for the same period last year due to the rise in CAPREIT's Trust Unit price since June 30, 2011, combined with the equity offering in May 2012.

The effective portfolio weighted average interest rate has steadily declined from 4.66% as at June 30, 2011, to 4.20% as at June 30, 2012, which Management expects will result in significant interest rate savings in future years. Management believes that, as CAPREIT's refinancing plan continues to be implemented, there is scope to further reduce the effective portfolio weighted average interest rate based on current market conditions. 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 June 30, 2012, the weighted average mortgage term to maturity has decreased to 5 years from 5.3 years for the same period last year, due to assuming mortgages on acquisitions with remaining short term maturities averaging 2.6 and 3 years in the current quarter.

Mortgages Payable

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

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

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

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

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

As at June 30,	**2012**	**2011**
Percentage of CMHC-insured mortgages (1)	**91.80%**	96.20%
Percentage of fixed-rate mortgages	**98.85%**	97.40%

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

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

As at June 30, ($ Thousands)		**2012**	**2011**
Balance, Beginning of the Period		**$ 1,848,190**	$ 1,633,861
Add:	New Borrowings	**–**	120,080
	Assumed	**221,692**	–
	Refinanced	**43,438**	151,249
Less:	Mortgage Repayments	**(28,072)**	(25,240)
	Mortgages Matured	**(29,430)**	(124,908)
	Mortgages Repaid on Disposition of Investment Property	**(24,515)**	(2,117)
	Change in Deferred Financing Costs, Fair Value Adjustments, net	**8,183**	(11)
Balance, End of the Period		**$ 2,039,486**	$ 1,752,914

The following table presents the refinancing, weighted average interest rates obtained and mortgage top ups closed or committed up to August 8, 2012, as well as those expected for the remainder of 2012.

($ Thousands)		Original Mortgage Amount	Original Interest Rate (1)		New Mortgage Amount	New Weighted Average Interest Rate (1) (3)	New Weighted Average Term on New Mortgage (Yrs)		Top Up Financing 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
Total and Weighted Average	$	29,430	3.97%	$	43,437	2.63%	7.3	$	14,007
Subsequent to June 30, 2012:									
Committed or Completed (2)		106,276	5.49%		158,299	2.85%	10.0		52,023
Expected for the Remainder of 2012		112,213	4.39%		152,353	–(4)	–(4)		53,970 (5)
Total and Weighted Average	$	247,919	5.16%	$	354,089	2.81%	9.4	$	120,000

(1) Weighted average.
(2) Excludes the impact of the hedge agreement entered in June 2011 for mortgages maturing in future periods.
(3) Excludes CMHC and other financing costs.
(4) $191 million of mortgages maturing between July 1, 2012 and December 31, 2012 have been hedged and are expected to be refinanced on ten-year terms bearing effective interest rates between 3.80% and 4.40%, adjusted for credit spread of 0.80% which may differ from the actual credit spread realized on the underlying mortgages.
(5) Includes new mortgages expected on Operating Leasehold Interests.

For purposes of estimating top-up financing potential, the following table provides the NOI for those properties with mortgages maturing over the next five years and beyond. A property's full NOI is included in the first year in which a mortgage matures. The balance of mortgages remaining on the same property but maturing in other years is also shown. Management expects to raise between $350 million and $375 million in total mortgage renewals and refinancings for 2012. Based on this mortgage maturity profile, Management believes it will be in a position to achieve its mortgage renewal and refinancing plan for 2012.

As at June 30, 2012

($ Thousands)

Year of Maturity		Mortgage Maturities (1)		Mortgages on the Same Properties Maturing in Other Years (1)		Total Mortgages		NOI of Properties with Maturing Mortgage(s) (2)
2012	$	218,489	$	–	$	218,489	$	26,611
2013		258,559		35,633		294,192		35,673
2014		271,525		70,399		341,924		32,972
2015		155,729		6,112		161,841		17,597
2016		60,335		(17,185)		43,150		8,218
2017 onward		702,836		(94,959)		607,877		95,983
Total	$	1,667,473	$	–	$	1,667,473	$	217,054

(1) Mortgage balance due upon maturity.
(2) NOI for the twelve months ended June 30, 2012.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at June 30, 2012, is as follows:

($ Thousands)

Period	Principal Repayments	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%)(1),(2)
Remaining months in 2012	$ 29,813	$ 218,489	$ 248,302	12.2	4.65
2013	53,330	258,559	311,889	15.3	3.87
2014	44,090	271,525	315,615	15.5	3.95
2015	39,377	155,729	195,106	9.6	3.60
2016	34,305	60,335	94,640	4.7	4.52
2017	31,336	99,958	131,294	6.5	4.64
2018	30,918	69,707	100,625	5.0	3.80
2019	28,756	92,636	121,392	6.0	4.91
2020	26,401	54,648	81,049	4.0	4.66
2021	19,098	279,009	298,107	14.6	4.09
2022 – 2026	26,826	106,878	133,704	6.6	4.31
2027 onward	426	-	426	-	5.51
Total	**$ 364,676**	**$ 1,667,473**	**$ 2,032,149**	**100.0**	**4.20** (2)
Deferred financing costs, fair value adjustments, net			7,337		
Total			**$ 2,039,486**		

(1) Effective weighted average interest rate 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 $15.8 million included in AOCL, the effective portfolio weighted average interest rate at June 30, 2012 would be 4.34% (June 30, 2011 - 4.74%).

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 offering and over-allotment as at June 30, 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	$ 7,134	$ 148,704	6,850,000
Over-allotment	$ 22.75	20,475	819	19,656	900,000
Total		$ 176,313	$ 7,953	$ 168,360	7,750,000

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

Six Months Ended June 30, ($ Thousands)	2012
Market Capitalization	**$ 2,238,775**
Number of Units Outstanding	**94,145,283**
LTIP and SELTIP Units	**2,333,341**
Deferred Units	**124,556**
RUR Plan Units	**262,336**
Exchangeable Units	**311,311**
Ownership by Trustees, Officers and Senior Managers	**4.1%**
Number of Options Outstanding and Exercisable	**773,250**

Normal Course Issuer Bid

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

The table below summarizes the NCIBs in place since January 1, 2011. No Trust Units were acquired and cancelled under these NCIBs. Management has not renewed the NCIB as at June 30, 2012.

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

SECTION V

SELECTED CONSOLIDATED QUARTERLY INFORMATION

		Q2 12	Q1 12	Q4 11	Q3 11	Q2 11	Q1 11	Q4 10	Q3 10
Overall Portfolio AMR		$ 960	$ 995	$ 991	$ 991	$ 982	$ 978	$ 979	$ 977
Operating Revenues (000s) (1)		$ 95,932	$ 95,262	$ 94,564	$ 92,824	$ 88,235	$ 86,332	$ 85,630	$ 85,056
NOI (000s) (1)		$ 56,714	$ 52,738	$ 52,563	$ 55,039	$ 51,991	$ 46,564	$ 46,590	$ 49,907
NOI Margin (1)		59.1%	55.4%	55.6%	59.3%	58.9%	53.9%	54.4%	58.7%
Net Income (000s)		$ 120,300	$ 32,278	$ 226,356	$ 22,980	$ 57,173	$ 9,663	$ 477,206	$ 17,585
FFO (000s)		$ 30,657	$ 26,512	$ 23,774	$ 28,689	$ 26,591	$ 22,132	$ 20,722	$ 24,885
NFFO (000s)		$ 31,329	$ 27,802	$ 25,223	$ 29,252	$ 26,848	$ 22,552	$ 21,251	$ 25,228
Total Debt to Gross Book Value		50.83%	50.11%	50.27%	56.55%	55.57%	53.57%	53.09%	57.85%
FFO Per Unit	- Basic	$ 0.350	$ 0.318	$ 0.295	$ 0.381	$ 0.354	$ 0.296	$ 0.302	$ 0.373
NFFO Per Unit	- Basic	$ 0.358	$ 0.333	$ 0.312	$ 0.388	$ 0.357	$ 0.301	$ 0.309	$ 0.378
Weighted Average Number of Units (000s)	- Basic	87,509	83,395	80,715	75,397	75,143	74,844	68,729	66,762
	- Diluted	88,880	84,640	81,790	76,395	76,048	75,586	69,380	67,287

(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.

SECTION VI

ACCOUNTING POLICIES AND CRITICAL ESTIMATES

Changes in Accounting Policies and New Accounting Standards

As of August 8, 2012, there has been no new or amended IFRS issued by the International Accounting Standards Board since the last update provided by CAPREIT in CAPREIT's 2011 Annual Report for the year ended December 31, 2011 that has an impact on CAPREIT's fiscal years beginning after December 31, 2011. For a detailed description of CAPREIT's accounting policies, refer to CAPREIT's 2011 Annual report.

Critical Estimates

In preparing the accompanying unaudited condensed consolidated interim financial statements in accordance with IFRS, certain accounting policies require the use of estimates, assumptions and judgment that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the unaudited condensed consolidated interim 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 unaudited condensed consolidated interim 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

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.

Valuation of Unit-based Compensation Liabilities

The basis of valuation for CAPREIT's Unit-based compensation liabilities, such as market assumptions, estimates and valuation methodology, is set out in note 15 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report.

Valuation of Derivative Financial Instruments

The fair value of a derivative financial instrument is based on assumptions of future events and involves significant estimates. The basis of valuation for CAPREIT's derivatives is set out in note 16 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report.

CONTROLS AND PROCEDURES

CAPREIT maintains appropriate information systems, procedures and controls to provide reasonable assurance that information disclosed externally is complete, reliable and timely. Pursuant to the Canadian Securities Administrators requirements under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, CAPREIT's President and CEO and the Chief Financial Officer have satisfied themselves that as at June 30, 2012, the design of disclosure controls and procedures and the design of internal controls over financial reporting continue to be appropriate.

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

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

CAPREIT did not make any other changes to the design of internal controls over financial reporting in the first six months of 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 VII

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and the activities of CAPREIT, which investors should carefully consider before investing in Units. Risks and uncertainties are disclosed in CAPREIT's MD&A for the year ended December 31, 2011 in the Risk and Uncertainties section contained in CAPREIT's 2011 Annual Report and in CAPREIT's latest Annual Information Form.

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 June 30, 2012 were $8.4 million and $13.5 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:

	Three Months ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Short-term employee benefits and other (1)	**$ 780**	$ 2,077	**$ 1,559**	$ 2,889
Unit-based compensation - grant date amortization	**1,022**	300	**1,364**	568
Unit-based compensation - fair value remeasurement	**3,359**	(482)	**4,207**	3,063
Total	**$ 5,161**	$ 1,895	**$ 7,130**	$ 6,520

(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 has entered into a new construction management agreement with a non-related party on substantially similar terms. CAPREIT will still have related party management fees until the balance of the work on the previous contract has been completed. The total construction management fees for the six months ended June 30, 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 three and six months ended June 30, 2012 was $0.2 million and $0.4 million, respectively, 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 24 to the accompanying unaudited condensed consolidated interim 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 VIII

SUBSEQUENT EVENTS

Monthly Cash Distribution Increase

On August 8, 2012, CAPREIT announced that distributions would increase by 3.7% to $0.093 per Unit ($1.120 on an annualized basis) effective for the September 17, 2012 distribution for Unitholders on record as at August 31, 2012.

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 2012 is 3.1%, and for 2013 is 2.5%. An amendment to the Residential Tenancies Act, 2006, if passed by the government, would set Ontario's annual rent increase guideline to between 1% and 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 June 30, 2012 and December 31, 2011:

	June 30, 2012	**December 31, 2011**
Number of Units and Sites Filed	**11,366**	9,320
Applications Settled		
Number of Applications	**56**	42
Weighted Average Term (Years) (1),(2)	**1.48**	1.34
Term Weighted Average Total Increase (1)	**2.84%**	2.49%
Applications Outstanding		
Number of Applications	**16**	21
Weighted Average Term (Years) (1),(2)	**2.23**	1.63
Term Weighted Average Total Increase (1)	**6.28%**	4.31%

(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.

CAPREIT

CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED
JUNE 30, 2012
(UNAUDITED)

TABLE OF CONTENTS

CONSOLIDATED BALANCE SHEETS

(Unaudited - CA$ Thousands)

As at	Note	June 30, 2012	December 31, 2011
Non-Current Assets			
Investment properties	6	**$ 4,345,592**	$ 3,713,737
Other non-current assets	7	**84,786**	81,743
		4,430,378	3,795,480
Current Assets			
Other current assets	7	**18,961**	9,170
		$ 4,449,339	$ 3,804,650
Non-Current Liabilities			
Mortgages payable	9	**$ 1,639,272**	$ 1,559,480
Bank indebtedness	10	**233,148**	74,132
Unit-based compensation financial liabilities	11, 12	**1,261**	1,646
Other non-current liabilities	8	**–**	2,703
		1,873,681	1,637,961
Current Liabilities			
Mortgages payable	9	**400,214**	288,710
Unit-based compensation financial liabilities	11, 12	**34,604**	27,329
Accounts payable and accrued liabilities		**44,946**	50,375
Other current liabilities	8	**25,697**	21,727
Security deposits		**23,329**	21,261
Exchangeable Units	11	**7,403**	9,176
Distributions payable		**8,200**	7,448
		544,393	426,026
		$ 2,418,074	$ 2,063,987
Unitholders' Equity			
Unit Capital		**$ 1,354,101**	$ 1,172,058
Accumulated other comprehensive loss ("AOCL")	19	**(21,769)**	(24,010)
Retained earnings		**698,933**	592,615
		$ 2,031,265	$ 1,740,663
		$ 4,449,339	$ 3,804,650

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Unaudited - CA$ Thousands)

	Note	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating Revenues					
Revenue from investment properties		**$ 95,932**	$ 88,235	**$ 191,194**	$ 174,567
Operating Expenses					
Realty taxes		**11,536**	10,789	**23,157**	21,815
Property operating costs		**27,682**	25,455	**58,585**	54,197
		39,218	36,244	**81,742**	76,012
Net Rental Income		**56,714**	51,991	**109,452**	98,555
Trust expenses		**3,557**	3,694	**6,806**	7,299
Unit-based compensation expenses	12	**5,738**	139	**7,354**	5,940
Fair value adjustments of investment properties	6	**(95,783)**	(30,792)	**(103,632)**	(25,331)
Realized loss on disposition of investment properties	5	**350**	–	**528**	95
Amortization of property, plant and equipment		**548**	403	**1,066**	797
Severance and other employee costs	20	**–**	1,352	**–**	1,352
Operating Income		**142,304**	77,195	**197,330**	108,403
Fair value adjustments of Exchangeable Units	11	**550**	(49)	**632**	905
Loss (gain) on derivative financial instruments	16	**511**	(1,362)	**1,467**	(1,206)
Interest and other financing costs	21	**21,678**	21,898	**43,868**	42,798
Other income		**(735)**	(465)	**(1,215)**	(930)
Net Income		**120,300**	57,173	**152,578**	66,836
Other Comprehensive (Loss) Income					
Amortization of losses in AOCL to interest and other financing costs	19	**$ 338**	$ 251	**$ 672**	$ 495
Change in fair value of derivative financial instruments	16	**(7,266)**	776	**(2,963)**	1,823
Change in fair value of investments		**2,220**	1,090	**4,532**	991
Other Comprehensive (Loss) Income		**$ (4,708)**	$ 2,117	**$ 2,241**	$ 3,309
Comprehensive Income		**$ 115,592**	$ 59,290	**$ 154,819**	$ 70,145

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(Unaudited - 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	170,892	–	–	170,892
Distribution Reinvestment Plan	13	9,842	–	–	9,842
Unit Option Plan	13, 12	1,119	–	–	1,119
Employee Unit Purchase Plan	12	190	–	–	190
		182,043	–	–	182,043
Retained Earnings and Other Comprehensive Loss					
Net Income		–	152,578	–	152,578
Other comprehensive income		–	–	2,241	2,241
		–	152,578	2,241	154,819
Distributions on Trust Units					
Distributions declared and paid	14	–	(38,060)	–	(38,060)
Distributions payable	14	–	(8,200)	–	(8,200)
		–	(46,260)	–	(46,260)
Unitholders' Equity, June 30, 2012		**$ 1,354,101**	**$ 698,933**	**$ (21,769)**	**$ 2,031,265**

	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	366	–	–	366
Distribution Reinvestment Plan	13	7,810	–	–	7,810
Unit Option Plan	13, 12	1,609	–	–	1,609
Employee Unit Purchase Plan	12	159	–	–	159
		9,944	–	–	9,944
Retained Earnings and Other Comprehensive Income					
Net Income		–	66,836	–	66,836
Other comprehensive income		–	–	3,309	3,309
		–	66,836	3,309	70,145
Distributions on Trust Units					
Distributions declared and paid	14	–	(33,529)	–	(33,529)
Distributions payable	14	–	(6,729)	–	(6,729)
		–	(40,258)	–	(40,258)
Unitholders' Equity, June 30, 2011		**$ 1,017,215**	**$ 385,837**	**$ (7,776)**	**$ 1,395,276**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited - CA$ Thousands)

	Note	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash Provided By (Used In):					
Operating Activities					
Net income		**$ 120,300**	$ 57,173	**$ 152,578**	$ 66,836
Items related to operating activities not affecting cash:					
Fair value adjustment - investment properties		**(95,783)**	(30,792)	**(103,632)**	(25,331)
Remeasurement of Exchangeable Units		**550**	(49)	**632**	905
Fair value adjustment - utility contracts		**–**	–	**–**	(10)
Loss on sale of investment properties	5	**350**	–	**528**	95
Loss (gain) on derivative financial instruments	16	**511**	(1,362)	**1,467**	(1,206)
Amortization of property, plant and equipment		**548**	403	**1,066**	797
Amortization of other financing costs		**794**	1,171	**1,725**	2,194
Amortization of loss on derivative financial instruments from AOCL		**338**	251	**672**	495
Unit-based compensation expense		**5,738**	139	**7,354**	5,940
Straight-line rent adjustment		**(17)**	(42)	**(68)**	(75)
		33,329	26,892	**62,322**	50,640
Net income items related to financing and investing activities	22	**19,376**	20,113	**39,779**	39,359
Changes in non-cash operating assets and liabilities	22	**(6,215)**	(87)	**(11,528)**	(8,322)
Cash Provided By Operating Activities		**46,490**	46,918	**90,573**	81,677
Investing Activities					
Acquisition of investment properties	22	**(307,886)**	(187,828)	**(307,886)**	(196,912)
Capital investments	22	**(23,789)**	(20,954)	**(46,007)**	(44,746)
Disposition of investment properties	22	**17,974**	–	**25,700**	3,609
Change in restricted cash		**(110)**	(97)	**(174)**	(60)
Investment income received		**735**	465	**1,215**	930
Cash Used In Investing Activities		**(313,076)**	(208,414)	**(327,152)**	(237,179)
Financing Activities					
Mortgage financings		**6,436**	166,171	**43,438**	271,329
Mortgage principal repayments		**(14,105)**	(12,779)	**(28,072)**	(25,240)
Mortgages repaid on maturity		**(3,608)**	(36,944)	**(29,430)**	(124,908)
Financing costs on mortgages payable		**(221)**	(542)	**(448)**	(728)
CMHC premiums on mortgages payable		**(76)**	(3,513)	**(614)**	(4,401)
Interest paid on mortgages payable		**(19,353)**	(19,062)	**(39,282)**	(37,599)
Bank indebtedness		**147,795**	85,648	**159,016**	105,652
Interest paid on bank indebtedness		**(656)**	(1,405)	**(1,499)**	(2,468)
Interest paid on Exchangeable Units		**(102)**	(111)	**(213)**	(222)
Proceeds on issuance of Units	13	**168,579**	77	**169,349**	2,134
Net cash distributions to Unitholders	22	**(18,103)**	(16,044)	**(35,666)**	(32,397)
Cash Provided By Financing Activities		**266,586**	161,496	**236,579**	151,152
Changes in Cash and Cash Equivalents During the Period		**–**	–	**–**	(4,350)
Cash and Cash Equivalents, Beginning of Period		**–**	–	**–**	4,350
Cash and Cash Equivalents, End of Period		**$ –**	$ –	**$ –**	$ –

See accompanying notes to consolidated financial statements.

1. Organization of the Trust

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

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

CAPREIT 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, comprised of 14 properties (see note 4).

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.

2. Significant Accounting Policies

Basis of presentation

These condensed consolidated interim financial statements, which have been approved by CAPREIT's Board of Trustees on August 8, 2012, have been prepared in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed.

CAPREIT's results for the six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in utility costs and other factors. CAPREIT has historically experienced higher utility expenses in the first and last quarters as a result of the winter months, which create variations in the quarterly results.

The consolidated financial statements have been prepared using the same accounting policies and methods as those used in the audited consolidated financial statements for the year ended December 31, 2011.

These consolidated interim financial statements should be read in conjunction with CAPREIT's audited consolidated financial statements for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report.

3. Critical Accounting Estimates, Assumptions and Judgements

The preparation of consolidated interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying CAPREIT's accounting policies. The critical accounting estimates and judgements have been set out in detail in Note 3 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2011.

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 noted below:

i) Valuation of investment properties

ii) Valuation of financial instruments

iii) Unit-based compensation

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

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 Six Months Ended June 30, 2012:

	Suite or Site Count	Region(s)	Total Acquisition Costs	Mortgage Funding	Interest Rate	Maturity Date
June 29, 2012(1)	3,562	Various	$ 461,428	$ 183,939 (2)	3.99%(2)	–(2)
May 31, 2012(3)	2,032	Various	76,324	37,753 (4)	5.33%(4)	–(4)
	5,594		$ 537,752	$ 221,692		

(1) 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.

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

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

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

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

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

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.

Dispositions Completed During the Six Months Ended June 30, 2012

Disposition Date	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
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
	335		$ 51,000	$ 25,700	$ 24,515

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 $350 and $528 was recognized in the three and six months ended June 30, 2012 (June 30, 2011 – $nil and $95) in connection with the property dispositions.

6. Investment Properties

Valuation basis

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.

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

Investment properties have been valued using the same valuation methods and key assumptions as those described in Note 8 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report.

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

A summary of the market assumptions and ranges for each type of property interest along with their fair values are presented below as at June 30, 2012 and December 31, 2011:

As at June 30, 2012

Type of Interest	Fair Value	Rate Type	Max	Min	Weighted Average
Fee Simple Interests – Apartments and Townhomes	$ 3,586,190	Capitalization rate	7.25%	4.25%	5.43%
MHC Land Lease Sites	170,085	Capitalization rate	8.00%	6.00%	6.44%
Operating Leasehold Interests (1), (2)	441,007	Discount rate (3)	8.25%	6.75%	7.01%
Land Leasehold Interests (1)	148,310	Discount rate	7.75%	7.50%	7.58%
Total Investment Properties	$ 4,345,592				

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 operating leases of $27,017 as at June 30, 2012 and 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 June 30, 2012, and December 31, 2011.

Reconciliation of carrying amounts of investment properties

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Balance at the beginning of the period,	**$ 3,717,782**	$ 3,060,720	**$ 3,713,737**	$ 3,049,980
Additions:				
Acquisitions	**537,752**	187,828	**537,752**	196,912
Property capital investments	**27,405**	24,143	**40,657**	37,163
Capitalized leasing costs (1)	**140**	146	**435**	70
Dispositions	**(32,920)**	–	**(50,093)**	(5,732)
Realized loss on dispositions of investment properties	**(350)**	–	**(528)**	(95)
Unrealized fair value adjustments	**95,783**	30,792	**103,632**	25,331
Balance of Investment Properties at end of period	**$ 4,345,592**	$ 3,303,629	**$ 4,345,592**	$ 3,303,629

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

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

7. Other Assets

As at	Ref	June 30, 2012	December 31, 2011
Other Non-Current Assets			
Property, plant and equipment	*(1)*	**$ 14,418**	$ 12,584
Accumulated amortization of property, plant and equipment		**(8,621)**	(7,555)
Net property, plant and equipment		**5,797**	5,029
Investments	*(2)*	**41,806**	38,187
Prepaid CMHC premiums, net	*(3)*	**35,616**	36,575
Deferred loan costs, net	*(4)*	**1,567**	1,952
Total		**$ 84,786**	$ 81,743
Other Current Assets			
Prepaid expenses		**$ 9,762**	$ 1,496
Other receivables		**3,330**	3,824
Restricted cash		**3,415**	3,241
Deposits		**2,454**	609
Total		**$ 18,961**	$ 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 $177 (December 31, 2011 - $nil).

(3) Represents prepaid CMHC premiums on mortgages payable net of accumulated amortization of $8,591 (December 31, 2011 - $7,871).

(4) Represents deferred loan costs related to the revolving credit facilities net of accumulated amortization of $4,146 (December 31, 2011 - $3,659).

8. Other Liabilities

As at	Note	June 30, 2012	December 31, 2011
Other Non-Current Liabilities			
Hedge liability	*16(b)*	**$ –**	$ 2,703
Total		**$ –**	$ 2,703
Other Current Liabilities			
Hedge liability	*16(b)*	**$ 19,079**	$ 15,214
Accrued loss on natural gas contracts		**276**	620
Mortgage interest payable		**6,342**	5,893
Total		**$ 25,697**	$ 21,727

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

9. Mortgages Payable

Mortgages payable bear interest at a weighted average effective rate of 4.34% (December 31, 2011 – 4.57%), and mature between 2012 and 2027. The effective interest rate as at June 30, 2012 includes 0.14% (December 31, 2011 – 0.09%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of $15,884 included in AOCL. All but $23,290 or 1.1% of CAPREIT's mortgages payable are financed at fixed interest rates. The investment properties have been pledged as security. As at June 30, 2012, unamortized deferred financing costs of $5,099 and fair value adjustments of ($12,436) are netted against mortgages payable.

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

As at June 30, 2012		**Principal Amount**	**% of Total Principal**
Six Months Remaining in 2012	$	248,302	12.2
2013		311,889	15.3
2014		315,615	15.5
2015		195,106	9.6
2016		94,640	4.7
Subsequent to 2016		866,597	42.7
		2,032,149	100.0
Deferred financing costs and fair value adjustments		7,337	
	$	2,039,486	

As at		**June 30, 2012**		**December 31, 2011**
Represented by:				
Mortgages Payable - non-current		1,639,272		1,559,480
Mortgages Payable - current	$	400,214	$	288,710
	$	2,039,486	$	1,848,190

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

10. Bank Indebtedness

CAPREIT has a credit agreement comprising an acquisition and operating facility ("Acquisition and Operating Facility") and a land lease facility ("Land Lease Facility") (the "Credit Facilities"). The Credit Facilities annual renewal was extended and is expected to be finalized by August 15, 2012. Fixed charge debentures on certain of CAPREIT's wholly-owned investment properties have been pledged as security.

As at June 30, 2012, the maximum amount available for the Acquisition and Operating Facility is $270,000, comprising one facility for a three-year term maturing on June 30, 2014, but renewed annually, is subject to compliance with the various provisions of the credit agreement, in order to fund ongoing working capital requirements, general corporate purposes and acquisition and improvements to the properties. The credit agreement's annual renewal was extended to August 15, 2012 and will be amended, effective June 30, 2012, to combine the Acquisition and Operating Facility and the Land Lease Facility into one Credit Facility for a total of $280,000. In addition, CAPREIT is in the process of finalizing an optional $140,000 bridge loan to fund future acquisitions.

The Land Lease Facility was established to fund operating, development and acquisition costs associated with the original MHC land lease portfolio. The maximum amount of the facility was $10,000 for a one-year term which originally matured on June 30, 2012 and was extended to August 15, 2012. Fixed charge debentures on the MHC land lease properties were provided as security. CAPREIT expects to complete the refinancing by August 15, 2012.

As at	**June 30, 2012**	**December 31, 2011**
Acquisition and Operating Facility	**$ 270,000**	$ 270,000
Less: Bank Indebtedness	**(233,148)**	(74,132)
Letters of Credit	**(7,274)**	(10,247)
Available Borrowing Capacity	**$ 29,578**	$ 185,621
Weighted Average Floating Interest Rate	**3.53%**	3.67%
Land Lease Facility	**$ 10,000**	$ 10,000
Letters of Credit	**(86)**	(86)
Available Borrowing Capacity	**$ 9,914**	$ 9,914
Weighted Average Floating Interest Rate	**–**	–

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 15 to CAPREIT's annual consolidated financial statements for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report). As at June 30, 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 June 30, 2012 is 722,655 Units (December 31, 2011 - 1,113,760 Units).

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

The Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans as at June 30, 2012 and 2011 are as follows:

Six Months Ended June 30, 2012 (Number of Units)	**UOP**	**DUP**	**RUR**	**SELTIP/ LTIP (1)**	**Exch. Units (2)**	**Total**
Units, Unit Rights and Unit Options outstanding as of January 1, 2012	590,750	108,639	170,555	2,340,841	411,311	3,622,096
Issued, cancelled or granted during the period:						
Issued or granted	232,500	13,251	89,098	–	–	334,849
Exercised or settled	(50,000)	–	–	–	(100,000)	(150,000)
Cancelled	–	–	(2,728)	(7,500)	–	(10,228)
Distributions reinvested	–	2,666	5,411	–	–	8,077
Units, Unit Rights and Unit options outstanding as of June 30, 2012	**773,250**	**124,556**	**262,336**	**2,333,341**	**311,311**	**3,804,794**

Six Months Ended June 30, 2011 (Number of Units)	**UOP**	**DUP**	**RUR**	**SELTIP/ LTIP (1)**	**Exch. Units (2)**	**Total**
Units, Unit Rights and Unit Options outstanding as of January 1, 2011	541,000	74,103	72,887	2,437,101	411,311	3,536,402
Issued, cancelled or granted during the period:						
Issued or granted	–	15,766	99,537	–	–	115,303
Exercised or settled	(87,500)	–	–	(96,260)	–	(183,760)
Cancelled	–	–	(10,446)	–	–	(10,446)
Distributions reinvested	–	2,309	4,074	–	–	6,383
Units, Unit Rights and Unit options outstanding as of June 30, 2011	453,500	92,178	166,052	2,340,841	411,311	3,463,882

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 311,311 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, $7,403 at June 30, 2012 (December 31, 2011 - $9,176), which approximates the closing bid price of the Trust Units. 100,000 Exchangeable Units were converted to Trust Units in the current quarter (see Note 13b)).

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

The table below summarizes the change in the total Unit-based compensation financial liability for the three and six months ended June 30, 2012 and the year ended December 31, 2011 including the reversal of liability as a result of settlements for Trust Units.

As at	June 30, 2012	December 31, 2011
Total Unit-based compensation financial liabilities, beginning of the period	**$ 28,975**	$ 16,410
Unit-based compensation expenses	**7,337**	13,906
Settlement of Unit-based compensation awards for Trust Units	**(447)**	(1,341)
Total Unit-based compensation financial liabilities, end of the period	**$ 35,865**	$ 28,975

The Unit-based compensation financial liabilities are comprised of:	June 30, 2012	December 31, 2011
Current		
LTIP	**$ 17,459**	$ 15,112
SELTIP	**9,199**	7,096
DUP	**2,962**	2,424
RUR	**1,429**	–
UOP	**3,555**	2,697
	34,604	27,329
Non-Current		
RUR	**1,261**	1,646
Total Unit-based compensation financial liabilities	**$ 35,865**	$ 28,975

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

As at June 30, 2012, 4.1% (June 30, 2011 – 4.7%) of all Units and Trust-Unit equivalents outstanding were held by trustees, officers and other senior management of CAPREIT.

Normal course issuer bid ("NCIB")

The table below summarizes the NCIBs in place since January 1, 2011. No Trust Units were acquired and cancelled under these NCIBs. CAPREIT has not renewed the NCIB as at June 30, 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

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

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 three and six months ended June 30, 2012 and 2011, as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
UOP	**$ 1,119**	$ (30)	**$ 1,304**	$ 852
LTIP	**1,546**	117	**2,348**	3,017
SELTIP	**2,077**	(377)	**2,103**	1,049
DUP	**333**	164	**538**	513
RUR Plan	**655**	259	**1,044**	495
EUPP	**8**	6	**17**	14
	$ 5,738	$ 139	**$ 7,354**	$ 5,940

This Unit-based compensation note disclosure should be read in conjunction with CAPREIT's note 15 to the audited consolidated financial statements for the year ended December 31, 2011 contained in CAPREIT's 2011 Annual Report, which provides a detailed description for each of the Unit-based compensation plans.

a) UOP

On May 17, 2012, there were 232,500 options granted to the President and CEO in connection with CAPREIT's 2012 Equity Offering at an exercise price of $22.75 with an expiration date of May 16, 2022.

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 utilized to arrive at the estimated fair value for the outstanding grants at the respective periods were as follows:

As at	**June 30, 2012**	**December 31, 2011**
Number of Units	**773,250**	590,750
Weighted average issue price	**$ 19.35**	$ 17.51
Weighted average risk free rate (%)	**1.6**	1.6
Weighted average distribution yield (%)	**4.5**	4.8
Weighted average expected years	**8.2**	7.4
Weighted average volatility (%)	**22.3**	22.4
Weighted average Unit option value	**$ 4.60**	$ 4.57

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

b) LTIP and SELTIP

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

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	June 30, 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	**$ 12.65**	$ 12.89
Weighted average loan balance per Unit - at maturity	**$ 9.56**	$ 9.56
Weighted average risk free rate (%)	**1.6**	1.4
Weighted average distribution yield (%)	**4.5**	4.8
Weighted average expected years	**5.3**	5.8
Weighted average volatility (%)	**24.7**	26.0
Weighted average Unit value	**$ 11.52**	$ 9.92

SELTIP

As at	June 30, 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	**$ 14.81**	$ 14.99
Weighted average loan balance per Unit - at maturity	**$ 13.40**	$ 13.40
Weighted average risk free rate (%)	**1.7**	1.9
Weighted average distribution yield (%)	**4.5**	4.8
Weighted average expected years	**23.9**	24.4
Weighted average volatility (%)	**26.2**	26.5
Weighted average Unit value	**$ 11.25**	$ 8.68

c) DUP

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

	June 30, 2012			June 30, 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 period	**$ 16.94**	**$ 22.31**	**108,639**	$ 15.34	$ 17.14	74,103
Granted during the period	**23.12**	**–**	**13,251**	19.40	–	15,766
Additional Unit Distributions	**22.86**	**–**	**2,666**	18.59	–	2,309
Outstanding, end of the period	**$ 17.72**	**$ 23.78**	**124,556**	$ 16.12	$ 19.34	92,178

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

d) RUR Plan

The fair value of 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:

	June 30, 2012			**June 30, 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 period	**$ 16.67**	**$ 22.31**	**170,555**	$ 14.19	$ 17.14	72,887
Granted during the period	**22.37**	**–**	**89,098**	18.37	–	99,537
Additional Unit Distributions	**22.87**	**–**	**5,411**	18.69	–	4,074
Cancelled during the period	**16.77**	**–**	**(2,728)**	18.03	–	(10,446)
Outstanding, end of the period	**$ 18.73**	**$ 23.78**	**262,336**	$ 16.56	$ 19.34	166,052

e) EUPP

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

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. 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.

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

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

For the Six Months Ended June 30,	Ref	2012	2011
Units outstanding beginning of the period		**82,754,453**	74,176,908
Issued or granted during the period in connection with the following:			
New Units Issued	(a)	**7,750,000**	–
Exchangeable Units	(b)	**100,000**	–
Distribution Reinvestment Plan ("DRIP")	(c)	**450,879**	443,609
EUPP	(d)	**8,407**	8,575
UOP	(e)	**50,000**	87,500
LTIP	(f)	**–**	46,596
Units outstanding June 30,		**91,113,739**	74,763,188

a) New Units Issued

	Price Per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
2012 (the "2012 Equity Offering")					
Bought-Deal (May 17, 2012)	$ 22.75	$ 155,838	$ 7,134	$ 148,704	6,850,000
Over-allotment (May 17, 2012)	$ 22.75	20,475	819	19,656	900,000
Total		$ 176,313	$ 7,953	$ 168,360	7,750,000

b) Exchangeable Units

During the quarter, pursuant to the terms of the Exchangeable Units, 100,000 Exchangeable Units were exchanged for 100,000 Trust Units at a fair value of $24.05 per Unit.

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.

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Distributions declared	**$ 23,871**	$ 20,165	**$ 46,260**	$ 40,258
Distributions Per Unit	**$ 0.270**	$ 0.270	**$ 0.540**	$ 0.540

15. Financial Instruments and Risk Management

a) Fair value of financial instruments

At June 30, 2012, the fair value of CAPREIT's mortgages payable is estimated to be $2,210,000 (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 are based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions.

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.

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.

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

For the six months ended June 30, 2012 and 2011, a 100 basis point change in interest rates would have the following effect:

	Change in interest rates (basis points)	Increase (decrease) in net income		Increase (decrease) in OCI	
		2012	**2011**	**2012**	**2011**
Floating rate debt	+100	**$ (303)**	$ (389)	**$ –**	$ –
Floating rate debt	-100	**$ 303**	$ 389	**$ –**	$ –
Forward interest rate hedge	+100	**$ –**	$ –	**$ 15,360**	$ 11,561
Forward interest rate hedge	-100	**$ –**	$ –	**$ (16,797)**	$ (19,968)
Interest rate swap agreements	+100	**$ –**	$ –	**$ –**	$ 690
Interest rate swap agreements	-100	**$ –**	$ –	**$ –**	$ (697)

CAPREIT's objective of managing interest rate risk is to minimize the volatility of earnings. As at June 30, 2012, interest rate risk has been minimized as all but $23,290 or 1.1% of mortgages payable are 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 91.8% of CAPREIT's mortgages are CMHC-insured (excluding $92,719 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 June 30, 2012, CAPREIT had undrawn lines of credit in the amount of $29,578 (December 31, 2011 - $185,621).

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at June 30, 2012 are as follows:

	2012	**2013-2014**	**2015-2016**	**2017 onward**
Mortgages payable	$ 248,302	$ 627,504	$ 289,746	$ 866,597
Bank indebtedness	–	233,148	–	–
Mortgage interest (1)	39,289	122,307	83,905	127,280
Bank indebtedness interest (1)	4,135	12,305	–	–
Other liabilities	70,643	–	–	–
Security deposits	23,329	–	–	–
Exchangeable Units	7,403	–	–	–
Distributions payable	8,200	–	–	–
	$ 401,301	$ 995,264	$ 373,651	$ 993,877

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

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

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 a stringent policy is adopted to provide for all past due amounts.

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 three and six months ended June 30, 2012, $267 and $534 (June 30 2011 - $267 and $531), respectively, was amortized from AOCL to mortgage interest expense.

b) Contracts for which hedge accounting is being applied

As at June 30, 2012, CAPREIT has 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 agreement effectively converted borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a five-year term. The mark-to-market loss of $525 and $2,489 has been set up in other liabilities as at June 30, 2012 and June 30, 2011, respectively.

The interest rate swap agreement has been summarized as follows:

As at	**June 30, 2012**	**December 31, 2011**
Hedge liability, beginning of the period	**$ (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	**16**	(630)
Change in accrued mortgage interest included in interest and other financing costs	**(4)**	(8)
Hedge liability, end of the period	**$ (525)**	$ (1,568)
Hedge liability in AOCL, beginning of the period	**$ (1,031)**	$ (3,687)
Settlement of previously unrealized losses included in OCI	**1,031**	2,656
Hedge liability in AOCL, end of the period	**$ -**	$ (1,031)

In June 2011, CAPREIT entered into a hedging program which effectively hedged interest rates on approximately $312,000 of mortgages maturing between September 2011 and June 2013. The maturing mortgages are expected to be refinanced on ten-year terms and will bear interest rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before credit spread. The change in the intrinsic value of the forward interest rate hedge has been included in OCI (note 19). The ineffective portion and the difference between the settled amount and the mark-to-market has been recognized in net income. As at June 30, 2012 and 2011, the mark-to-market cumulative unrealized gains of $nil and $1,913 have been set up in other assets and an unrealized loss of $18,554 and $119 has been set up in other liabilities, respectively.

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

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

As at		June 30, 2012		December 31, 2011
Hedge liability, beginning of the period	**$**	**(16,349)**	$	–
Change in intrinsic value included in OCI		**(3,994)**		(20,573)
Loss on derivative financial instruments		**(1,483)**		397
Change in fair value		**3,272**		3,827
Hedge liability, end of period	**$**	**(18,554)**	$	(16,349)
Hedge liability in AOCL, beginning of the period	**$**	**(20,540)**	$	–
Change in intrinsic value included in OCI		**(3,994)**		(20,573)
Amortization from AOCL to interest and other financing costs		**151**		33
Hedge liability in AOCL, end of the period	**$**	**(24,383)**	$	(20,540)

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 (see note 24), 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.

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

CAPREIT is in compliance with all its investment and debt restrictions and financial covenants contained in the DOT, the 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, amongst other things: (i) certain financial covenants and limitations on indebtedness; (ii) the posting of a revolving letter of credit with respect to certain capital expenditures on a portfolio rather than an individual property basis; and (iii) cross-collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012
(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

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

As at	Threshold	June 30, 2012	December 31, 2011
Mortgages payable		**$ 2,039,486**	$ 1,848,190
Bank indebtedness		**233,148**	74,132
Unit-based compensation financial liabilities		**35,865**	28,975
Exchangeable Units		**7,403**	9,176
Unitholders' equity		**2,031,265**	1,740,663
Total capital		**$ 4,347,167**	$ 3,701,136
Total debt to gross book value (1)	Maximum 70.00%	**50.83%**	50.27%
Tangible net worth (2)	Minimum $700,000	**$ 2,074,533**	$ 1,778,814
Debt service coverage ratio (times) (3)	Minimum 1.20	**1.44**	1.38
Interest coverage ratio (times) (4)	Minimum 1.50	**2.34**	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 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) 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.

(3) 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 non-cash adjustments less income taxes paid divided by principal and interest payments.

(4) As per the Credit Facilities agreement, and DOT the Interest coverage ratio is defined as earnings before interest, income taxes, depreciation and amortization and other non-cash adjustments less income taxes paid divided by interest expense.

18. Deferred Income Taxes

Certain real estate investment trusts that satisfy specified conditions (the "REIT Exception"), including a condition that the trust not exceed the Normal Growth Guidelines (defined in a press release by the Department of Finance (Canada) on December 15, 2006), are excluded from the SIFT definition and therefore will not be subject to taxation under the SIFT Rules. For a more detailed explanation of the SIFT definition and SIFT Rules, refer to Note 19 to the consolidated annual financial statements contained in CAPREIT's 2011 Annual Report. In 2010, CAPREIT qualified for the REIT Exception and continues to meet the REIT Exception as at June 30, 2012 and is therefore not subject to taxation as a SIFT. CAPREIT expects to continue to meet the REIT Exception through the remainder of 2012. CAPREIT is not currently taxable and, accordingly, no current income taxes have been recorded for 2012 and 2011.

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

19. Accumulated Other Comprehensive Loss

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
AOCL balance, beginning of period	**$ (17,061)**	$ (9,893)	**$ (24,010)**	$ (11,085)
Other comprehensive (loss) income:				
Amortization from AOCL to interest and other financing costs (1) (2)	**338**	251	**672**	495
Settlement on derivative financial instruments (note 16(b))	**511**	338	**1,031**	1,244
Change in instrinsic value of derivative financial instruments (note 16(b))	**(7,777)**	438	**(3,994)**	438
Change in fair value of derivative financial instruments (note 16(c))	**–**	–	**–**	141
Change in fair value of investments	**2,220**	1,090	**4,532**	991
Other comprehensive (loss) income	**(4,708)**	2,117	**2,241**	3,309
AOCL balance, end of period	**$ (21,769)**	$ (7,776)	**$ (21,769)**	$ (7,776)

	June 30, 2012	December 31, 2011
AOCL comprised of:		
Loss on derivative financial instruments		
Cumulative realized loss (1)	**$ (9,908)**	$ (9,908)
Accumulated amortization to interest and other financing costs	**3,469**	2,935
Unamortized balance of loss on cash flow hedges previously settled	**(154)**	(141)
Loss on interest rate swap agreements	**–**	(1,031)
Loss on forward interest rate hedge (2)	**(24,567)**	(20,573)
Accumulated amortization to interest and other financing costs	**184**	33
Change in fair value of investments	**9,207**	4,675
AOCL balance, end of period	**$ (21,769)**	$ (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 in December 2014 to September 2022, being the original terms of the hedged contracts. The estimated amount of the amortization that is expected to be reclassified to net income from AOCL in the next 12 months is $1,077.

(2) The cumulative realized loss on the forward interest rate hedge aggregating to $5,976 will be amortized as mortgage interest expense to net income over the next ten years. The estimated amount of the amortization expected to be reclassified to net income from AOCL in the next 12 months is $600.

20. Severance and Other Employee Costs

In the three and six months ended June 30, 2012 $nil and $nil (June 30, 2011 $1,352 and $1,352) respectively, of severance and other employee costs were incurred including the costs related to the departure of the former Chief Financial Officer.

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

21. Interest and Other Financing Costs

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Interest on mortgages payable (1)	**$ 20,235**	$ 19,665	**$ 40,801**	$ 39,046
Amortization of CMHC premiums and fees	**435**	563	**870**	979
Interest on bank indebtedness and other deferred costs(2)	**915**	1,559	**1,993**	2,551
Interest on Exchangeable Units	**93**	111	**204**	222
	$ 21,678	$ 21,898	**$ 43,868**	$ 42,798

(1) Including amortization of deferred financing costs, fair value adjustments and OCI hedge interest of $1,067 (June 30, 2011 - $1,228)

(2) Including amortization of deferred financing costs of $460 (June 30, 2011 - $482)

22. Supplemental Cash Flow Information

a) Net income items related to investing and financing activities

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Dividend interest income on investments	**$ (735)**	$ (465)	**$ (1,215)**	$ (930)
Interest paid on Exchangeable Units	**102**	111	**213**	222
Interest paid on mortgages payable	**19,353**	19,062	**39,282**	37,599
Interest paid on bank indebtedness	**656**	1,405	**1,499**	2,468
	$ 19,376	$ 20,113	**$ 39,779**	$ 39,359

b) Changes in non-cash operating assets and liabilities

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Prepaid expenses	**$ (6,019)**	$ (2,965)	**$ (8,268)**	$ (4,296)
Tenant inducements and direct leasing costs	**(123)**	(105)	**(367)**	5
Other receivables	**544**	(1,385)	**660**	(779)
Other assets	**(88)**	(344)	**(102)**	(420)
Deposits	**(1,662)**	2,773	**(1,845)**	(1,552)
Accounts payable and other liabilities	**(960)**	916	**(3,998)**	(2,590)
Security deposits	**2,093**	1,023	**2,392**	1,310
	$ (6,215)	$ (87)	**$ (11,528)**	$ (8,322)

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

c) Net cash distributions to Unitholders

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Distributions declared to Unitholders	**$ (23,871)**	$ (20,165)	**$ (46,260)**	$ (40,258)
Add: Distributions payable at beginning of period	**(7,473)**	(6,708)	**(7,448)**	(6,678)
Less: Distributions payable at end of period	**8,200**	6,729	**8,200**	6,729
Less: Distributions to participants in the DRIP	**5,041**	4,100	**9,842**	7,810
	$ (18,103)	$ (16,044)	**$ (35,666)**	$ (32,397)

d) Capital investments

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Capital investments	**$ (28,386)**	$ (24,410)	**$ (42,491)**	$ (38,232)
Change in accounts payable and other liabilities	**4,597**	3,456	**(3,516)**	(6,514)
	$ (23,789)	$ (20,954)	**$ (46,007)**	$ (44,746)

e) Acquisition of investment properties

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Acquired properties	**$ (537,752)**	$ (187,828)	**$ (537,752)**	$ (196,912)
Fair value adjustment of assumed debt	**8,174**	–	**8,174**	–
Assumed debt	**221,692**	–	**221,692**	–
Net disbursement	**$ (307,886)**	$ (187,828)	**$ (307,886)**	$ (196,912)

f) Disposition of investment properties

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Proceeds	**$ 33,500**	$ –	**$ 51,000**	$ 5,975
Closing costs	**(496)**	–	**(785)**	(249)
Mortgages assumed by purchasers and discharged	**(15,030)**	–	**(24,515)**	(2,117)
Net proceeds	**$ 17,974**	$ –	**$ 25,700**	$ 3,609

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

23. Related Party Transactions

a) CAPREIT incurred the following transactions with key management personnel and trustees. The loans outstanding from key management personnel and trustees for indebtedness relating to the SELTIP and LTIP at June 30, 2012 were $8,364 and $13,488, 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 is comprised of:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Short-term employee benefits and other (1)	**$ 780**	$ 2,077	**$ 1,559**	$ 2,889
Unit-based compensation - grant date amortization	**1,022**	300	**1,364**	568
Unit-based compensation - fair value remeasurement	**3,359**	(482)	**4,207**	3,063
Total	**$ 5,161**	$ 1,895	**$ 7,130**	$ 6,520

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

b) 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 has entered into a new construction management agreement with a non-related party on substantially similar terms. CAPREIT will continue to have related party management fees until the balance of the work on the previous contract has been completed. The total construction management fees for the six months ended June 30, 2012 and 2011 (excluding reimbursable expenses of $nil and $301 and HST/GST) were $97 and $832, respectively, and have been capitalized to income properties. At June 30, 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 six months ended June 30, 2012 and 2011 were $434 and $379, respectively, including property operating costs and has been expensed as trust expenses. During the third quarter of 2011, the above lease was amended for additional office space resulting in minimum annual rental payments increasing by $51. There is no change to the lease expiry date. The lease agreement expires on October 31, 2014. Minimum annual rental payments for the next three years are as follows:

	Remaining in 2012	**2013**	**2014**
Minimum annual rent	$ 229	$ 458	$ 382

(Unaudited - CA$ Thousands, except Unit and per Unit amounts)

24. Commitments

Natural gas and hydro

Through the combination of fixed and variable price contracts, CAPREIT is committed as at June 30, 2012, in the aggregate amount of $5,463 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 June 30,	**Remaining 2012**	**2013**
Fixed Average Weighted Cost per GJ (1)	**$ 3.64**	$ 3.39
Total CAPREIT's Estimated Requirement	**56.89%**	18.59%

(1) Fixed weighted average cost per gigajoule ("GJ") excludes estimated transportation costs of $1.37, $1.17 and $1.06 per GJ for the remainder of 2012, 2013 and 2014, respectively, and other administrative costs.

Land Leasehold Interests

Three 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. For additional details of minimum annual rent under these leases, see note 26 to the audited consolidated financial statements contained in CAPREIT's 2011 Annual Report.

Property capital investments

Commitments primarily related to capital investments in investment properties of $54,813 were outstanding as at June 30, 2012 (December 31, 2011 - $12,034).

25. Contingencies

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

26. Subsequent Event

On August 8, 2012, CAPREIT announced that distributions would increase by 3.7% to $0.093 per Unit ($1.120 on an annualized basis) effective for the September 17, 2012 distribution for Unitholders on record as at August 31, 2012.

Unitholder Information

HEAD OFFICE

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

website: www.capreit.net

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

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

AUDITOR

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."