

Management's Discussion and Analysis

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 year ended December 31, 2017 dated February 27, 2018, should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2017.

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, Irish, and Dutch economies 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 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; however there can be no assurance actual results will be consistent

with these forward-looking statements, and 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, catastrophic events, insurance, capital investments, indebtedness, interest rate hedging, foreign operation and currency risks, taxation, harmonization of federal goods and services tax and provincial sales tax, land transfer tax, foreign tax, government regulations, controls over financial accounting, legal and regulatory concerns, the nature of units of CAPREIT ("Trust Units"), preferred Units, and units 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 risks related to acquisitions, and cybersecurity. There can be no assurance that 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 2017 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. These include stabilized net rental income ("Stabilized NOI"), Net Rental Revenue Run-Rate, Funds From Operations ("FFO"), Normalized Funds From Operations ("NFFO"), Adjusted Cash Flow from Operations ("ACFO"), and applicable per Unit amounts and payout ratios (collectively, the "Non-IFRS Measures"). Since Stabilized NOI, Net Rental Revenue Run-Rate, FFO, NFFO, and ACFO are not measures recognized under IFRS,

they may not be comparable to similarly titled measures reported by other issuers. CAPREIT has presented the Non-IFRS measures because Management believes these Non-IFRS measures are relevant measures of the ability of CAPREIT to earn revenue and to evaluate CAPREIT's performance and cash flows. A reconciliation of these Non-IFRS measures to the comparable IFRS measures, along with further definitions and discussion, is provided in Section III under Non-IFRS Financial Measures. The Non-IFRS measures should not be construed as alternatives to net income (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of CAPREIT's performance or sustainability of our distributions.

OVERVIEW

CAPREIT is an unincorporated open-ended publicly-traded real estate investment trust and one of Canada's largest residential landlords, serving over 50,600 residents across Canada and The Netherlands. CAPREIT owns and operates a portfolio of multi-unit residential rental properties, including apartments, townhomes and manufactured home communities, principally located in and near major urban centres across Canada. CAPREIT's concentration on the residential real estate market is aimed at solid year-over-year income growth in a portfolio with stable occupancy. In addition,

CAPREIT mitigates risk through demographic diversification by operating properties across the affordable, mid-tier and luxury sectors, as well as through geographic diversification.

CAPREIT's vision is to be the premier residential rental real estate landlord in Canada, the landlord and employer of choice, and the investment of choice in its industry sector. CAPREIT's mission is to attract the right tenants by hiring the right employees and acquiring the right properties to generate long-term, sustainable, growing distributions and profitable growth for Unitholders.

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

CAPREIT was established under the laws of the Province of Ontario by a declaration of trust (the "DOT") dated February 3, 1997, as most recently amended and restated on May 24, 2017. As at December 31, 2017, CAPREIT owned interests in 50,624 residential units, comprised of 44,168 residential suites and 31 manufactured home communities ("MHC"), comprised of 6,456 land lease sites. As at December 31, 2017, CAPREIT had 883 employees (991 as at December 31, 2016).

The tables below summarize property acquisitions and dispositions for the years ended December 31, 2017 and 2016:

Acquisitions Completed During the Year Ended December 31, 2017

(\$ Thousands)

	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
February 28, 2017	Mid-tier	32	Victoria	\$ 4,934	\$ — ⁽³⁾	— ⁽³⁾	— ⁽³⁾
May 3, 2017	Mid-tier	256	Montréal	24,059	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 1, 2017	Mid-tier	44	Maple Ridge	11,241	3,713	1.94%	3.33
July 12, 2017	Various ⁽⁴⁾	849	The Netherlands	257,881	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁴⁾
August 8, 2017	Mid-tier	54	The Netherlands	12,691	— ⁽⁵⁾	— ⁽⁵⁾	— ⁽⁵⁾
August 18, 2017	Various ⁽⁶⁾	77	The Netherlands	20,384	— ⁽⁶⁾	— ⁽⁶⁾	— ⁽⁶⁾
November 17, 2017	Luxury	16	Summerside, PEI	2,379	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
November 27, 2017	Luxury	56	Summerside, PEI	7,814	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 1, 2017	Various ⁽⁷⁾	540	The Netherlands	129,127	— ⁽⁷⁾	— ⁽⁷⁾	— ⁽⁷⁾
Total		1,924		\$ 470,510	\$ 3,713		
Acquisition Financing					\$ 253,375⁽⁸⁾	1.86%⁽⁸⁾	6.5⁽⁸⁾

(1) Weighted average stated interest rate on mortgage funding.

(2) Weighted average term to maturity on mortgage funding.

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

(4) The acquisition comprised of 849 suites (142 affordable, 606 mid-tier, and 101 luxury) and was financed by a new non-amortizing mortgage of €100,842 (\$147,360) with a term to maturity of 7.5 years with an interest rate of 2.04%, a contribution from a non-controlling interest of €600 (\$889), and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(5) The acquisition was financed by a new non-amortizing mortgage of €5,043 (\$7,474) with a term to maturity of 7.5 years with an interest rate of 1.95% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(6) The acquisition comprised of 77 suites (28 mid-tier and 49 luxury) was financed by a new non-amortizing mortgage of €7,951 (\$11,856) with a term to maturity of 7.5 years with an interest rate of 1.95% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(7) The acquisition comprised of 540 suites (168 affordable, 78 mid-tier, and 294 luxury) was financed by a new non-amortizing mortgage of €49,914 (\$75,540) with a term to maturity of 5.0 years with an interest rate of 1.37% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(8) Subsequent acquisition financing of \$8,146 with a weighted average interest rate of 2.47% and a weighted average term to maturity of 9.92 years relates to properties acquired in 2015.

Acquisitions Completed During the Year Ended December 31, 2016

(\$ Thousands)

	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
January 20, 2016	Mid-tier	670	London	\$ 53,200	\$ — ⁽³⁾	— ⁽³⁾	— ⁽³⁾
April 12, 2016	Mid-tier	12	Charlottetown	1,162	729 ⁽³⁾	2.04% ⁽³⁾	3.7 ⁽³⁾
April 26, 2016	Mid-tier	71	Greater Toronto Area	16,630	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
May 11, 2016	Mid-tier	55	Greater Toronto Area	10,178	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
May 11, 2016	MHC	144	Fort St. John	8,668	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 15, 2016	Mid-tier	21	Victoria	2,643	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 30, 2016 ⁽⁴⁾	Various	850	Ottawa	184,668	24,627	3.96%	6.3
September 15, 2016	Luxury	71	Halifax	17,407	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
September 30, 2016	Luxury	87	London	22,813	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 1, 2016	MHC	3	Bowmanville and Grand Bend	270	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 23, 2016 ⁽⁶⁾	Various	568	The Netherlands	95,217	— ⁽⁶⁾	— ⁽⁶⁾	— ⁽⁶⁾
Total		2,552		\$ 412,856	\$ 25,356		
Acquisition Financing					\$ 335,730⁽⁵⁾	2.22%⁽⁵⁾	8.4⁽⁵⁾

(1) Weighted average stated interest rate on mortgage funding.

(2) Weighted average term to maturity on mortgage funding.

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

(4) The acquisition comprised 5 properties consisting of 850 suites (185 affordable and 665 mid-tier suites) located in Ottawa, Ontario. The acquisition was financed by the assumption of a \$24,627 mortgage maturing in November 2022 with an interest rate of 3.96%, new CMHC insured 10 year mortgage financings aggregating to \$106,122 with a weighted average interest rate of 2.38% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(5) Subsequent acquisition financing of \$51,918 with a weighted average interest rate of 2.25% and a weighted average term to maturity of 8.3 years relates to properties acquired in 2015.

(6) The acquisition was financed by a new non-amortizing mortgage of €40,660 (\$57,261) maturing January 1, 2024 with an interest rate of 2.05%, a contribution from a non-controlling interest of €600 (\$850), and the balance in cash from CAPREIT's Acquisition and Operating Facility.

Dispositions Completed During the Year Ended December 31, 2017

(\$ Thousands)

	Demographic Sector	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
February 15, 2017	Affordable	31	Saskatoon	\$ 2,025	\$ 575	\$ 1,356
October 12, 2017	Mid-tier	50	Vancouver	19,800	16,160	3,595
Total		81		\$ 21,825	\$ 16,735	\$ 4,951

Dispositions Completed During the Year Ended December 31, 2016

(\$ Thousands)

	Demographic Sector	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
July 27, 2016	Mid-tier	145	Montréal	\$ 24,849	\$ 12,480	\$ 12,085
August 22, 2016	Mid-tier	22	Montréal	2,340	2,282	—
September 28, 2016	Affordable	412	Montréal	31,350	16,559	14,322
Total		579		\$ 58,539	\$ 31,321	\$ 26,407

OBJECTIVES

CAPREIT's objectives are to:

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

BUSINESS STRATEGY

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

Customer Service

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

Cost Management

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

Capital Investments

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

Portfolio Growth

CAPREIT aims to grow its portfolio over the long term through accretive acquisitions that meet its strategic criteria and, where possible, enhance geographic diversification while capturing economies of scale and cost synergies, thereby increasing net operating income. As a component of this growth strategy, CAPREIT will monitor its portfolio and, from time to time, identify certain non-core properties for divestiture. The funds from these divestitures will primarily be used to acquire additional strategic assets better suited to CAPREIT's portfolio composition and property management objectives or to pay down existing debt. Management believes the continued realization and reinvestment of capital is a fundamental component of its growth strategy and demonstrates the success of CAPREIT's capital investment programs and its ability to maximize and manage the earnings and cash flow potential of its property portfolio. Furthermore, Management continues to seek development opportunities within its portfolio to ensure existing assets are put towards their most accretive use. In addition, Management continues to prudently investigate opportunities to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT or other vacant land.

Financial Management

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

KEY PERFORMANCE INDICATORS

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

Occupancy

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

Average Monthly Rents

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

Net Rental Income ("NOI")

NOI is a widely used operating performance indicator in the real estate industry, and is presented in the consolidated statements of income and comprehensive income as net rental income. Management has chosen to refer to net rental income as NOI in all instances in its MD&A. As a measure of its operating performance, CAPREIT currently strives to achieve an annual NOI margin in the range of 58% to 60% 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.

Payout Ratio

CAPREIT anticipates a long-term annual NFFO payout ratio of between 70% and 80%. This ratio is not meant to be a measure of the sustainability of CAPREIT's distributions. Although CAPREIT intends to continue to sustain and grow distributions, the actual amount of distributions in respect to the CAPREIT Units will depend upon numerous factors, including, but not limited to, the amount of principal repayments, tenant allowances, capital expenditures, and other factors that may be beyond the control of CAPREIT.

Portfolio Growth

Management's objective is to pursue acquisitions and development opportunities (particularly via joint ventures) as opportunities arise, 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. In addition, Management continues to prudently investigate opportunities to add new suites through the development of properties within its own portfolio and to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties on excess land or under-utilized land owned by CAPREIT or other vacant land.

Financing

CAPREIT takes a proactive approach with its mortgage portfolio, striving to manage interest expense volatility risk by achieving the lowest possible average interest rates while mitigating refinancing risk by prudently managing the portfolio's average term to maturity and staggering the maturity dates. For this purpose, CAPREIT strives to ensure its overall leverage ratios and interest and debt service coverage ratios are maintained at a sustainable level. In addition, CAPREIT focuses on maintaining capital adequacy by complying with investment and debt restrictions in its DOT, Large Borrower Agreement with CMHC ("LBA") and the financial covenants in its credit agreement comprised of an acquisition and operating facility, which includes Euro LIBOR and US LIBOR borrowings ("Acquisition and Operating Facility"), and a five-year non-revolving term credit facility (collectively, the "Credit Facilities"), as described under Liquidity and Financial Condition in Section IV.

PERFORMANCE MEASURES

The following table presents an overview of certain non-IFRS financial measures of CAPREIT for the years ended December 31, 2017 and 2016. Management believes that these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. Effective March 2017, monthly cash distributions declared to Unitholders increased to \$0.1067 per Unit (\$1.28 annually) compared to \$0.1042 per Unit (\$1.25 annually) effective May 2016, and \$0.102 per Unit (\$1.22 annually) effective since May 2015.

For the Year Ended December 31,	2017	2016
Portfolio Performance		
Overall Portfolio Occupancy ⁽¹⁾	98.7%	98.6%
Overall Portfolio Average Monthly Rents ⁽¹⁾	\$ 1,044	\$ 1,003
Operating Revenues (000s)	\$ 638,842	\$ 596,831
NOI (000s)	\$ 393,258	\$ 366,947
NOI Margin	61.6%	61.5%
Operating Performance⁽²⁾		
FFO Per Unit – Basic	\$ 1.806	\$ 1.707
NFFO Per Unit – Basic	\$ 1.842	\$ 1.772
Weighted Average Number of Units – Basic (000s)	135,962	130,794
Cash Distributions Per Unit	\$ 1.275	\$ 1.238
FFO Payout Ratio ⁽⁶⁾	71.7%	73.7%
NFFO Payout Ratio ⁽⁶⁾	70.3%	70.9%
Liquidity and Leverage		
Total Debt to Gross Book Value ⁽¹⁾	43.57%	44.31%
Total Debt to Gross Historical Cost ^{(1), (3)}	56.24%	54.36%
Weighted Average Mortgage Interest Rate ⁽¹⁾	3.08%	3.20%
Weighted Average Mortgage Term (years) ⁽¹⁾	5.7	6.1
Debt Service Coverage (times) ⁽⁴⁾	1.63	1.63
Interest Coverage (times)	3.19	3.09
Available Liquidity – Acquisition and Operating Facility (000s) ⁽¹⁾	\$ 86,792	\$ 275,922
Other		
Number of Suites and Sites Acquired	1,924	2,552
Number of Suites Disposed ⁽¹⁾	81	579
Closing Price of Trust Units	\$ 37.32	\$ 31.37
Market Capitalization (millions) ⁽⁵⁾	\$ 5,182	\$ 4,290

(1) As at December 31.

(2) NOI, FFO and NFFO are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see Non-IFRS Financial Measures above).

(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 (including all Unit-based incentive plans except UOP) (see discussion of Unitholders' Equity under the Liquidity and Financial Condition section).

(6) Payout ratio (a Non-IFRS Measure) is calculated based on distributions declared as a percentage of FFO and NFFO. See Section III for details.

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.

Fee Simple Interests – Apartments and Townhomes The majority of CAPREIT's investment in its property portfolio is in the form of fee simple interests, representing freehold ownership of the properties subject only to typical encumbrances, such as mortgages.

Operating Leasehold Interests CAPREIT owns leasehold interests in 15 properties located in the Greater Toronto Area. The leases mature between 2033 and 2037. While separate lease arrangements exist for each property, the general structure is common across all leases: each lease is for a 35-year term and the rent for the entire lease term was fully paid at the time the leasehold interest was acquired. Each lease also provides CAPREIT

with a purchase option exercisable between the 26th and 35th year of the lease term. In the case of one of the properties, the purchase option entitles CAPREIT to acquire a prepaid operating leasehold interest in the property maturing in 2072 (see Portfolio of Operating Leasehold Interests for additional information).

Land Leasehold Interests CAPREIT owns leasehold interests in three land parcels in Alberta and one land parcel in British Columbia. CAPREIT acquired a residential building on each of the four land parcels and pays ground rent on an annual basis for its use of the land. One land lease matures in 2045, two mature in 2068 and another matures in 2070. CAPREIT does not have the unilateral right to acquire the land or extend the lease term at the maturity of the respective leases (see Portfolio of Land Leasehold Interests for additional information).

Fee Simple Interests – MHC Land Lease Sites CAPREIT has fee simple interests in 31 MHCs, whereby CAPREIT owns the sites, which it rents to residents.

Portfolio by Type of Property Interest

As at December 31,

	2017	%	2016	%
Fee Simple Interests – Apartments and Townhomes	39,302	77.6	37,450	76.8
Operating Leasehold Interests	3,815	7.5	3,815	7.8
Land Leasehold Interests	1,051	2.1	1,051	2.2
Total Residential Suites	44,168	87.2	42,316	86.8
Fee Simple Interests – MHC Land Lease Sites	6,456	12.8	6,451	13.2
Total Suites and Sites	50,624	100.0	48,767	100.0

Portfolio Diversification

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

Portfolio by Demographic Sector

As at December 31,

	2017	%	2016	%
Affordable	3,783	7.5	3,504	7.2
Mid-tier	24,114	47.6	23,117	47.4
Luxury	16,271	32.1	15,695	32.2
Total Residential Suites	44,168	87.2	42,316	86.8
MHC Land Lease Sites	6,456	12.8	6,451	13.2
Total Suites and Sites	50,624	100.0	48,767	100.0

Portfolio by Geography

As at December 31,

	2017	%	2016	%
Residential Suites				
ONTARIO				
Greater Toronto Area	15,656	30.9	15,649	32.1
Ottawa	2,377	4.7	2,377	4.9
London / Kitchener / Waterloo	2,407	4.8	2,407	4.9
Other Ontario	1,700	3.4	1,698	3.5
	22,140	43.8	22,131	45.4
QUÉBEC				
Greater Montréal Region	7,895	15.5	7,640	15.6
Québec City	2,734	5.4	2,733	5.6
	10,629	20.9	10,373	21.2
BRITISH COLUMBIA				
Greater Vancouver Region	2,981	5.9	3,031	6.2
Victoria	1,478	2.9	1,402	2.9
	4,459	8.8	4,433	9.1
ALBERTA				
Edmonton	436	0.9	436	0.9
Calgary	1,884	3.6	1,884	3.9
	2,320	4.5	2,320	4.8
NOVA SCOTIA				
Halifax	1,659	3.3	1,659	3.4
SASKATCHEWAN				
Saskatoon	102	0.2	133	0.2
Regina	234	0.5	234	0.5
	336	0.7	367	0.7
PRINCE EDWARD ISLAND				
Charlottetown	537	1.1	465	1.0
EUROPE				
The Netherlands	2,088	4.1	568	1.2
Total Residential Suites	44,168	87.2	42,316	86.8
MHC Land Lease Sites				
Ontario	2,703	5.3	2,701	5.5
British Columbia	272	0.5	272	0.6
Alberta	417	0.8	415	0.9
Saskatchewan	246	0.6	246	0.5
Prince Edward Island	504	1.0	504	1.0
New Brunswick	2,314	4.6	2,313	4.7
Total MHC Land Lease Sites	6,456	12.8	6,451	13.2
Total Suites and Sites	50,624	100.0	48,767	100.0

While maintaining a strong and strategic presence in Ontario's residential market, CAPREIT continues to focus on diversifying its geographic portfolio outside of Ontario by increasing its presence in other markets with strong fundamentals. 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 any specific markets.

CAPREIT continues to target acquisitions on an annualized basis over the long term.

Portfolio of Operating Leasehold Interests

CAPREIT has the option to acquire fee simple interests in 14 of the properties, which are exercisable between the 26th and 35th years of the respective leases. In the case of a 15th property, comprised of 327 suites, CAPREIT's option entitles it to acquire a prepaid operating leasehold interest in the property maturing in 2033 and an air rights lease maturing in 2072.

The purchase options are independently exercisable, enabling CAPREIT to acquire additional interests in any or all of the properties. The option prices vary by property and by the year in which the option is to be exercised. The aggregate range of option prices would be approximately \$283 million to \$339 million if each of the options were exercised in the 26th and 35th years,

respectively, of the lease terms. If CAPREIT elected to exercise any option prior to the maturity of the lease term, CAPREIT would be entitled to receive a pro rata amount of the prepaid lease amount based on the remaining lease term. In addition, under certain circumstances, the option price may be reduced by the unamortized portion of capital expenditures incurred during the final ten years of the lease term.

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

Operating Leasehold Interests Portfolio by Lease Maturity

(\$ Thousands)

As at December 31, 2017 and 2016

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

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

Portfolio of Land Leasehold Interests

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

Land Leasehold Interests Portfolio by Lease Maturity

(\$ Thousands)

Year Ended December 31,

Year of Lease Maturity	Suites	%	Annual Ground Rent	
			2017	2016
2045	473	45.0	\$ 1,139	\$ 1,000
2068	306	29.1	467	500
2070	272	25.9	1,208	1,216
Total Land Leasehold Interests Portfolio	1,051	100.0	\$ 2,814	\$ 2,716

INVESTMENT PROPERTIES

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

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

Market assumptions applied for valuation purposes do not necessarily reflect the specific history or experience related to CAPREIT and, in

many cases, the stabilized cash flows or net operating income used for appraisal purposes may not reflect the results ultimately realized during future periods.

The fair value of investment properties is established by qualified, independent appraisers annually. Each quarter, CAPREIT utilizes market assumptions for rent increases, capitalization and discount rates provided by the independent appraisers to determine the fair value of the investment properties for interim reporting purposes. Capitalization rates employed by the appraisers are based on recently closed transactions, generally within the last three months, and other current market indicators for similar properties. To the extent that the externally provided capitalization rates or results of operations change from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly.

For a discussion of risk factors associated with the valuation of investment properties, refer to the Risks and Uncertainties section. For a detailed description of valuation methods and key assumptions used for investment properties, see note 6 to the accompanying audited consolidated annual financial statements for the year ended December 31, 2017 contained in CAPREIT's 2017 Annual Report.

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

(\$ Thousands)

As at December 31,

	2017	2016
Balance, Beginning of the Year	\$ 7,642,017	\$ 6,863,140
<i>Add:</i>		
Acquisitions	470,510	414,668
Property Capital Investments ⁽¹⁾	154,883	195,742
Foreign Currency Translation	12,998	188
Unrealized Gain on Remeasurement at Fair Value	626,953	227,967
Capitalized Leasing Costs ⁽²⁾	1,020	918
<i>Less:</i>		
Dispositions	(21,337)	(58,793)
Realized Loss on Dispositions	(488)	(1,813)
Investment Properties at Fair Value, End of the Year	\$ 8,886,556	\$ 7,642,017

(1) See Property Capital Investments section.

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

For the years ended December 31, 2017 and 2016, 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 net operating income and thus not 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

(\$ Millions)

As at December 31,	2016					2017	2016		2017	
	Fair Value	Change Due to Change in					Fair Value	Rates ⁽¹⁾	Rates ⁽¹⁾	Rates ⁽¹⁾
Rates ⁽¹⁾		Stabilized NOI ⁽²⁾	Forex Translation	Net Acquisitions						
Greater Toronto Area	\$ 3,068	\$ 236	\$ 221	\$ -	\$ -	\$ 3,525	4.30%		4.05%	
Other Ontario	898	52	63	-	-	1,013	4.84%		4.58%	
Québec	1,427	13	28	-	25	1,493	4.91%		4.89%	
British Columbia	1,071	26	94	-	5	1,196	3.72%		3.65%	
Alberta	435	(3)	(19)	-	-	413	4.67%		4.63%	
Nova Scotia	253	6	2	-	-	261	5.48%		5.35%	
Saskatchewan	43	2	(1)	-	(2)	42	5.76%		5.60%	
Prince Edward Island	50	1	3	-	10	64	6.17%		6.06%	
The Netherlands	92	47	-	13	412	564	4.83%		4.03%	
MHC Land Lease Sites	305	(2)	13	-	-	316	6.23%		6.27%	
Total	\$ 7,642	\$ 378	\$ 404	\$ 13	\$ 450	\$ 8,887	4.53%		4.39%	

(1) Weighted average capitalization rates excluding implied capitalization rates on Operating and Land Leasehold Interests. See note 6 to the accompanying audited consolidated annual financial statements for further valuation assumption details, including discount rates as at December 31, 2017 for Operating and Land Leasehold Interests.

(2) Represents stabilized net operating income.

As at December 31, 2017, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of investment properties:

(\$ Millions)

As at December 31, 2017	Change (basis points) ⁽¹⁾	Estimated (Decrease) Increase
Weighted Average Capitalization Rate	+25	\$ (498)
Weighted Average Capitalization Rate	-25	\$ 505

(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 December 31,	Total Portfolio				Properties Owned Prior to December 31, 2016				Properties Acquired Since Dec. 31, 2016 ⁽²⁾	
	2017 ⁽²⁾		2016		2017		2016 ⁽¹⁾		AMR Occ. %	
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %
Affordable	\$ 972	98.1	\$ 910	97.7	\$ 955	98.0	\$ 911	97.8	\$ 1,156	99.0
Mid-tier	\$ 1,101	99.0	\$ 1,063	99.1	\$ 1,102	99.2	\$ 1,063	99.1	\$ 1,079	92.6
Luxury	\$ 1,240	98.6	\$ 1,198	98.3	\$ 1,241	98.7	\$ 1,198	98.3	\$ 1,199	97.2
Average Residential Suites	\$ 1,142	98.8	\$ 1,101	98.7	\$ 1,143	98.9	\$ 1,101	98.7	\$ 1,127	95.0
Average MHC Land Lease Sites	\$ 388	98.3	\$ 378	98.3	\$ 388	98.3	\$ 378	98.3	\$ 535	100.0
Overall Portfolio Average	\$ 1,044	98.7	\$ 1,003	98.6	\$ 1,040	98.8	\$ 1,003	98.6	\$ 1,127	95.0

(1) Prior year comparable AMR and occupancy have been restated for properties disposed of since December 31, 2016.

(2) Under the purchase agreements for a property acquired on May 3, 2017, CAPREIT received monthly escrow payments for the positive differences, if any, between:

- (a) 100.0% of the gross rent roll for such month less (b) the actual rent earned for such month, with all applicable sales taxes. CAPREIT continues to receive escrow payments when the actual gross revenues are less than the threshold up to a maximum of \$2.5 million for the property, after which rental revenue will be based on actual occupancy. The occupancy rates in the tables are reflected at 100.0% for this property.

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. Overall average monthly rents for the stabilized residential suite portfolio (properties owned prior to December 31, 2016) increased in all demographic sectors to \$1,143 at December 31, 2017 from \$1,101 at December 31, 2016, resulting in a 3.8% increase. The increases are due primarily to a combination of ongoing successful sales and marketing strategies, above-guideline rent increases, suite and building improvements, and continued strength in the residential rental sector in the majority of CAPREIT's regional markets. Occupancy for the stabilized residential suite portfolio increased to 98.9% as at December 31, 2017

compared to 98.7% for the prior year. For the total residential portfolio AMR increased 3.7% at December 31, 2017 compared to the prior year, while occupancies increased to 98.8% compared to 98.7% last year.

For the total MHC land lease portfolio, average monthly rents increased to \$388 as at December 31, 2017, compared to \$378 as at December 31, 2016 while occupancy remained strong at 98.3%. Management believes MHC land lease sites provide secure and stable cash flows due to long-term tenancies, high occupancies, steady increases in average monthly rents, and significantly lower capital and maintenance costs.

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

Suite Turnovers and Lease Renewals – Total Portfolio

For the Year Ended December 31,

	2017			2016		
	Change in AMR \$	%	% Turnovers & Renewals ⁽¹⁾	Change in AMR \$	%	% Turnovers & Renewals ⁽¹⁾
Suite Turnovers	79.4	7.2	24.0	13.0	1.2	27.7
Lease Renewals	21.7	1.9	82.9	21.8	2.0	78.7
Weighted Average of Turnovers and Renewals	34.6	3.1		19.5	1.8	

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

Overall, suite turnovers in the residential suite portfolio (excluding co-ownerships and The Netherlands properties) during the year ended December 31, 2017 resulted in average monthly rents increasing by approximately \$79 or 7.2% compared to an increase of approximately \$13 or 1.2% for the prior year, primarily due to the strong rental markets of British Columbia and Ontario, offset by strategically reduced rents in the Alberta and Saskatchewan rental markets to increase occupancy and higher unit turnover than in previous years.

Pursuant to Management's focus on increasing overall portfolio rents for the year ended December 31, 2017, average monthly rents on lease

renewals increased by approximately \$22 or 1.9%, compared to an increase of approximately \$22 or 2.0% for the prior year. Increased portfolio diversification helped mitigate geographical risk in particular areas of Canada. Management continues to pursue applications for annual guideline increases (“AGIs”) in Ontario, where it believes increases to raise average monthly rents on lease renewals above the annual guideline are supported by market conditions (see discussion in the Future Outlook section). For 2018, the permitted guideline increases in Ontario and British Columbia have been set to 1.8% and 4.0%, respectively.

Portfolio Average Monthly Rents and Occupancy by Geography

As at December 31,	Total Portfolio				Properties Owned Prior to December 31, 2016				Properties Acquired Since Dec. 31, 2016	
	2017		2016		2017		2016 ⁽¹⁾		AMR	Occ. %
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %		
Residential Suites										
ONTARIO										
Greater Toronto Area	\$ 1,315	99.4	\$ 1,269	99.7	\$ 1,315	99.4	\$ 1,269	99.7	\$ -	-
Ottawa	1,217	99.8	1,186	99.6	1,217	99.8	1,186	99.6	-	-
London / Kitchener / Waterloo	946	98.3	910	98.3	946	98.3	910	98.3	-	-
Other Ontario	1,229	99.6	1,176	99.4	1,229	99.6	1,176	99.4	-	-
	\$ 1,258	99.4	\$ 1,214	99.5	\$ 1,258	99.4	\$ 1,214	99.5	\$ -	-
QUÉBEC										
Greater Montréal Region	\$ 902	98.4	\$ 866	97.6	\$ 897	98.3	\$ 866	97.6	\$ 1,064	100.0
Québec City	998	97.8	967	96.9	998	97.8	967	96.9	-	-
	\$ 927	98.2	\$ 892	97.4	\$ 923	98.2	\$ 892	97.4	\$ 1,064	100.0
BRITISH COLUMBIA										
Greater Vancouver Region	\$ 1,235	99.8	\$ 1,151	99.8	\$ 1,235	99.8	\$ 1,154	99.8	\$ -	-
Victoria	1,136	99.9	1,065	99.7	1,133	99.9	1,065	99.7	1,193	100.0
	\$ 1,202	99.8	\$ 1,124	99.8	\$ 1,202	99.8	\$ 1,126	99.7	\$ 1,193	100.0
ALBERTA										
Edmonton	\$ 1,105	98.9	\$ 1,098	95.0	\$ 1,105	98.9	\$ 1,098	95.0	\$ -	-
Calgary	1,041	97.5	1,051	95.9	1,041	97.5	1,051	95.9	-	-
	\$ 1,053	97.8	\$ 1,060	95.7	\$ 1,053	97.8	\$ 1,060	95.7	\$ -	-
NOVA SCOTIA										
Halifax	\$ 1,101	97.7	\$ 1,077	96.6	\$ 1,101	97.7	\$ 1,077	96.6	\$ -	-
SASKATCHEWAN										
Saskatoon	\$ 1,024	100.0	\$ 951	98.5	\$ 1,024	100.0	\$ 1,015	100.0	\$ -	-
Regina	1,066	99.1	1,030	99.1	1,066	99.1	1,030	99.1	-	-
	\$ 1,053	99.4	\$ 1,001	98.9	\$ 1,053	99.4	\$ 1,025	99.4	\$ -	-
PRINCE EDWARD ISLAND										
Charlottetown	\$ 1,005	98.7	\$ 982	99.1	\$ 1,004	99.8	\$ 982	99.1	\$ 1,012	91.7
EUROPE										
The Netherlands	\$ 1,122	94.8	\$ 974	98.4	\$ 1,076	96.7	\$ 974	98.4	\$ 1,140	94.1
Total Residential Suites	\$ 1,142	98.8	\$ 1,101	98.7	\$ 1,143	98.9	\$ 1,101	98.7	\$ 1,127	95.0
MHC Land Lease Sites										
Ontario	\$ 525	100.0	\$ 513	99.9	\$ 525	100.0	\$ 513	99.9	\$ 535	100.0
British Columbia	441	100.0	423	100.0	441	100.0	423	100.0	-	-
Alberta	427	99.5	418	99.8	427	99.5	418	99.8	-	-
Saskatchewan	399	100.0	384	99.6	399	100.0	384	99.6	-	-
Prince Edward Island	145	100.0	141	99.8	145	100.0	141	99.8	-	-
New Brunswick	267	95.3	258	95.6	267	95.3	258	95.6	-	-
Total MHC Land Lease Sites	\$ 388	98.3	\$ 378	98.3	\$ 388	98.3	\$ 378	98.3	\$ 535	100.0
Total Suites and Sites	\$ 1,044	98.7	\$ 1,003	98.6	\$ 1,040	98.8	\$ 1,003	98.6	\$ 1,127	95.0

(1) Prior year comparable AMR and occupancy have been restated for properties disposed of since December 31, 2016.

Overall average monthly rents for the stabilized residential suite portfolio as at December 31, 2017 increased by approximately 3.8% compared to the prior year, while occupancies remained stable at 98.9%. For the total residential suite portfolio, AMR increased by approximately 3.7%, as compared to December 31, 2016. The increases are primarily due to 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. Occupancies increased slightly to 98.8% as at December 31, 2017 compared to 98.7% last year. Management believes annual occupancies can be maintained in the 97% to 98% range over the long term and the trend for gradual increases in same-property average monthly rents will continue, providing the basis for

sustainable year-over-year increases in revenues.

Management also believes the defensive characteristics of its portfolio and its strategy to further diversify both geographically 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 sustainably increase same-property average monthly rents and maintain high occupancy levels.

The table below shows the new tenant inducements incurred during the years ended December 31, 2017 and 2016 as well as the amortization of tenant inducements, loss from vacancies, and bad debt expense included in net rental revenue for the same years.

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

(\$ Thousands)

For the Year Ended December 31,	2017	% ⁽¹⁾	2016	% ⁽¹⁾
New Tenant Inducements Incurred ⁽²⁾	\$ 2,709		\$ 2,870	
Tenant Inducements Amortized	\$ 2,118	0.3	\$ 2,427	0.4
Vacancy Loss Incurred	12,419	1.9	12,950	2.2
Total Amortization and Loss	\$ 14,537	2.2	\$ 15,377	2.6
Bad Debt Expense ⁽³⁾	\$ 2,175	0.3	\$ 2,622	0.4

(1) As a percentage of total operating revenues.

(2) For the year ended, New Tenant Inducements Incurred decreased in most areas offset by increases in British Columbia.

(3) Bad Debt Expense decreased in most regions compared to last year, partly offset by increases in Nova Scotia and The Netherlands.

RESULTS OF OPERATIONS

Total Operating Revenues by Geography

(\$ Thousands)

For the Year Ended December 31,

	2017	2016
Residential Suites		
ONTARIO		
Greater Toronto Area	\$ 253,327	\$ 243,067
Ottawa	23,925	16,263
London / Kitchener / Waterloo	27,534	24,918
Other Ontario	27,010	25,648
	\$ 331,796	\$ 309,896
QUÉBEC		
Greater Montréal Region	\$ 93,364	\$ 92,268
Québec City	35,256	34,715
	\$ 128,620	\$ 126,983
BRITISH COLUMBIA		
Greater Vancouver Region	\$ 47,207	\$ 44,229
Victoria	21,362	19,806
	\$ 68,569	\$ 64,035
ALBERTA		
Edmonton	\$ 6,667	\$ 6,784
Calgary	28,167	29,038
	\$ 34,834	\$ 35,822
NOVA SCOTIA		
Halifax	\$ 21,848	\$ 20,681
SASKATCHEWAN		
Saskatoon	\$ 1,223	\$ 1,422
Regina	2,921	2,857
	\$ 4,144	\$ 4,279
PRINCE EDWARD ISLAND		
Charlottetown	\$ 5,712	\$ 5,424
EUROPE		
The Netherlands	\$ 12,623	\$ 156
Total Residential Suites	\$ 608,146	\$ 567,276
MHC Land Lease Sites		
Ontario	\$ 17,362	\$ 17,181
British Columbia	1,419	1,107
Alberta	2,125	2,085
Saskatchewan	1,165	1,118
Prince Edward Island	873	861
New Brunswick	7,752	7,203
Total MHC Land Lease Sites	\$ 30,696	\$ 29,555
Total Residential Suites and MHC Land Lease Sites	\$ 638,842	\$ 596,831

Results of Operations

(\$ Thousands)

For the Year Ended December 31,

	2017	% ⁽¹⁾	2016	% ⁽¹⁾
Operating Revenues				
Net Rental Revenues	\$ 605,498	94.8	\$ 565,099	94.7
Other ⁽²⁾	33,344	5.2	31,732	5.3
Total Operating Revenues	\$ 638,842	100.0	\$ 596,831	100.0
Operating Expenses				
Realty Taxes	\$ (67,078)	10.5	\$ (65,462)	11.0
Utilities	(56,744)	8.9	(60,759)	10.2
Other ⁽³⁾	(121,762)	19.0	(103,663)	17.3
Total Operating Expenses	\$ (245,584)	38.4	\$ (229,884)	38.5
NOI	\$ 393,258	61.6	\$ 366,947	61.5

(1) As a percentage of total operating revenues.

(2) Comprises ancillary income such as parking, laundry and antenna revenue.

(3) Comprises R&M, wages, general and administrative, insurance, advertising, and legal costs.

Operating Revenues

For the year ended December 31, 2017, total operating revenues increased by 7.0% compared to last year, due to the contributions from acquisitions, increased same-property average monthly rents, and continuing high occupancies. As CAPREIT continues to enhance the profile of its resident base and increase the level of service to residents, it expects to realize further increases in operating revenues and ancillary revenues. Ancillary revenues, such as parking, laundry and antenna income, increased by 5.1% for the year ended December 31, 2017.

Estimated Net Rental Revenue Run-Rate

(\$ Thousands)

As at December 31,

	2017	2016
Residential Rent Roll ^{(1), (2)}	\$ 615,246	\$ 568,484
Commercial Rent Roll ^{(1), (2)}	22,596	22,134
Annualized Net Rental Revenue Run-Rate	\$ 637,842	\$ 590,618

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

(2) Includes rent roll for all properties owned as at December 31.

The table above shows the estimated net rental revenue run-rate (net of average historical vacancy loss, tenant inducements and bad debt) based on average monthly rents in place for CAPREIT's share of residential suites and sites as at December 31, 2017 and 2016. The estimated annualized net rental revenue run-rate improved by 8.0% to \$637.8 million from \$590.6 million, primarily as a result of acquisitions within the last twelve months and higher rents. Net rental revenue net of dispositions for the 12 months ended December 31, 2017 was \$605.0 million (2016 – \$561.9 million).

Operating Expenses

Overall operating expenses increased in the year ended December 31, 2017 compared to the prior year, primarily due to the increased size of the portfolio. However, total operating expenses as a percentage of revenues improved to 38.4% compared to 38.5% for the prior year.

Realty Taxes For the year ended December 31, 2017, realty taxes as a percentage of operating revenues improved to 10.5% compared to 11.0% for the prior year.

Utilities As a percentage of operating revenues, utility costs for the year ended December 31, 2017 improved to 8.9% compared to 10.2% for the prior year.

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

(\$ Thousands)

For the Year Ended

December 31,	2017	% ⁽¹⁾	2016	% ⁽¹⁾
Electricity	\$ 22,490	3.5	\$ 26,830	4.5
Natural Gas	15,584	2.4	15,712	2.6
Water	18,670	2.9	18,217	3.1
Total	\$ 56,744	8.9	\$ 60,759	10.2

(1) As a percentage of total operating revenues.

For the year ended December 31, 2017, electricity costs as a percentage of total operating revenues decreased to 3.5% compared to 4.5% for the prior year. In dollar terms, electricity costs for the year ended December 31, 2017 decreased compared to last year due to lower electricity rates, reduced

consumption, the positive impacts of energy-saving initiatives, sub-metering, and the Ontario provincial rebate for electricity effective as of January 1, 2017. As at December 31, 2017, tenants who pay their hydro charges directly represent 66% of the total 16,638 recently sub-metered suites in Ontario and Alberta.

For the year ended December 31, 2017, natural gas costs as a percentage of total operating revenues decreased to 2.4% compared to 2.6% for the prior year, primarily due to reduced rates.

The table below provides information on CAPREIT's fixed natural gas contracts for the fiscal years 2018, 2019, and 2020:

	Actual⁽²⁾ 2016	Actual 2017	Estimated 2018	Estimated 2019	Estimated 2020
Gas Commodity					
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 3.61	\$ 2.87	\$ 2.87	\$ 2.77	\$ 2.70
Total of CAPREIT's Actual/Estimated Requirements	66.2%	65.0%	64.4%	58.0%	41.7%
Transport					
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 1.59	\$ 1.36	\$ 1.05	\$ 0.97	\$ 0.96
Total of CAPREIT's Actual/Estimated Requirements	55.3%	75.3%	64.5%	58.1%	41.7%

(1) Fixed weighted average cost per gigajoule ("GJ") excludes other administrative costs.

(2) Based on actual fixed hedged gas commodity and transport costs per GJ. Also shown above is the actual percentage of utilized hedge contracts against actual total requirements.

Other Operating Expenses Other operating expenses, which include repairs and maintenance ("R&M") costs, wages and benefits, insurance and advertising, increased as a percentage of operating revenues for the year ended December 31, 2017 to 19.0% from 17.3% for the prior

year, due primarily to increased R&M expenses, site costs, and insurance expenses, offset by reductions in other expenses including wages and legal and collections.

NOI

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

The following table shows the NOI and the NOI margin attained for each regional market for the years ended December 31, 2017 and 2016.

For the Year Ended December 31, (\$ Thousands)	2017		2016		Increase (Decrease)		
	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
ONTARIO							
Greater Toronto Area	\$ 159,065	62.8	\$ 151,700	62.4	4.2	3.2	4.9
Ottawa	14,608	61.1	9,558	58.8	47.1	39.0	52.8
London / Kitchener / Waterloo	16,443	59.7	15,090	60.6	10.5	12.9	9.0
Other Ontario	16,367	60.6	15,257	59.5	5.3	2.4	7.3
	\$ 206,483	62.2	\$ 191,605	61.8	7.1	5.9	7.8
QUÉBEC							
Greater Montréal Region	\$ 53,073	56.9	\$ 52,472	56.9	1.2	1.2	1.2
Québec City	19,732	56.0	19,255	55.5	1.6	0.4	2.5
	\$ 72,805	56.6	\$ 71,727	56.5	1.3	1.0	1.5
BRITISH COLUMBIA							
Greater Vancouver Region	\$ 31,478	66.7	\$ 30,580	69.1	6.7	15.2	2.9
Victoria	14,975	70.1	14,186	71.6	7.9	13.7	5.6
	\$ 46,453	67.8	\$ 44,766	69.9	7.1	14.8	3.8
ALBERTA							
Edmonton	\$ 4,430	66.5	\$ 4,599	67.8	(1.7)	2.4	(3.7)
Calgary	16,431	58.3	17,311	59.6	(3.0)	0.1	(5.1)
	\$ 20,861	59.9	\$ 21,910	61.2	(2.8)	0.4	(4.8)
NOVA SCOTIA							
Halifax	\$ 13,115	60.0	\$ 12,588	60.9	5.6	7.9	4.2
SASKATCHEWAN							
Saskatoon	\$ 606	49.6	\$ 710	49.9	(14.0)	(13.3)	(14.7)
Regina	1,770	60.6	1,786	62.5	2.2	7.5	(0.9)
	\$ 2,376	57.3	\$ 2,496	58.3	(3.2)	(0.8)	(4.8)
PRINCE EDWARD ISLAND							
Charlottetown	\$ 2,807	49.1	\$ 2,716	50.1	5.3	7.3	3.4
EUROPE							
The Netherlands	\$ 9,288	73.6	\$ 127	81.3	8,042.6	11,400.0	7,269.8
Total Residential Suites	\$ 374,188	61.5	\$ 347,935	61.3	7.2	6.7	7.6
MHC Land Lease Sites							
Ontario	\$ 11,172	64.4	\$ 11,687	68.0	1.1	12.7	(4.4)
British Columbia	1,101	77.6	847	76.5	28.2	22.3	30.0
Alberta	1,322	62.2	1,405	67.4	1.9	18.1	(5.9)
Saskatchewan	758	65.1	771	69.0	4.2	17.3	(1.7)
Prince Edward Island	415	47.5	360	41.8	1.4	(8.6)	15.3
New Brunswick	4,302	55.5	3,942	54.7	7.6	5.8	9.1
Total MHC Land Lease Sites	\$ 19,070	62.1	\$ 19,012	64.3	3.9	10.3	0.3
Total Suites and Sites	\$ 393,258	61.6	\$ 366,947	61.5	7.0	6.8	7.2

For the year ended December 31, 2017, NOI increased by 7.2% and the NOI margin increased to 61.6% compared to 61.5% for last year due to increased operating revenues and lower utility costs as a percentage of operating revenues. The improvement in the NOI contribution was primarily the result of acquisitions, and higher operating revenues in certain regions of the portfolio in the current year. CAPREIT remains focused on continuing to further improve NOI and NOI margin through a combination of accretive and value-enhancing acquisitions, successful sales and marketing strategies to further 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 region, refer to the Stabilized Portfolio Performance section.

STABILIZED PORTFOLIO PERFORMANCE

For the Year Ended December 31, (\$ Thousands)	2017		2016		Increase (Decrease)		
	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
ONTARIO							
Greater Toronto Area	\$ 157,620	62.8	\$ 150,792	62.4	3.9	2.9	4.5
Ottawa	4,750	50.5	4,622	49.8	1.3	(0.1)	2.8
London / Kitchener / Waterloo	11,600	60.3	11,501	62.1	3.9	8.9	0.9
Other Ontario	16,367	60.6	15,257	59.5	5.3	2.4	7.3
	\$ 190,337	62.1	\$ 182,172	61.7	4.0	3.1	4.5
QUÉBEC							
Greater Montréal Region	\$ 52,336	57.2	\$ 50,690	57.1	3.0	2.6	3.3
Québec City	19,732	56.0	19,255	55.5	1.6	0.4	2.5
	\$ 72,068	56.9	\$ 69,945	56.6	2.6	2.0	3.0
BRITISH COLUMBIA							
Greater Vancouver Region	\$ 30,876	66.7	\$ 30,200	69.2	6.1	14.9	2.2
Victoria	14,661	70.3	14,125	71.7	5.9	11.2	3.8
	\$ 45,537	67.8	\$ 44,325	70.0	6.1	13.8	2.7
ALBERTA							
Edmonton	\$ 4,430	66.5	\$ 4,599	67.8	(1.7)	2.4	(3.7)
Calgary	16,431	58.3	17,311	59.6	(3.0)	0.1	(5.1)
	\$ 20,861	59.9	\$ 21,910	61.2	(2.8)	0.4	(4.8)
NOVA SCOTIA							
Halifax	\$ 12,273	59.9	\$ 12,335	60.8	0.9	3.2	(0.5)
SASKATCHEWAN							
Saskatoon	\$ 594	50.0	\$ 655	54.7	(0.7)	9.8	(9.3)
Regina	1,770	60.6	1,786	62.5	2.2	7.5	(0.9)
	\$ 2,364	57.5	\$ 2,441	60.2	1.4	8.3	(3.2)
PRINCE EDWARD ISLAND							
Charlottetown	\$ 2,700	49.2	\$ 2,686	50.4	3.0	5.6	0.5
Total Residential Suites	\$ 346,140	61.2	\$ 335,814	61.3	3.3	3.7	3.1
MHC Land Lease Sites							
Ontario	\$ 11,172	64.4	\$ 11,687	68.0	1.1	12.7	(4.4)
British Columbia	524	75.3	482	73.5	6.1	(1.2)	8.7
Alberta	1,322	62.2	1,405	67.4	1.9	18.1	(5.9)
Saskatchewan	758	65.1	771	69.0	4.2	17.3	(1.7)
Prince Edward Island	415	47.5	360	41.8	1.4	(8.6)	15.3
New Brunswick	4,302	55.5	3,942	54.7	7.6	5.8	9.1
Total MHC Land Lease Sites	\$ 18,493	61.7	\$ 18,647	64.1	3.0	9.8	(0.8)
Total Suites and Sites	\$ 364,633	61.2	\$ 354,461	61.5	3.3	4.0	2.9
Stabilized Suites and Sites	45,000		45,000				

Stabilized NOI represents NOI for properties owned by CAPREIT continuously for two years prior to the current annual reporting year end date. Stabilized properties for the year ended December 31, 2017 are defined as all properties owned by CAPREIT continuously since December 31, 2015, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2017 and 2016. As at December 31, 2017, stabilized suites and sites represent 91.0% of CAPREIT's total portfolio.

For the year ended December 31, 2017, operating revenues increased by 3.3% and operating costs increased by 4.0% compared to the prior year. As a result, Stabilized NOI increased by 2.9% for the year ended December 31, 2017.

For the year ended December 31, 2017, the NOI margin for properties acquired since December 31, 2015, was 66.2%.

Ontario

NOI for the stabilized Ontario portfolio increased by 4.5% during the year ended December 31, 2017 compared to the prior year, primarily due to higher operating revenues, lower utility expenses and vacancies partially offset by higher R&M costs. The NOI margin increased to 62.1% for the year ended December 31, 2017 compared to 61.7% for the prior year. Management believes the Ontario portfolio will remain strong and generate steady returns in the medium term. The rent guideline increase for 2018 has been set at 1.8%.

Québec

NOI for the stabilized Québec portfolio increased by 3.0% during the year ended December 31, 2017 compared to the prior year, primarily due to higher operating revenues and lower wage expenses partially offset by higher R&M costs. For the year ended December 31, 2017, the NOI margin increased to 56.9% compared to 56.6% for the prior year. CAPREIT believes the Québec rental market will remain stable and generate steady returns in the medium term.

British Columbia

NOI for the stabilized British Columbia portfolio increased by 2.7% during the year ended December 31, 2017 compared to the prior year, primarily due to higher operating revenues partially offset by higher R&M costs, wages and general administration costs. For the year ended December 31, 2017, the NOI margin decreased to 67.8% from 70.0% for the prior year. Management believes the British Columbia portfolio will continue to generate steady returns in the medium term. The rent guideline increase for 2018 has been set at 4.0%.

Alberta

NOI for the stabilized Alberta portfolio decreased by 4.8% during the year ended December 31, 2017 compared to last year, primarily due to lower operating revenues and higher R&M costs partially offset by lower vacancies and utilities. For the year ended December 31, 2017, the NOI margin decreased to 59.9% compared to 61.2% for the prior year. Management believes its well-located properties and CAPREIT's proven property management programs should help to stabilize performance in the province in the near term until the region returns to its historically robust rental market. In addition, with Alberta residential NOI representing only 6.1% of CAPREIT's total NOI, it is not overly exposed to any unanticipated significant downturn in the Alberta multi-unit residential rental business.

Nova Scotia

NOI for the stabilized Nova Scotia portfolio decreased by 0.5% for the year ended December 31, 2017 compared to the prior year, primarily due to higher operating revenues and lower utility costs partially offset by higher realty taxes, R&M and vacancies. For the year ended December 31, 2017, the NOI margin decreased at 59.9% from 60.8% for 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.

MHC Land Lease Sites

NOI for the stabilized MHC land lease sites portfolio decreased by 0.8% for the year ended December 31, 2017 compared to the prior year, primarily due to higher R&M expenses and lower other income partially offset by increases in operating revenues. For the year ended December 31, 2017, the NOI margin decreased to 61.7% from 64.1% for the prior year. Management believes its MHC land lease portfolio will continue to provide accretive growth in the long term.

The following table reconciles stabilized NOI and NOI for net acquisitions to total NOI for the year ended December 31, 2017 and 2016:

(\$ Thousands)

For the Year Ended December 31,	NOI		NOI	
	2017	Margin (%)	2016	Margin (%)
Stabilized NOI	\$ 364,633	61.2	\$ 354,461	61.5
Net Acquisitions NOI ⁽¹⁾	28,625	65.8	12,486	61.5
Total NOI	\$ 393,258	61.6	\$ 366,947	61.5

(1) Represents the NOI of acquisitions or dispositions completed during 2017 and 2016.

NET INCOME AND OTHER COMPREHENSIVE INCOME

(\$ Thousands)

For the Year Ended December 31,

	2017	2016
NOI	\$ 393,258	\$ 366,947
<i>(Less) Plus:</i>		
Trust Expenses	(32,569)	(32,122)
Unrealized Gain on Remeasurement of Investment Properties	626,953	227,335
Realized Loss on Disposition of Investment Properties	(488)	(1,813)
Remeasurement of Exchangeable Units	(852)	(731)
Unit-based Compensation Expenses	(26,074)	(19,897)
Interest on Mortgages Payable and Other Financing Costs	(117,145)	(112,426)
Interest on Bank Indebtedness and Other Financing Costs	(8,813)	(4,637)
Interest on Exchangeable Units	(186)	(200)
Other Income	22,921	17,236
Amortization	(4,434)	(4,249)
Unrealized and Realized Loss on Derivative Financial Instruments	(11,866)	(397)
Gain on Foreign Currency Translation	3,515	4,441
Net Income Before Income Taxes	\$ 844,220	\$ 439,487
Current and Deferred Income Tax Expense	(7,409)	(7)
Net Income	\$ 836,811	\$ 439,480
Other Comprehensive Income, Including Items That May Be Reclassified Subsequently to Net Income		
Amortization of Losses from AOCL to Interest and Other Financing Costs	\$ 3,024	\$ 3,105
Change in Fair Value of Derivative Financial Instruments	630	1,644
Change in Fair Value of Investments	4,957	3,109
Foreign Currency Translation	10,490	(5,914)
Other Comprehensive Income	19,101	1,944
Comprehensive Income	\$ 855,912	\$ 441,424

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, providing third-party property and asset management services, and other general and administrative expenses, net of amounts allocated to property operating expenses for properties owned by CAPREIT. Trust expenses increased for the year ended December 31, 2017 to \$32.6 million from \$32.1 million for last year due primarily to \$2.7 million in higher salaries, \$1.2 million in increased consulting fees, \$1.0 million more in information technology, and \$0.7 million in higher general expenses, with the residual increase in various other categories in 2017 partially offset by \$5.5 million related to transactions that were not completed in 2016. For the quarter and year ended 2017, trust expenses included over \$2.0 million and \$2.8 million, respectively, related to one-time items including non-executive reorganization severances incurred, set-up costs related to our Netherlands operations, and consulting costs.

Unrealized Gain on Remeasurement of Investment Properties

CAPREIT recognizes its investment properties at fair value at each reporting period, with any unrealized gain or loss 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 Properties

For the year ended December 31, 2017, a loss of \$0.5 million was recognized in connection with the property dispositions in the first quarter and fourth quarter of 2017. For the year ended December 31, 2016, a loss of \$1.8 million was recognized in connection with the property dispositions in second quarter of 2016. The loss represents the difference between the net proceeds after transaction costs from the disposition of each property compared to the fair value of the respective properties at the date of disposition.

Remeasurement of Exchangeable Units

CAPREIT accounts for its Exchangeable Units as a financial liability, remeasures such liability at each reporting period, and includes this remeasurement in the consolidated statements of income and comprehensive income. The increase in the market price of the underlying CAPREIT Trust Units since the prior reporting date resulted in a loss on remeasurement of \$0.9 million for the year ended December 31, 2017 compared to \$0.7 million last year. A description of the key components of the remeasurement of Exchangeable Units is included in note 11 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2017, contained in CAPREIT's 2017 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 11 and 12 in CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2017, contained in CAPREIT's 2017 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 classified 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 at fair value. In such cases, the related expense is limited to the amortization of the fair value on grant date of the award over the applicable vesting period.

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

As at December 31, 2017, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 9,500,000 Units (December 31, 2016 – 9,500,000). The maximum number of Units available for future issuance under all Unit incentive plans as at December 31, 2017 is 1,077,977 Units (December 31, 2016 – 1,346,980 Units).

A description of the key components of the market-based rates and assumptions used to determine the fair values of the awards is included in notes 11 and 12 to CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2017, contained in CAPREIT's 2017 Annual Report.

CAPREIT's Unit-based compensation expense for the year ended December 31, 2017 resulted in a loss of \$26.1 million compared to \$19.9 million for last year, primarily due to the higher increase in the market price of the underlying CAPREIT Trust Units in 2016 and \$1.6 million of accelerated vesting in previously-granted RUR units in 2017 compared to 2016. The table below demonstrates the impact of each component of CAPREIT's plans on the total compensation expense.

(\$ Thousands)

For the Year Ended December 31,	2017	2016
Remeasurement of Unit-based Compensation Liabilities	\$ 18,934	\$ 14,217
Amortization of Fair Value on Grant Date of Unit-based Compensation	7,140	5,680
Total	\$ 26,074	\$ 19,897

Interest on Mortgages Payable and Other Financing Costs

Interest on mortgages, which includes the amortization of certain financing costs, increased for the year ended December 31, 2017 to \$117.1 million from \$112.4 million for last year, due primarily to increased mortgage top-ups in 2017. As a percentage of operating revenues, mortgage interest expense decreased slightly to 18.3% for the year ended December 31, 2017 compared to 18.8% for last year due to refinancing of mortgages at lower interest rates and higher operating revenues from stabilized properties and acquisitions. Additional information on the interest on mortgages payable and other financing costs is included in note 20 to the accompanying audited consolidated annual financial statements and the Liquidity and Financial Condition section of this report.

Interest on Bank Indebtedness and Other Financing Costs

Interest on bank indebtedness relates to borrowings under the Credit Facilities (see Liquidity and Financial Condition discussion) and costs related to non-controlling interest of a shareholder in CAPREIT's foreign subsidiaries. Additional information on non-controlling interest costs is included in note 20 to the accompanying audited consolidated annual financial statements.

Other Income

Other income primarily consists of dividends received from investments (see note 7 to the accompanying audited consolidated annual financial statements), income from investment in associate, gains realized on the sale of investments, and asset management and property management fees.

(\$ Thousands)

For the Year Ended December 31,	2017	2016
Recurring		
Investment Income	\$ 1,341	\$ 1,304
Net Profit from Equity-Accounted Investment ⁽¹⁾	15,345	10,600
Asset and Property Management Fees	6,173	5,195
Non-Recurring	62	137
Total	\$ 22,921	\$ 17,236

(1) Includes unrealized gain on remeasurement of IRES investment properties of \$9,707 and \$6,021 for the years ended December 31, 2017 and December 31, 2016, respectively.

Effective April 11, 2014, CAPREIT entered into an external management agreement, as amended from time to time, to perform asset management and property management services for IRES, which owns properties in Dublin, Ireland. Asset management and property management fees included in Other Income for the year ended December 31, 2017 are \$6.2 million compared to \$5.2 million in the prior year. Expenses related to the asset management and property management services are included in Trust expenses for the year ended December 31, 2017.

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.

Unrealized and Realized Gain on Derivative Financial Instruments

- i) Interest rate contracts for which hedge accounting is not being applied:* As at December 31, 2017, CAPREIT has an interest rate swap agreement: \$65 million interest rate swap agreement fixing the interest rate at 3.60%, which matures in September 2022. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a ten-year term. The related floating rate credit facility is for a five-year term. The credit facility was amended effective June 30, 2016 and expires on June 30, 2021. On expiry of the term it is expected to be refinanced to match the term of the interest rate swap. The hedge became ineffective in July 2017. The ineffective portion was recognized in net income (the ineffective gain component of the hedge of \$1,921 thousand for the year ended December 31, 2017), and recorded under derivative financial instruments on the consolidated statements of income and comprehensive income for the year ended December 31, 2017. The accumulated loss recorded in AOCL will be amortized in the consolidated statements of income from AOCL over the remaining term of the credit facility.
- ii) Interest rate contracts for which hedge accounting is not being applied:* CAPREIT entered into a cross currency swap to (i) hedge a US-based loan of USD \$186,436 into euros of €163,540 effective July 2017 and (ii) convert the variable interest rate on the US-based loan of LIBOR plus 1.65% to a fixed interest rate of EURIBOR plus 1.65% equalling 1.20% and maturing in June 2019. The US-based loan was drawn from the Acquisition and Operating Facility in July 2017. The loss on the hedge has been recorded under loss on derivative financial instruments on the consolidated statements of income and comprehensive income for the year ended December 31, 2017 of \$14.0 million and the cumulative mark-to-market loss of \$14.0 million is in other non-current liabilities as at December 31, 2017.

- iii) Interest rate contracts for which hedge accounting was not being applied:* The €40 million interest rate swap agreement effective April 21, 2014, fixed the interest rate at 2.87% (assuming a constant margin of 1.65% per annum), which matures in August 2018. The €40,000 interest rate swap agreement was settled in July 2017. This agreement effectively converted borrowings on a EURIBOR-based floating rate credit facility to a fixed rate facility for a five-year term. At each reporting date, the hedging derivative was marked-to-market in net income (\$0.2 million unrealized gain for the year ended December 31, 2017).

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

Gain on Foreign Currency Translation

For the year ended December 31, 2017, CAPREIT recognized a gain on foreign exchange of \$3.5 million compared to a gain of \$4.4 million for the year ended December 31, 2016. The gain on foreign currency translation recognized in the consolidated statement of income primarily represents the foreign exchange translation on the US LIBOR and euro LIBOR borrowings for the investment in Ireland and The Netherlands. The combination of cross-currency swap (as indicated above) with the US LIBOR borrowing economically represents a fixed euro-based borrowing where the mark-to-market on the cross-currency swap is recorded under loss on derivative financial instruments on the Consolidated Statements of Income and Comprehensive Income. CAPREIT does not apply hedge accounting for its investment in Ireland and The Netherlands against the US LIBOR and euro LIBOR borrowings and cross-currency swap related to it; therefore, the accounting results may differ from the naturally offsetting asset and liability exposures to foreign exchange. The foreign exchange gain or loss on the investment in Ireland and The Netherlands relating to these borrowings is recorded in other comprehensive income.

CAPREIT's Netherlands subsidiary owns and operates properties in The Netherlands, a foreign jurisdiction. It is exposed to foreign currency fluctuations arising between the functional currency of the foreign operation (the euro) and the functional currency of CAPREIT (the Canadian dollar). As such, CAPREIT entered into a hedge effective at the date of The Netherlands acquisition (December 23, 2016). CAPREIT hedged the net investment in The Netherlands foreign operations with €22.5 million euro-denominated debt on CAPREIT's consolidated balance sheets. Any foreign currency gains/losses arising from the euro-denominated debt was offset by the foreign currency gain/loss arising from the investment in The Netherlands foreign operations. The effective portion of foreign exchange gains and losses on the €22.5 million euro-denominated debt was recognized in other comprehensive income ("OCI") and the ineffective portion was recognized in net income. The hedge became ineffective July 2017 when the euro LIBOR borrowing was repaid.

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:

(Thousands)	Weighted Average Number of Units		Outstanding
	2017	2016	Number of Units 2017
For the Year Ended December 31,			
Trust Units	135,549	130,372	136,912
Exchangeable Units ⁽¹⁾	146	161	131
Units under the DUP ⁽²⁾	267	261	260
Basic Number of Units	135,962	130,794	137,303
Plus:			
Dilutive Units under the LTIP ^{(2), (3)}	397	431	470
Dilutive Units under the SELTIP ^{(2), (3)}	344	311	555
Unit Rights under the RUR Plan ⁽²⁾	826	701	524
Dilutive Unexercised Options under the UOP ^{(2), (4)}	299	245	— ⁽⁵⁾
Diluted Weighted Average Number of Units	137,828	132,482	138,852

(1) See note 11 to the accompanying audited consolidated annual financial statements for details of Exchangeable Units.

(2) See notes 11 and 12 to the audited consolidated annual financial statements for the year ended December 31, 2017 contained in CAPREIT's 2017 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 audited consolidated annual financial statements).

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

(5) There are 1,263,962 unexercised options outstanding under the UOP.

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

(\$ Thousands)

For the Year Ended December 31,	2017	2016
Distributions Declared on Trust Units	\$ 173,072	\$ 161,483
Distributions Declared on Exchangeable Units	186	200
Distributions Declared on Awards Outstanding Under Unit-based Compensation Plans ⁽¹⁾	2,766	2,730
Total Distributions Declared	176,024	164,413
Less:		
Distributions on Trust Units Reinvested	(51,305)	(51,780)
Distributions on Unit Awards Reinvested ⁽¹⁾	(2,766)	(2,730)
Net Distributions Paid	\$ 121,953	\$ 109,903
Percentage of Distributions Reinvested	30.7%	33.2%

(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 11 and 12 to CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2017 contained in CAPREIT's 2017 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. Reinvestments pursuant to the DRIP will increase

the total number of Units outstanding overtime, which may result in upward pressure on the total amount of net distributions paid if those participants do not elect to join the DRIP or choose cash distributions.

The average participation rate in the DRIP and other plans under which distributions are reinvested decreased for the year ended December 31, 2017 to 30.7% from 33.2% for the prior year. The DRIP participation rate is subject to factors beyond Management's control and varies between investors.

Distributions declared on Units outstanding under the Unit-based compensation plans in these tables are based on all awards granted under the RUR Plan, DUP, LTIP and SELTIP (see notes 12 and 13 to the accompanying audited consolidated annual financial statements for a discussion of these plans). When establishing the level of monthly cash distributions to Unitholders, the Board of Trustees relies on cash flow information, including forecasts and budgets.

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 ("REALpac"), with the exception of the adjustment for 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.

As noted in the Future Accounting Changes section of this MD&A, CAPREIT intends to adopt the new standard IFRS 9 – Financial Instruments ("IFRS 9") on the required effective date of January 1, 2018. One impact of adopting this new standard is that the unrealized gains or losses on available-for-sale marketable securities will be included in IFRS net income, whereas they are recorded in other comprehensive income in 2017 and prior years consolidated financial statements. Based on the FFO definition currently set forth by REALpac, which was revised in April 2014 and restated in February 2017, the unrealized gains or losses on available-for-sale marketable securities would be included in FFO effective January 1, 2018. However, CAPREIT believes that including such unrealized gains or losses on available-for-sale marketable securities in FFO does not represent the recurring operating performance of CAPREIT. As a result of the adoption of IFRS 9, effective January 1, 2018, CAPREIT's method of calculating FFO will be in compliance with REALpac's definition of FFO with the exception of (i) the adjustment for unrealized gains or losses on available-for-sale marketable securities in its calculation of FFO and (ii) the adjustment for amortization of certain other assets consistent with prior years.

Payout ratios compare total distributions declared and net distributions paid to these non-IFRS financial measures.

A reconciliation of net income to FFO is as follows:

(\$ Thousands, except per Unit amounts)

For the Year Ended December 31,

	2017	2016
Net Income	\$ 836,811	\$ 439,480
Adjustments:		
Unrealized Gain on Remeasurement of Investment Properties	(626,953)	(227,335)
Realized Loss on Disposition of Investment Properties	488	1,813
Remeasurement of Exchangeable Units	852	731
Remeasurement of Unit-based Compensation Liabilities	18,934	14,217
Interest on Exchangeable Units	186	200
Corporate and Deferred Income Taxes	7,409	7
Gain on Foreign Currency Translation	(3,515)	(4,441)
FFO Adjustment for Income from Equity-Accounted Investments ⁽¹⁾	(9,707)	(6,021)
Unrealized and Realized Loss on Derivative Financial Instruments	11,866	397
Net FFO Impact Attributable from Non-Controlling Interest	4,718	(68)
Amortization of Property, Plant and Equipment	4,434	4,249
FFO	\$ 245,523	\$ 223,229
FFO per Unit – Basic	\$ 1.806	\$ 1.707
FFO per Unit – Diluted	\$ 1.781	\$ 1.685
Total Distributions Declared	\$ 176,024	\$ 164,413
FFO Payout Ratio	71.7%	73.7%
Net Distributions Paid	\$ 121,953	\$ 109,903
Excess FFO over Net Distributions Paid	\$ 123,570	\$ 113,326
FFO Effective Payout Ratio	49.7%	49.2%

(1) Included in Other Income in the consolidated statements of income and comprehensive income.

Normalized Funds From Operations

Management considers NFFO to be the key measure of CAPREIT's operating performance. NFFO is calculated by excluding from FFO the effects of certain non-recurring items, including amortization of losses on certain hedging instruments previously settled and paid, mortgage prepayment penalties, offset by the write-off of fair value adjustments on assumed mortgages that were refinanced early, accelerated vesting of previously-granted RUR units, and large acquisition research costs relating to transactions that were not completed. As it is an operating performance

metric, no adjustment is made to NFFO for capital expenditures. NFFO facilitates better comparability to prior year's performance and provides a better indicator of CAPREIT's long-term operating performance. For further information on CAPREIT's total property capital investments, please refer to the "Property Capital Investments" section. See the discussions under the Net Income section in this MD&A for additional information on hedging instruments currently in place. NFFO is not a measure of sustainability of distributions.

A reconciliation of FFO to NFFO is as follows:

(\$ Thousands, except per Unit amounts)

For the Year Ended December 31,

	2017	2016
FFO	\$ 245,523	\$ 223,229
Adjustments:		
Amortization of losses from AOCL to interest and other financing costs	3,023	3,105
Net Mortgage Prepayment Cost	324	-
Acquisition Research Costs ⁽¹⁾	-	5,474
Other Employee Costs ⁽²⁾	1,604	-
NFFO	\$ 250,474	\$ 231,808
NFFO per Unit – Basic	\$ 1.842	\$ 1.772
NFFO per Unit – Diluted	\$ 1.817	\$ 1.750
Total Distributions Declared	\$ 176,024	\$ 164,413
NFFO Payout Ratio	70.3%	70.9%
Net Distributions Paid	\$ 121,953	\$ 109,903
Excess NFFO over Net Distributions Paid	\$ 128,521	\$ 121,905
Effective NFFO Payout Ratio	48.7%	47.4%

(1) Expenses included in trust expenses relates to transactions that were not completed.

(2) Expenses included in Unit-based compensation expenses relate to accelerated vesting of previously-granted RUR Units.

NFFO for the year ended December 31, 2017 increased by 8.1% compared to last year, primarily due to the contribution from acquisitions, and higher NOI for properties owned prior to December 31, 2016.

For the year ended December 31, 2017, basic NFFO per Unit increased by 4.0% compared to last year, despite an approximate 4.0% increase in the weighted average number of Units outstanding, offset by strong organic NOI growth and contributions from acquisitions. Management expects per Unit FFO and NFFO and related payout ratios to strengthen further in the

medium term as a result of NOI contributions from recent acquisitions.

Comparing total distributions declared to NFFO, the NFFO payout ratio for the year ended December 31, 2017 improved to 70.3% compared to 70.9% for last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, increased for the year ended December 31, 2017 to 48.7% from 47.4% for the prior year, both well within CAPREIT's annual target. CAPREIT anticipates a long-term annual NFFO payout ratio in the 70% to 80% range.

Adjusted Cash Flows From Operations and Distributions Declared

As a measure of economic cash flows, CAPREIT calculates Adjusted Cash Flows from Operations ("ACFO") using guidelines from the recently published whitepaper by REALpac, "White Paper on Adjusted Cashflow From Operations (ACFO) for IFRS" dated February, 2017. As a result, CAPREIT no longer presents adjusted FFO, which was a previously presented Non-IFRS measure. CAPREIT's method of calculating adjusted FFO may have differed from that of other real estate entities and, accordingly, may not have been comparable to such amounts reported by other issuers in prior quarters. Management did not rely on adjusted FFO to operate the business of CAPREIT, plan CAPREIT's capital spending or determine CAPREIT's distributions, or the sustainability of such distributions.

There may be periods where actual distributions declared may exceed ACFO due to weaker performance in certain periods from seasonal

fluctuations, regional market volatility, or from year to year based on the timing of property capital investments and the impact of acquisitions. These fluctuations are funded, if necessary, with CAPREIT's Acquisition and Operating Facility.

ACFO is a measure of economic cash flow based on the operating cash flows generated by the business adjusted to deduct items such as interest expense, non-discretionary capital expenditures as described below, capitalized leasing costs, tenant improvements, and amortization of other financing costs, partially offset by investment income. ACFO as calculated by CAPREIT is in accordance with the corresponding definition recommended by REALpac, with the exception of the adjustment for investment income. It may not, however, be comparable to similar measures presented by other real estate trusts or companies in similar or different industries.

The following table reconciles cash generated from operating activities (per consolidated financial statements) to ACFO:

(\$ Thousands, except per Unit amounts)

For the Year Ended December 31,

	2017	2016 ⁽⁵⁾
Cash Generated From Operating Activities	\$ 358,941	\$ 357,360
Adjustments: ⁽¹⁾		
Interest expense included in cash flow from financing activities	(111,138)	(109,097)
Non-Discretionary Property Capital Investments ⁽²⁾	(38,724)	(58,501)
Capitalized Leasing Costs ⁽³⁾	(3,124)	(3,679)
Tenant Improvements	(110)	(559)
Amortization of Other Financing Costs ⁽⁴⁾	(5,689)	(4,674)
Non-controlling Interest	(184)	(1)
Investment Income	8,478	4,519
ACFO	\$ 208,450	\$ 185,368
Total Distributions Declared	\$ 176,024	\$ 164,413
Excess (Deficit) ACFO Over Distributions Declared	\$ 32,426	\$ 20,955
ACFO Payout Ratio	84.4%	88.7%

- (1) Changes in working capital have not been adjusted in the ACFO calculation on the basis that the changes in prepaids, receivables, deposits, accounts payables and other liabilities, security deposits, and other non-cash operating assets and liabilities are considered normal course of operating the company.
- (2) Based on the actual 2017 and 2016 Non-Discretionary Property Capital Investments per suite and site multiplied by the weighted average number of residential suites and sites during the period. The Non-Discretionary Property Capital Investments per suite and site for 2017 and 2016 on an annual basis is \$802 and \$1,251, respectively, applied equally throughout the year. The weighted average number of residential suites and sites for year ended December 31, 2017 and 2016 is 48,307 and 46,780, respectively.
- (3) Comprises tenant inducements and direct leasing costs.
- (4) Includes amortization of deferred financing costs, CMHC premiums, deferred loan costs and fair value adjustments.
- (5) Amounts presented for the year ended December 31, 2016 and year ended December 31, 2017, have been presented in accordance with the calculation of ACFO described above and are not comparable to other measures such as adjusted FFO presented in prior periods.

For the year ended December 31, 2017, CAPREIT's 2017 actual non-discretionary property capital investments of \$38.7 million were lower than the 2017 forecast non-discretionary property capital by approximately \$18.5 million. The reasons for the variance are mainly related to deferral of certain structural and roof projects, and certain programs that were completed under the forecasted costs.

Significant non-discretionary property capital investment programs are usually completed within three to five years. Actual completion of such projects may differ from the forecasted timelines as they are longer term in nature and professional judgement is applied to forecast completion dates. The projects deferred in 2017 are expected to be completed in the near term, and will be appropriately included in the forecast.

For the year ended December 31, 2017, CAPREIT's ACFO exceeded distributions by \$32.4 million compared to \$21.0 million for the same period

last year. The increase in the current year relates to lower non-discretionary property capital investments required.

Management does not differentiate between maintenance and value-enhancing property capital investments. Maintenance property capital investments are generally not clearly identifiable, nor do they have a common definition and would require significant judgement to classify property capital investments as maintenance or value-enhancing capital investments. In addition, there is no generally accepted definition of maintenance capital investments in the Canadian real estate industry. As a result, Management does not differentiate between maintenance and value-enhancing, and has instead determined to classify property capital investments into two categories: discretionary and non-discretionary. Management is of the view that this classification, while still requiring a degree of professional judgement, provides a better measure of economic cash flows.

Non-discretionary Property Capital Investments are those investments Management believes are essential for the safety of residents and to ensure the structural integrity of the properties. These investments may enhance the property's operating effectiveness including its profitability through increases in revenues or reduction in costs over the long-term. Included in non-discretionary capital expenditures are items such as building improvements, which include items such as roof, structural, balcony, sidewalks, windows, brick, electrical, MHC infrastructure investments, and fire safety. Management uses its professional judgement to include other capital expenditure categories that could impact the safety of residents. These Non-discretionary Property Capital Investments are in addition to regular R&M costs, which have historically averaged in the range of \$800 to \$850 per residential suite annually and are expensed

to NOI. Repairs and maintenance costs incurred during the year 2017 of close to \$1,100 per suite were above the expected annual run rate of between \$800 to \$850 per suite, as many programs were accelerated during the year.

Discretionary Property Capital Investments are capital expenditures made to the property that are not essential to operation of the business in the short-term. These investments may enhance the property's operating effectiveness, including its profitability through increases in revenues or reduction in costs over the long-term. Included in discretionary capital expenditures are items such as suite improvements, common area, energy-saving initiatives, equipment, boilers, elevators, and appliances.

The following table reconciles the actual 2017, 2016, and 2015 Non-Discretionary Property Capital Investments per suite and site:

(\$ Thousands, except per Unit amounts)

	2017	2016	2015
Non-Discretionary Property Capital Investments ⁽¹⁾	\$ 38,724	\$ 58,501	\$ 57,307
Discretionary Property Capital Investments ^{(1), (2)}	112,743	133,295	103,743
Total Property Capital Investments ⁽²⁾	\$ 151,467	\$ 191,796	\$ 161,050
Non-Discretionary Property Capital Investments	\$ 38,724	\$ 58,501	\$ 57,307
Weighted Average Number of Suites and Sites	48,307	46,780	41,990
Non-Discretionary Property Capital Investments per Suite and Site	\$ 802	\$ 1,251	\$ 1,365

(1) See Property Capital Investments section for further details.

(2) Excludes property capital investments relating to development and intensification.

To compute Non-discretionary Property Capital Investments under ACFO, Non-discretionary Property Capital Investments per suite and site is multiplied by that period's weighted average number of suites and sites. Non-discretionary Property Capital Investments reflects forecasted or actual investments incurred and is applied equally throughout the year.

The 2017 Non-discretionary Property Capital Investments has decreased compared to the amount reported in the prior quarter, mainly due to certain deferred capital expenditure initiatives.

CAPREIT's capital investments programs are affected by seasonal cycles, therefore actual and forecasted capital investments may differ during the applicable periods. As such, the forecasted Non-Discretionary Property Capital Investments per suite and site by quarter is subject to change based on revisions to that year's forecast in subsequent quarters.

As indicated by National Policy 41-201, "Income Trusts and Other Indirect Offerings", the following table quantifies cash generated from operating activities net of interest expense included in cash flow from financing activities.

(\$ Thousands, except per Unit amounts)

Year Ended December 31,

	2017	2016
Cash Generated From Operating Activities	\$ 358,941	\$ 357,360
Adjustments		
Interest expense included in cash flow from financing activities	(111,138)	(109,097)
Adjusted Cash Generated from Operating Activities	\$ 247,803	\$ 248,263
Total Distributions Declared	\$ 176,024	\$ 164,413
Excess	\$ 71,779	\$ 83,850

The following table outlines the differences between adjusted cash generated from operating activities and total distributions declared, as well as the differences between net income and total distributions, in accordance with the guidelines.

(\$ Thousands, except per Unit amounts)

For the Year Ended December 31,

	2017	2016
Net Income	\$ 836,811	\$ 439,480
Adjusted Cash Generated from Operating Activities	\$ 247,803	\$ 248,263
Total Distributions Declared	\$ 176,024	\$ 164,413
Net Distributions Paid	\$ 121,953	\$ 109,903
Excess of Net Income over Total Distributions Declared	\$ 660,787	\$ 275,067
Excess of Net Income over Net Distributions Paid	\$ 714,858	\$ 329,577
Excess of Adjusted Cash Generated from Operating Activities over Total Distributions Declared	\$ 71,779	\$ 83,850
Excess of Adjusted Cash Generated from Operating Activities over Net Distributions Declared	\$ 125,850	\$ 138,360

CAPREIT does not use net income as a basis for distributions as it includes fair value changes on investment properties, remeasurement of Unit-based compensation liabilities, and fair value change on derivative financial instruments, which are not reflective of CAPREIT's ability to make distributions. Amounts retained in excess of the declared distributions are used for mortgage principal repayments, tenant allowances, and capital expenditure requirements.

For the year ended December 31, 2017, CAPREIT's Adjusted Cash Generated from Operating Activities exceeded distributions declared by \$71.8 million compared to \$83.9 million for the same period last year. As

per OSC Staff Notice 51-724, distributions in excess of Adjusted Cash Generated from Operating Activities represents a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated from CAPREIT's continuing operations during the period.

Management ensures there is adequate overall liquidity through: (i) ACFQ; (ii) mortgage debt secured by its investment properties; (iii) secured short-term debt financing with three Canadian chartered banks; and (iv) equity financing to fund repairs and maintenance expenditures and property capital investment commitments and distributions to Unitholders and to provide for future growth in the business, primarily through acquisitions.

SECTION IV

PROPERTY CAPITAL INVESTMENTS

CAPREIT capitalizes all capital investments related to the improvement of its properties. These investments have the objective of growing future NOI, increasing property value over the long term, ensuring life safety and safeguarding of assets.

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

To achieve its property capital investment objectives, taking into account CAPREIT's acquisition history, recent soft economic conditions and the availability of competitive pricing from construction trades at the time, in 2009, CAPREIT formulated and embarked on a multi-year capital investment plan that accelerates spending on planned building improvement programs, including upgrading parking garages, balconies and other structural improvements. These investments are closely connected to CAPREIT's property acquisitions, many of which were anticipated at the time of such acquisitions and were included in the acquisition analysis, to ensure such transactions are accretive. Management believes these

investments will increase the productive capacity, the useful economic life and the operating capabilities of CAPREIT's properties and enhance their future cash flow generating potential. Management also believes these building improvement programs, combined with existing suite improvement, common area and environment-friendly and energy-saving initiatives, will enable CAPREIT to reposition its portfolio and maintain relatively high occupancy levels throughout any unfavourable economic conditions. These investments are expected to continue to increase average monthly rents relative to market condition while improving life safety and resident satisfaction. Management believes strategic investments will position the portfolio for improved operating performance over the long term.

For the year ended December 31, 2017, CAPREIT made property capital investments (excluding head office assets) of \$156.8 million, compared to \$195.7 million for last year. Overall property capital investments were comparable to the prior year with stabilized properties lower at \$100.4 million compared to \$119.4 million in the prior year, offset by higher investments in acquisitions completed over the past five years. Energy-saving initiatives and suite and common area improvement costs generally tend to increase NOI more quickly compared to other capital investment categories.

CAPREIT continues to invest in environment-friendly and energy-saving initiatives, including high-efficiency boilers, energy-efficient lighting systems and water saving programs, which have permitted CAPREIT to mitigate potential increases in utility and R&M costs and have

improved overall portfolio NOI significantly, as discussed in the Results of Operations section.

A breakdown of property capital investments (excluding head office assets) is summarized by category below:

Property Capital Investments by Category

(\$ Thousands)

Year Ended December 31, 2017	Stabilized ^{(1), (3)}	Net Acquisitions ⁽²⁾	Total	%
Non-discretionary Property Capital Investments:				
Building Improvements	18,811	16,854	35,665	22.7
MHC Land Lease Sites	1,474	964	2,438	1.6
Fire Safety	369	252	621	0.4
	20,654	18,070	38,724	24.7
Discretionary Property Capital Investments:				
Suite Improvements	34,242	17,328	51,570	32.9
Common Area	21,021	5,321	26,342	16.8
Energy-saving Initiatives	2,286	759	3,045	1.9
Equipment	9,562	2,646	12,208	7.8
Boilers and Elevators	8,812	5,720	14,532	9.3
Appliances	3,654	1,292	4,946	3.2
	79,577	33,066	112,643	71.9
	100,231	51,136	151,367	96.6
Development:				
Intensification	856	2,660	3,516	2.2
Development	–	1,925	1,925	1.2
	856	4,585	5,441	3.4
Total	101,087	55,721	156,808	100.0

Year Ended December 31, 2016	Stabilized ^{(1), (3)}	Net Acquisitions ⁽²⁾	Total	%
Non-discretionary Property Capital Investments:				
Building Improvements	28,844	28,086	56,930	29.1
MHC Land Lease Sites	151	589	740	0.4
Fire Safety	497	334	831	0.4
	29,492	29,009	58,501	29.9
Discretionary Property Capital Investments:				
Suite Improvements	37,549	17,502	55,051	28.1
Common Area	23,078	12,593	35,671	18.2
Energy-saving Initiatives	2,008	1,510	3,518	1.8
Equipment	8,443	6,304	14,747	7.5
Boilers and Elevators	12,807	5,997	18,804	9.7
Appliances	3,427	2,077	5,504	2.8
	87,312	45,983	133,295	68.1
	116,804	74,992	191,796	98.0
Development:				
Intensification	2,496	1,450	3,946	2.0
Total	119,300	76,442	195,742	100.0

(1) Properties owned as of December 31, 2012, excluding disposed properties.

(2) Includes properties acquired and disposed of since December 31, 2012.

(3) Comprises 35,040 residential suites and sites as at December 31, 2012.

CAPREIT's capital investments programs are affected by seasonal cycles, and professional judgement used by management to determine timing of property capital investments, therefore actual and forecasted capital investments may differ during the applicable periods. The 2017 Actual figures decreased for Non-discretionary Property Capital Investments, Discretionary Property Capital Investments and Development compared to the amount forecasted in the prior quarter. These decreases are due to the change in timing and scope of existing capital investment projects, while the Development Forecast is lower primarily due to Management's revised expectation of processing time for development applications. The regulatory and application processing is subject to factors beyond Management's control and varies between projects.

The significant portfolio growth generated since 2011 has led CAPREIT to adjust its multi-year capital investment programs, as acqui-

sitions are expected to have major capital expenditures within the first five years of purchase. Based on a revised multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments (excluding development and intensification) of approximately \$175 million to \$185 million in 2018, including approximately \$50 million targeted at acquisitions completed since January 1, 2014, and approximately \$25 million for high-efficiency boilers and other energy-saving initiatives.

The table below includes estimated 2018 capital expenditures for intensification for buildings expected to be completed in 2018. It also presents development costs for 2018, which include costs related to planning, rezoning, architectural surveys, application fees, and building permits. The following budgeted capital expenditures may vary from actuals as the planned expenditures may be accelerated or adjusted as necessary.

2018 Capital Expenditure Budget

(\$ Thousands)

Investment Properties	Net		Total	%
	Stabilized ⁽¹⁾	Acquisitions ⁽²⁾		
Non-discretionary Property Capital Investments:				
Building Improvements	39,600	13,500	53,100	26.3%
MHC Land Lease Sites	3,500	200	3,700	1.8%
Fire Safety	1,000	700	1,700	0.8%
	44,100	14,400	58,500	28.9%
Discretionary Property Capital Investments:				
Suite Improvements	31,500	10,400	41,900	20.7%
Common Area	29,900	9,200	39,100	19.3%
Energy-saving Initiatives	3,800	1,100	4,900	2.4%
Equipment	10,300	2,400	12,700	6.3%
Boilers and Elevators	17,400	7,700	25,100	12.4%
Appliances	4,900	1,200	6,100	3.0%
	97,800	32,000	129,800	64.1%
Development				
Intensification	3,600	1,900	5,500	2.7%
Development	8,400	–	8,400	4.3%
Total Development	12,000	1,900	13,900	7.0%
Total Capital Expenditures	153,900	48,300	202,200	100.0%

(1) Properties owned as of December 31, 2013 excluding disposed properties.

(2) Includes properties acquired and disposed of since December 31, 2013.

Set out in the next table is Management's current estimate, established through consultation with an independent engineering firm, of CAPREIT's investments in building improvements, including investments to MHC land lease sites, for 2018 through 2021 for properties owned as of December 31, 2017.

Future Investments in Building Improvements

(\$ Thousands)

	Stabilized⁽¹⁾ Estimated Range	Acquisitions⁽²⁾ Estimated Range
2018	\$ 36,000 – \$ 40,000	\$ 15,000 – \$ 19,000
2019	\$ 20,000 – \$ 24,000	\$ 6,000 – \$ 10,000
2020	\$ 16,000 – \$ 20,000	\$ 4,000 – \$ 8,000
2021	\$ 6,000 – \$ 10,000	\$ 1,000 – \$ 4,000

(1) Properties owned as of December 31, 2012 excluding disposed properties.

(2) Includes properties acquired since December 31, 2012.

Management believes CAPREIT has sufficient liquidity (see the Liquidity and Financial Condition section) to execute the above property capital investment strategy.

The following table presents the weighted average NOI growth from 2013 through 2017, reflecting a segregation of the portfolio based on the amount of capital investment per suite. For example, for each year, properties with the highest capital investment per suite were included in the first quartile, and properties with the lowest capital investment per suite were included

in the fourth quartile. NOI growth was measured for those properties by quartile for the year following the year in which the capital investments were made, with the assumption that capital investments are undertaken throughout the year and the impact on NOI could reasonably be measured in the following year. A simple average was calculated covering each of the last five years. To compute the results on a stabilized basis, only those properties owned prior to 2012 and held as at December 31, 2017 were included in the analysis.

Average NOI Growth by Level of Property Capital Investment Per Suite

Quartile	Number of Properties	Average Number of Suites	% of Total Capital Investments⁽¹⁾	Weighted Average NOI Growth⁽²⁾
1st	43	8,944	58.3%	3.0%
2nd	44	8,959	25.1%	3.8%
3rd	44	7,958	11.8%	4.2%
4th	44	7,734	4.8%	3.3%
	175	33,595	100.0%	3.6%

(1) As a percentage of total property capital investments over the five-year period to December 31, 2017.

(2) Weighted based on NOI

1st and 2nd quartiles have relatively higher non-discretionary capital investments and higher capital investments in Alberta and Nova Scotia regions as percentage of capital investments compared to the 3rd and

4th quartiles. Alberta and Nova Scotia regions have lower NOI growth due to external market drivers compared to regions such as Ontario and British Columbia.

CAPITAL STRUCTURE

CAPREIT defines capital as the aggregate of Unitholders' equity, debt financing, Unit-based compensation liabilities and Exchangeable Units. CAPREIT's objectives when managing capital are to safeguard its ability to continue to fund distributions to Unitholders, to retain a portion to meet repayment obligations under its mortgages and credit facilities, and to ensure sufficient funds are available to meet capital commitments. Management aims to maintain an optimal degree of leverage relative to the gross book value of CAPREIT's assets depending on a number of factors at any given time, which include expected cash flow requirements, impact on near-term and long-term financial performance, current and expected state of the credit markets and any risks, among other considerations. Capital adequacy is monitored against investment and debt restrictions contained in CAPREIT's DOT and the Credit Facilities agreement.

CAPREIT's Credit Facilities (see Liquidity and Financial Condition section) 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 addition, CAPREIT must comply with all investment and debt restrictions and financial covenants under the agreement with CMHC. Refer to the Liquidity and Financial Condition section of this report for further details.

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

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

(\$ Thousands)

As at December 31,

	2017	2016
Mortgages Payable	\$ 3,581,501	\$ 3,492,923
Bank Indebtedness	446,895	26,408
Unit-based Compensation Liabilities	64,561	60,278
Exchangeable Units	4,876	5,061
Unitholders' Equity	4,923,406	4,158,149
Total Capital	\$ 9,021,239	\$ 7,742,819
	Threshold	
Total Debt to Gross Book Value ⁽¹⁾	Maximum 70.00% 43.57%	44.31%
Total Debt to Gross Historical Cost ⁽³⁾	56.24%	54.36%
Tangible Net Worth ⁽⁴⁾	Minimum \$1,800,000 \$ 4,992,824	\$ 4,223,488
	2017	2016
Debt Service Coverage Ratio (times) ^{(2), (5)}	Minimum 1.20 1.63	1.63
Interest Coverage Ratio (times) ^{(2), (6)}	3.19	3.09

For the four quarters ended December 31,

Debt Service Coverage Ratio (times)^{(2), (5)}

Interest Coverage Ratio (times)^{(2), (6)}

(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.

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

(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 Unit-based rights and compensation liabilities or assets, including Exchangeable Units, are added back. As at December 31, 2016, the tangible net worth requirement was \$1,500,000, which was amended to \$1,800,000 effective November 24, 2017.

(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 to fund repairs and maintenance expenditures, discretionary property capital investment commitments and distributions to Unitholders and to provide for future growth in the business. CAPREIT finances these commitments through: (i) ACFO; (ii) mortgage debt secured by its investment properties; (iii) secured short-term debt financing with three Canadian chartered banks; and (iv) equity and funds reinvested from its DRIP. Management's assessment of CAPREIT's liquidity position continues to be stable for the foreseeable future based on its evaluation of capital resources as summarized below:

- i) CAPREIT's business continues to be stable and is expected to generate sufficient ACFO to fund the current level of distributions. Management expects the combination of the current level of funds reinvested from its DRIP, ACFO in excess of distributions declared, mortgage top-ups and the available borrowing capacity of the Credit Facilities to be sufficient to fund its ongoing discretionary property capital investments.
 - ii) Management believes CAPREIT is well-positioned to meet its mortgage renewals and refinancing goals for 2018 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages maturing during 2018 of approximately \$118.0 million, which have an effective interest rate of approximately 3.08%, and refinancing approximately \$115.3 million of principal repayments through 2018 with new mortgages.
 - iii) Investment properties with a fair value of \$8.6 billion have been pledged as security as at December 31, 2017. In addition, CAPREIT has investment properties with a fair value of approximately \$304.7 million as at December 31, 2017 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. CAPREIT intends to maintain unencumbered investment properties with an aggregate fair value in the range of \$150 million to \$180 million over the long term.
 - iv) Effective June 30, 2017, CAPREIT amended its credit agreement to, among other things: (i) allow for US base rate and US LIBOR advances, and (ii) amend the "conversion date", when the revolving facility converts to a two-year non-revolving term facility, to June 30, 2018.
 - v) Effective June 30, 2016, CAPREIT amended its credit agreement to, among other things: (a) increase its credit facilities to \$505.0 million in the aggregate; (b) increase the maximum amount of its existing \$340.0 million revolving credit facility to \$440.0 million (the "Acquisition and Operating Facility"); (c) add an additional lender in the syndicate thereto; (d) amend the tangible net worth requirement to \$1,500 million; and (e) extend the maturity date of the existing \$65.0 million five-year non-revolving term credit facility to June 30, 2021. In respect to the Acquisition and Operating Facility, effective December 19, 2016, the aggregate amount of euro LIBOR borrowings at any time shall not exceed €150.0 million while the Canadian dollar equivalent of the aggregate principal amount of all advances (including the euro LIBOR and US LIBOR borrowings) under the Acquisition and Operating Facility shall not exceed \$440.0 million. Effective November 24, 2017, CAPREIT amended its credit agreement to, among other things: (a) increase its Acquisition and Operating Facility by \$100.0 million to \$540.0 million and (b) amend the tangible net worth requirement to \$1,800 million.
 - vi) In respect to the Acquisition and Operating Facility, the aggregate amount of euro LIBOR borrowings at any time shall not exceed €150.0 million while the Canadian dollar equivalent of the aggregate principal amount of all advances (including the euro LIBOR and US LIBOR borrowings) under the Acquisition and Operating Facility shall not exceed \$540.0 million.
 - vii) CAPREIT has a \$65.0 million credit facility on two of the MHC land lease sites maturing June 30, 2021, bearing interest at the bankers' acceptance rate plus 1.4% per annum. This credit facility is a non-revolving term credit facility, and any principal amount repaid under this facility may not be reborrowed. There is an interest rate swap agreement on this facility, fixing the bankers' acceptance rate to 2.20%, maturing in September 2022. The swap agreement fixes the all-in rate of the loan at 3.60% for a five-year term.
 - viii) As at December 31, 2017, CAPREIT has US LIBOR borrowings of USD \$187.0 million that bears the US LIBOR rate plus a margin of 1.65% per annum. CAPREIT entered into a cross-currency swap to hedge the US LIBOR borrowings of USD \$187.0 million effective July 2017 and converted the variable interest rate on the US LIBOR borrowings plus 1.65% to a fixed interest rate of EURIBOR plus 1.65% equalling 1.20% and maturing in June 2019.
 - ix) CAPREIT has euro LIBOR borrowings of €47.0 million included in bank indebtedness that bears interest at the euro LIBOR rate plus a margin of 1.65% per annum. The margins are renegotiated annually. The interest rate on the Acquisition and Operating Facility is determined by interest rates on prime advances and bankers' acceptances utilized during the year. The Acquisition and Operating Facility matures on June 30, 2020.
 - x) On July 11, 2016, CAPREIT announced it had agreed to sell, subject to regulatory approval, 4,660,000 Units for \$32.20 per Unit for aggregate gross proceeds of \$150.1 million on a bought-deal basis with an over-allotment option. The transaction closed on August 3, 2016, and under the over-allotment option, 466,000 additional Units were also issued on August 3, 2016 for gross proceeds of \$15.0 million. CAPREIT used the net proceeds of the offering to repay a portion of its 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 has entered into an agreement with CMHC (the "Large Borrower Agreement" or "LBA"). Other than improving the efficiency and consistency of such processes, 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 requirements under its DOT and existing credit and mortgage facilities;
 - iii) The posting of a revolving letter of credit with respect to certain capital expenditures on a portfolio basis, rather than an individual property basis; and
 - iv) Cross-collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

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

The working capital deficiency, as presented on CAPREIT's consolidated balance sheets as at December 31, 2017, which includes non-cash Unit-based compensation liabilities, is managed through the available liquidity under the Credit Facilities as well as the ongoing refinancing of mortgages payable.

The table below summarizes CAPREIT's bank indebtedness position as at December 31, 2017 and December 31, 2016:

Acquisition and Operating Facility

(\$ Thousands)

As at December 31,

	2017	2016
Facility	\$ 540,000	\$ 440,000
Less:		
US LIBOR Borrowings	(234,592)	-
Euro LIBOR Borrowings	(70,744)	(131,630) ⁽¹⁾
Bank Indebtedness	(141,559)	(26,408)
Letters of Credit	(6,313)	(6,040)
Available Borrowing Capacity	\$ 86,792	\$ 275,922
Weighted Average Floating Interest Rate	1.82%	2.55%

(1) Included in mortgages payable.

CAPREIT's key liquidity metrics are summarized as follows:

As at December 31,

	2017	2016
Mortgage Debt to Gross Book Value	38.73%	43.97%
Total Debt to Gross Book Value	43.57%	44.31%
Total Debt to Gross Historical Cost ⁽¹⁾	56.24%	54.36%
Total Debt to Total Capitalization ⁽⁴⁾	41.81%	45.09%
Debt Service Coverage Ratio (times) ⁽²⁾	1.63	1.63
Interest Coverage Ratio (times) ⁽²⁾	3.19	3.09
Weighted Average Mortgage Interest Rate ⁽³⁾	3.08%	3.20%
Weighted Average Mortgage Term to Maturity (years)	5.66	6.10

(1) Based on the historical cost of investment properties.

(2) Based on the trailing four quarters ended December 31, 2017.

(3) Weighted average mortgage interest rate includes deferred financing costs and fair value adjustments on an effective interest rate basis. Including the amortization of the realized component of the loss on settlement of \$32.5 million included in AOCL, the effective portfolio weighted average interest rate at December 31, 2017 would be 3.17% (December 31, 2016 – 3.3%).

(4) Based on the market capitalization as defined in the Performance Measures table of the MD&A, plus total debt.

As at December 31, 2017, the overall leverage represented by the ratio of total debt to gross book value was 43.57% compared to 44.31% for last year. As at December 31, 2017, CAPREIT's total debt was 41.81% of total market capitalization compared to 45.09% for last year.

The effective portfolio weighted average interest rate has declined from 3.20% as at December 31, 2016 to 3.08% as at December 31, 2017, which Management expects could result in continued interest rate savings in future

years. Management believes that as CAPREIT's refinancing plan continues to be realized, there may still be scope to further reduce the effective portfolio weighted average interest rate based on foreseeable market conditions, although with rising rates, this opportunity may be limited. 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, while continuing to balance the maturity profile.

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.

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 initial amortization period of the underlying mortgage ranging between 25 and 35 years.

As at December 31,	2017	2016
Percentage of CMHC-Insured Mortgages ⁽¹⁾	97.0%	96.6%
Percentage of Fixed-Rate Mortgages	100.0%	97.9%

(1) Excludes the mortgages on the MHC land lease sites and European financings.

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

(\$ Thousands)

As at December 31,

	2017	2016
Balance, Beginning of the Year	\$ 3,492,923	\$ 3,097,773
Add:		
New Borrowings on Acquisitions	253,375	336,468
Assumed	3,713	25,356
Refinanced	211,141	299,300
Foreign Currency Translation	12,543	(4,323)
Less:		
Mortgage Repayments ⁽²⁾	(119,458)	(102,522)
Mortgages Matured ⁽³⁾	(266,575)	(130,810)
Mortgages Repaid on Dispositions of Investment Properties	(4,951)	(26,407)
Change in Deferred Financing Costs, Fair Value Adjustments, Net	(1,210)	(1,912)
Balance, End of the Year ⁽¹⁾	\$ 3,581,501	\$ 3,492,923

(1) Included in mortgages payable as at December 31, 2016 is a €92,900 (\$131,630) non-amortizing euro LIBOR borrowing.

(2) Includes repayment of euro LIBOR borrowing of €5,000.

(3) In July 2017, euro LIBOR borrowings on the Acquisition and Operating Facility of €87,900 (\$129,336), classified as mortgages payable, were repaid.

The following table presents refinancings for the year ended December 31, 2017 and the weighted average interest rates obtained:

	Original Mortgage Amount	Original Stated Interest Rate ⁽¹⁾	New Mortgage Amount	New Stated Interest Rate ^{(1), (2)}	Weighted Average Term on New Mortgages (Yrs)	Top-Up Financing Amount
(\$ Thousands)						
First Quarter	\$ 24,021	4.55%	\$ 45,280	2.97%	9.9	\$ 21,259
Second Quarter	79,484	4.59%	139,005	2.60%	8.7	59,521
Third Quarter ⁽³⁾	163,070	2.53%	26,856	2.26%	3.3	(136,214)
Fourth Quarter	—	—	—	—	—	—
Acquisitions	—	—	253,375	1.86%	6.5	253,375
Total and Weighted Average	\$ 266,575	3.33%	\$ 464,516	2.21%	7.3	\$ 197,941

(1) Weighted average.

(2) Excludes CMHC, other financing costs, and hedge impact.

(3) Includes the settlement of Euro LIBOR borrowings on the Acquisition and Operating Facility of €87,900 (\$129,336).

For purposes of estimating top-up financing potential, the following table provides annualized NOI for those properties with mortgages maturing over the next five years and beyond. A property's full NOI is included in the first year in which a mortgage matures. The balance of mortgages

remaining on the same property but maturing in other years is also shown. Management expects to raise between \$175 million and \$225 million in total mortgage renewals and refinancings for 2018 excluding financings on acquisitions.

(\$ Thousands)

As at December 31, 2017

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), (3)}
2018	\$ 118,005	\$ 17,290	\$ 135,295	\$ 18,954
2019	273,324	56,001	329,325	47,341
2020	226,193	50,205	276,398	32,526
2021	349,066	(32,852)	316,214	47,735
2022	412,277	(55,565)	356,712	57,181
2023 onward	1,500,226	(35,079)	1,465,147	178,518
Total	\$ 2,879,091	\$ -	\$ 2,879,091	\$ 382,255

(1) Mortgage balance due upon maturity.

(2) NOI for the twelve months ended December 31, 2017.

(3) Projected NOI included for acquisitions since December 31, 2016.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2017 is as follows:

(\$ Thousands)

Year	Principal Repayments	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) ^{(1), (2)}
2018	\$ 115,283	\$ 118,005	\$ 233,288	6.5	3.08
2019	111,811	273,324	385,135	10.7	3.40
2020	105,871	226,193	332,064	9.3	2.60
2021	94,726	349,066	443,792 ⁽³⁾	12.4	3.83
2022	84,905	412,277	497,182	13.9	2.88
2023	66,918	310,988	377,906	10.5	3.06
2024	52,940	401,478	454,418	12.7	3.23
2025	43,824	321,159	364,983	10.2	2.75
2026	22,559	298,212	320,771	8.9	2.74
2027	6,220	117,292	123,512	3.4	3.05
2028–2030	5,445	51,097	56,542	1.5	3.73
Total	\$ 710,502	\$ 2,879,091	\$ 3,589,593	100.0	3.08 ⁽²⁾
Deferred Financing Costs, Fair Value Adjustments, Net			(8,092)		
Total			\$ 3,581,501		

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

(2) Effective weighted average interest rate includes deferred financing costs and fair value adjustments but excludes CMHC premiums. Including the amortization of the realized component of the loss on settlement of \$32.5 million included in AOCL, the effective portfolio weighted average interest rate as at December 31, 2017 would be 3.17% (December 31, 2016 – 3.30%).

(3) Included in mortgages payable is a \$65.0 million non-amortizing credit facility on two of the MHC land lease sites.

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

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

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

Unitholders' Equity only represents the issued and outstanding Trust Units, and excludes the Exchangeable Units and any Units issued in connection with Unit-based incentive plans. For the purposes of the discussion below,

Exchangeable Units and Units issued in connection with Unit-based incentive plans are treated as equity as they have claims similar or identical to those of the Trust Units.

Equity offerings and over-allotments for the periods ending December 31, 2017 and December 31, 2016:

(\$ Thousands, except per Unit amounts)

Period	Price Per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
August 2016					
Bought-deal	\$ 32.20	\$ 150,052	\$ 6,902	\$ 143,150	4,660,000
Over-allotment	\$ 32.20	15,005	600	14,405	466,000
Total		\$ 165,057	\$ 7,502	\$ 157,555	5,126,000

As at December 31,	2017
Market Capitalization (\$ thousands)	\$ 5,181,885
Number of Units Outstanding	138,850,084
LTIP and SELTIP Units	1,025,398
Deferred Units	260,159
RUR Plan Units	521,980
Exchangeable Units	130,655
Number of Unit Options Outstanding and Exercisable	1,263,962
Ownership by Trustees, Officers and Senior Managers	1.0%

Normal Course Issuer Bid

On a periodic basis, CAPREIT may apply to the Toronto Stock Exchange ("TSX") for approval of a normal course issuer bid ("NCIB"). Pursuant to regulations governing NCIBs, CAPREIT will receive approval to purchase and cancel a specified number of Trust Units, representing 10% of the public float of its Trust Units at the time of the TSX approval. The NCIB will terminate on the earlier of the termination date or at such time as the purchases under the NCIB are completed. CAPREIT believes the purchase

of its outstanding Trust Units from time to time may be an appropriate use of its resources.

The table below summarizes the NCIB programs in place since January 1, 2016. No Trust Units were acquired and cancelled under these NCIB programs.

Period Covered under the NCIB	Approval Limit
July 28, 2015 to July 27, 2016	11,493,069

Unitholder Taxation

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

For the Year Ended December 31,	2017	2016
Taxable to Unitholders as Other Income	15.21%	24.37%
Taxable to Unitholders as Capital Gain Income	4.23%	5.45%
Income Tax Deferral	80.56%	70.18%
Total	100.00%	100.00%
Total Effective Non-taxable Portion of Distributions	82.67%	72.90%

The portion of CAPREIT's distributions to Canadian resident Unitholders treated as taxable for the year ended December 31, 2017 decreased over the prior year primarily due to higher distributions and other

taxable deductions, lower capital gain and recapture, offset by lower capital cost allowance and higher earnings from operations in the current year.

SECTION V

SELECTED CONSOLIDATED QUARTERLY INFORMATION

	Q4 17	Q3 17	Q2 17	Q1 17	Q4 16	Q3 16	Q2 16	Q1 16
Overall Portfolio AMR	\$ 1,044	\$ 1,029	\$ 1,015	\$ 1,007	\$ 1,003	\$ 999	\$ 980	\$ 971
Operating Revenues (000s) ⁽¹⁾	\$ 164,432	\$ 161,713	\$ 157,087	\$ 155,610	\$ 152,725	\$ 151,812	\$ 146,656	\$ 145,638
NOI (000s) ^{(1), (2)}	\$ 100,300	\$ 102,655	\$ 98,705	\$ 91,598	\$ 95,210	\$ 96,274	\$ 91,083	\$ 84,380
NOI Margin ⁽¹⁾	61.0%	63.5%	62.8%	58.9%	62.3%	63.4%	62.1%	57.9%
Net Income (Loss) (000s)	\$ 376,960	\$ 215,833	\$ 102,885	\$ 141,133	\$ 124,338	\$ 130,663	\$ 98,381	\$ 86,098
FFO (000s) ^{(1), (2)}	\$ 61,000	\$ 64,685	\$ 62,836	\$ 57,002	\$ 58,085	\$ 61,424	\$ 57,670	\$ 46,050
NFFO (000s) ^{(1), (2)}	\$ 61,893	\$ 67,036	\$ 63,608	\$ 57,937	\$ 58,860	\$ 62,201	\$ 58,452	\$ 52,295
Total Debt to Gross Book Value	43.57%	44.76%	44.00%	43.99%	44.31%	44.31%	47.02%	45.80%
FFO per Unit ⁽¹⁾ – Basic	\$ 0.446	\$ 0.475	\$ 0.463	\$ 0.422	\$ 0.432	\$ 0.464	\$ 0.449	\$ 0.360
NFFO per Unit ⁽¹⁾ – Basic	\$ 0.452	\$ 0.492	\$ 0.469	\$ 0.429	\$ 0.437	\$ 0.470	\$ 0.455	\$ 0.409
Weighted Average Number of Units (000s)								
– Basic	136,824	136,295	135,629	135,076	134,585	132,246	128,469	127,816
– Diluted	138,684	138,131	137,554	136,918	136,275	133,991	130,209	129,393

(1) Includes the results of investment properties owned as at the period-end.

(2) 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 typically tend to generate weaker performance due to increased energy consumption in the winter months. There may be periods where actual distributions declared may exceed cash generated from (utilized in) operating activities after interest paid, primarily due to weaker performance

in certain periods from seasonal fluctuations. These seasonal or short-term fluctuations are funded, if necessary, with our Acquisition and Operating Facility. CAPREIT determines distributions and the distribution rate by, among other considerations, its assessment of adjusted cash flow from operating activities (a non-IFRS measure). As such, CAPREIT believes the cash distributions are not an economic return of capital, but a distribution of adjusted cash flow from operating activities.

Fourth Quarter

Operating revenues in the fourth quarter of 2017 increased by 7.7% over the same quarter in 2016, and NOI increased by a significant 5.3%, driven by acquisitions, higher operating revenues and lower realty taxes and utility costs as a percentage of total operating revenues compared to the same period last year. Net income in the fourth quarter of 2017 increased over the same period last year to \$377.0 million, mainly due to higher unrealized gain on remeasurement of investment properties of \$339.2 million, compared to \$65.4 million for the same period last year. Trust expenses for the quarter ended included over \$2.0 million related to one-time items including non-executive reorganization

severances incurred, set-up costs related to our Netherlands operations, and legal and advisory costs related to non-recurring matters. Unit-based compensation expenses increased by \$6.1 million and interest on mortgages payable and other financing costs increased by \$1.0 million, partially offset by higher NOI of \$5.1 million. Higher NFFO for the fourth quarter was primarily due to a 0.8% increase in stabilized property NOI and the NOI contribution from acquisitions completed over the prior twelve months for the three months ended December 31, 2017.

The following table shows the NOI and the NOI margin attained for each regional market for the periods ended December 31, 2017 and 2016.

NOI by Geography

For the Three Months Ended
December 31,

(\$ Thousands)

	2017		2016		Increase (Decrease)		
	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
ONTARIO							
Greater Toronto Area	\$ 39,507	61.5	\$ 38,994	63.1	4.1	8.7	1.3
Ottawa	3,635	59.8	3,632	62.3	4.3	11.1	0.1
London / Kitchener / Waterloo	4,074	58.2	4,255	63.1	3.9	17.7	(4.3)
Other Ontario	4,137	60.6	3,901	59.6	4.3	1.8	6.1
	\$ 51,353	61.0	\$ 50,782	62.8	4.1	9.0	1.1
QUÉBEC							
Greater Montréal Region	\$ 13,263	55.4	\$ 12,612	56.7	7.6	10.8	5.2
Québec City	4,925	55.5	5,069	58.4	2.3	9.5	(2.8)
	\$ 18,188	55.4	\$ 17,681	57.2	6.1	10.4	2.9
BRITISH COLUMBIA							
Greater Vancouver Region	\$ 8,068	66.9	\$ 7,842	69.4	6.7	15.2	2.9
Victoria	3,814	69.5	3,681	72.4	8.0	19.5	3.6
	\$ 11,882	67.7	\$ 11,523	70.3	7.1	16.4	3.1
ALBERTA							
Edmonton	\$ 1,139	67.8	\$ 1,127	68.9	2.8	6.5	1.1
Calgary	4,200	60.3	4,208	60.1	(0.6)	(1.2)	(0.2)
	\$ 5,339	61.8	\$ 5,335	61.7	0.0	(0.0)	0.1
NOVA SCOTIA							
Halifax	\$ 3,333	60.6	\$ 3,312	59.6	(1.0)	(3.3)	0.6
SASKATCHEWAN							
Saskatoon	\$ 130	44.1	\$ 180	52.6	(13.7)	1.9	(27.8)
Regina	468	63.3	458	63.3	2.1	1.9	2.2
	\$ 598	57.8	\$ 638	59.9	(3.0)	1.9	(6.3)
PRINCE EDWARD ISLAND							
Charlottetown	\$ 768	50.9	\$ 691	50.0	9.3	7.4	11.1
EUROPE							
The Netherlands	\$ 4,026	73.8	\$ 127	81.3		-	-
Total Residential Suites	\$ 95,487	60.9	\$ 90,089	62.1	7.6	6.7	8.3
MHC Land Lease Sites							
Ontario	\$ 2,783	64.1	\$ 3,179	70.7	(3.4)	18.4	(12.5)
British Columbia	279	77.5	263	75.8	3.8	(3.6)	6.1
Alberta	340	63.3	355	67.0	1.3	12.6	(4.2)
Saskatchewan	204	68.9	218	76.5	3.9	37.3	(6.4)
Prince Edward Island	93	42.3	80	37.6	3.3	(4.5)	16.3
New Brunswick	1,112	56.4	1,027	56.0	7.6	6.7	8.3
Total MHC Land Lease Sites	\$ 4,811	62.3	\$ 5,122	66.5	0.3	12.9	(6.1)
Total Suites and Sites	\$ 100,298	61.0	\$ 95,211	62.3	7.7	11.5	5.3

The stabilized portfolio performance for the three months ended December 31, 2017 compared to December 31, 2016, is summarized as follows:

For the Three Months Ended
December 31,

(\$ Thousands)	2017		2016		Increase (Decrease)		
	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
ONTARIO							
Greater Toronto Area	\$ 39,122	61.4	\$ 38,636	63.1	4.0	8.8	1.3
Ottawa	1,188	49.7	1,148	49.0	2.1	0.8	3.5
London / Kitchener / Waterloo	2,801	57.4	2,990	63.5	3.7	21.0	(6.3)
Other Ontario	4,137	60.6	3,901	59.6	4.3	1.8	6.1
	\$ 47,248	60.7	\$ 46,675	62.4	4.0	8.5	1.2
QUÉBEC							
Greater Montréal Region	\$ 13,014	56.1	\$ 12,658	56.9	4.3	6.2	2.8
Québec City	4,925	55.5	5,069	58.4	2.3	9.5	(2.8)
	\$ 17,939	55.9	\$ 17,727	57.3	3.7	7.1	1.2
BRITISH COLUMBIA							
Greater Vancouver Region	\$ 7,935	66.9	\$ 7,744	69.5	6.3	15.0	2.5
Victoria	3,727	69.7	3,648	72.5	6.3	17.1	2.2
	\$ 11,662	67.8	\$ 11,392	70.4	6.3	15.6	2.4
ALBERTA							
Edmonton	\$ 1,139	67.8	\$ 1,127	68.9	2.8	6.5	1.1
Calgary	4,200	60.3	4,208	60.1	(0.6)	(1.2)	(0.2)
	\$ 5,339	61.8	\$ 5,335	61.7	0.0	(0.0)	0.1
NOVA SCOTIA							
Halifax	\$ 3,125	60.6	\$ 3,104	59.5	(1.2)	(4.0)	0.7
SASKATCHEWAN							
Saskatoon	\$ 130	44.1	\$ 164	55.6	-	26.0	(20.7)
Regina	468	63.3	458	63.3	2.1	1.9	2.2
	\$ 598	57.8	\$ 622	61.0	1.5	9.8	(3.9)
PRINCE EDWARD ISLAND							
Charlottetown	\$ 700	50.5	\$ 686	50.8	2.7	3.3	2.0
Total Residential Suites	\$ 86,611	60.4	\$ 85,541	61.9	3.7	7.7	1.3
MHC Land Lease Sites							
Ontario	\$ 2,783	64.1	\$ 3,179	70.7	(3.4)	18.4	(12.5)
British Columbia	135	76.7	119	70.0	3.5	(19.6)	13.5
Alberta	340	63.3	355	67.0	1.3	12.6	(4.2)
Saskatchewan	204	68.9	218	76.5	3.9	37.3	(6.4)
Prince Edward Island	93	42.3	80	37.6	3.3	(4.5)	16.3
New Brunswick	1,112	56.4	1,027	56.0	7.6	6.7	8.3
Total MHC Land Lease Sites	\$ 4,667	61.9	\$ 4,978	66.1	0.2	12.8	(6.3)
Total Suites and Sites	\$ 91,278	60.5	\$ 90,519	62.1	3.5	8.0	0.8
Stabilized Suites and Sites	45,000		45,000				

SELECTED CONSOLIDATED FINANCIAL INFORMATION

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

(\$ Thousands, except per Unit amounts)

Year Ended December 31,

	2017	2016	2015
Income Statement			
Operating Revenues	\$ 638,842	\$ 596,831	\$ 533,798
Net Income	\$ 836,811	\$ 439,480	\$ 345,633
Distributions			
Distributions Declared	\$ 173,072	\$ 161,483	\$ 142,973
Distributions per Unit	\$ 1.275	\$ 1.238	\$ 1.207
Balance Sheet			
Investment Properties	\$ 8,886,556	\$ 7,642,017	\$ 6,863,140
Total Assets	\$ 9,187,170	\$ 7,892,994	\$ 7,102,828
Mortgages Payable	\$ 3,581,501	\$ 3,492,923	\$ 3,097,773
Bank Indebtedness	\$ 446,895	\$ 26,408	\$ 168,211

SECTION VI

ACCOUNTING POLICIES AND CRITICAL ESTIMATES, ASSUMPTIONS, AND JUDGEMENTS

Impact of accounting standards effective January 1, 2017 on CAPREIT's current year financial statements:

IAS 12, Income Taxes – Deferred Tax This amendment clarifies (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base, and (iii) certain other aspects of accounting for deferred tax assets. This amendment came into effect for years beginning on or after January 1, 2017.

IAS 7, Statement of cash flows – Disclosures related to financing activities

This amendment includes the requirement for disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment came into effect on January 1, 2017. CAPREIT has applied this standard, which discloses the changes in mortgage liability and bank indebtedness liability. Please refer to note 22.

Future accounting changes

As at February 27, 2018, the following new or amended IFRS have been issued by the International Accounting Standards Board ("IASB") and are expected to apply to CAPREIT for annual reporting periods beginning after 2017:

IFRS 9, Financial Instruments ("IFRS 9") The revised IFRS 9 incorporates requirements for the classification and measurement of financial liabilities over the existing derecognition requirements of IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 also introduces new requirements for classifying and measuring financial assets; specifically,

investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss. IFRS 9 was further amended in November 2013 to: (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9); and (iii) remove the previous mandatory effective date of January 1, 2015.

The final amendment of IFRS 9 as at July 2014 included: (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward-looking "expected loss" impairment model; and (iii) a mandatory effective date for IFRS 9 for annual periods beginning on or after January 1, 2018. During 2017, CAPREIT performed an assessment of key areas within the scope of IFRS 9 which includes, but is not limited to, the classification and measurement of mortgages and loans receivable and available-for-sale securities, as well as additional disclosures required by IFRS 7, "Financial Instruments – Disclosure" upon initial adoption of IFRS 9. CAPREIT intends to adopt the new standards on the required effective date of January 1, 2018 and will not restate comparative information. Quoted equity instruments currently held as available-for-sale financial assets with unrealized gains and losses recorded in OCI will, instead, be measured at fair value through profit or loss, which will increase volatility due to unrealized gains and losses being recorded in profit or loss. The available-for-sale cumulative unrealized gain of \$8.9 million related to those securities, which is currently presented as accumulated OCI, will be reclassified to retained earnings upon adoption. CAPREIT does not expect a significant impact on its balance sheet or equity, as a result of this change in classification and measurement.

IFRS 15, Revenue from Contracts with Customers This new standard on revenue recognition supersedes IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The new standard provides a single, comprehensive revenue recognition model. While early adoption is permitted for IFRS reporters, this standard is effective for the interim periods within years beginning on or after January 1, 2018. CAPREIT's assessment includes a review of relevant contracts for the following key areas which CAPREIT believes are in scope of IFRS 15 including, but not limited to, laundry, cable, common area maintenance recoveries, and property and asset management fees. CAPREIT has assessed the impact of IFRS 15 and has concluded that the pattern of revenue recognition will remain unchanged upon adoption of the standard. The impact may be limited to additional note disclosure on the disaggregation of its revenue streams. CAPREIT intends to adopt the new standard on the required effective date on a modified retrospective basis without restatement of prior period comparatives.

IFRS 16, Leases This new standard on leases supersedes IAS 17, Leases and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract: i.e. the customer ('lessee') and the supplier ('lessor'). From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model. IFRS 16 is effective from January 1, 2019; however, a company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15, Revenue from Contracts with Customers. The Company is currently assessing the impact of IFRS 16 to its consolidated financial statements.

IAS 40, Investment Property This amendment clarifies when assets are transferred to, or from, investment properties. This amendment will come into effect on January 1, 2018.

IFRIC 23, Uncertainty over Income Tax Treatments This new IFRS interpretation clarifies how the recognition and measurement requirements of IAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments and is effective for years beginning on or after January 1, 2019.

CAPREIT is currently assessing the impact of the above standards and amendments.

Critical Estimates, Assumptions, and Judgements

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

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

Estimates deemed by Management to be more significant, due to subjectivity, are as follows:

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

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

Management's internal valuations and the independent appraisals are both subject to significant judgement, estimates and assumptions about market conditions in effect as at the consolidated balance sheet dates. See note 6 to the accompanying audited consolidated annual financial statements for a detailed discussion of valuation methods and the significant assumptions and estimates used.

Valuation of Unit-based Compensation Liabilities The fair value of Unit-based compensation liabilities is based on assumptions of future events and involves significant estimates. The basis of valuation for CAPREIT's Unit-based compensation liabilities, such as market assumptions, estimates and valuation methodology, are set out in note 12 to the accompanying audited consolidated annual financial statements; however, the fair values as at the reporting date may differ materially from how they are ultimately recognized if there is volatility in Trust Unit prices, interest rates or other key assumptions in future years.

Valuation of Derivative Financial Instruments The fair value of a derivative financial instrument is based on assumptions of future events and involves significant estimates. The basis of valuation for CAPREIT's derivatives is set out in note 15 to the accompanying audited consolidated annual financial statements; however, the fair values of derivatives reported may differ from how they are ultimately recognized if there is volatility in interest rates in future years.

Investment in Irish Residential Properties REIT plc ("IRES") CAPREIT has determined that its investment in IRES should be accounted for using the equity method of accounting given the significant influence it has over IRES. In making the determination that CAPREIT does not control IRES, CAPREIT used judgement when considering the extent of its ownership interest in IRES, the level of its involvement, responsibilities and remuneration as IRES's investment manager and the control exerted over IRES by its independent Board of Directors. Management will reassess this conclusion should its ownership interest or the terms of the asset management agreement change.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

As at December 31, 2017, CAPREIT's President and Chief Executive Officer and its Chief Financial Officer, with the assistance of Management, evaluated the effectiveness of the disclosure controls and procedures in accordance with the rules adopted by the Canadian Securities Administrators under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings and based on that evaluation concluded that the design and operation of the disclosure controls and procedures were effective as at December 31, 2017.

Management has designed an adequate and appropriate control 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 estimate, including those used by the independent appraiser or third parties 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.

Interest Classification in the Consolidated Statements of Cash Flows

IFRS permits the classification of interest paid as operating cash flows because they enter into the determination of profit or loss, or alternatively as financing cash flows because they are costs of obtaining financial resources. CAPREIT has applied its judgement and concluded that debt financing, which is used to provide leveraged returns to its Unitholders, is an integral part of its capital structure and not directly associated with its principal revenue-producing activities. Therefore interest paid is classified as a financing activity in CAPREIT's consolidated statements of cash flows.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS"). As at December 31, 2017, CAPREIT's President and Chief Executive Officer and its Chief Financial Officer, with the assistance of Management, assessed the effectiveness of the internal controls over financial reporting using the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 and, based on that assessment, determined that the internal controls over financial reporting were designed and operating effectively as at December 31, 2017.

CAPREIT did not make any other changes to the design of internal controls over financial reporting in 2017 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. The following is a description of the principal risks in CAPREIT's business, defined as either those that could have a significant impact on CAPREIT if they were to occur or those that are significant to CAPREIT's day-to-day operations. Investors should carefully consider these risks before investing in CAPREIT Units.

Related to Reporting Investment Property at Fair Value

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

Market assumptions applied for valuation purposes do not necessarily reflect CAPREIT's specific history or experience and the conditions for realizing the fair values through a sale may change or may not be realized. In addition, there is an inherent risk related to the reliance on and use of a single appraiser, as this approach may not adequately capture the range of fair values that market participants would assign to the investment properties. CAPREIT mitigates this risk by undertaking a detailed review of the assumptions utilized by the appraiser in its valuation, which includes a comparison of such assumptions to the corresponding benchmarks derived from Management's own observations of market transactions. Downturns in the real estate market could negatively affect CAPREIT's operating revenues and cash flows; such a downturn could also significantly impact the fair values of CAPREIT's investment properties, as well as certain of its financial ratios and covenants.

Related to Ownership and Operation of Real Property

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

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

Investment Restrictions CAPREIT has been structured and operates in adherence to the stringent investment restrictions and operating policies set out in its DOT and as applicable under tax laws relating to real estate investment trusts (also see Taxation-Related Risks in this section). These policies cover such matters as the type and location of properties that CAPREIT can acquire, the maximum leverage allowed, environmental matters and investment restrictions. In addition, pursuant to the DOT, CAPREIT's overall leverage is limited to 70% of its reported gross book value, unless a majority of trustees, at their discretion, determine that the maximum amount of indebtedness shall be based on the appraised value of the real properties of CAPREIT. As CAPREIT reports gross book value at fair market value under IFRS, these amounts are not expected to be materially different. However, fluctuations in the capitalization rates of CAPREIT's properties could impact these fair values and CAPREIT's debt covenant compliance.

Operating Risk CAPREIT is subject to general business risks and to risks inherent in the multi-residential rental property industry and in the ownership of real property. These risks include fluctuations in occupancy levels, the inability to achieve economic rents (including anticipated increases in rent), controlling bad debt exposure, rent control regulations, increases in labour costs and other operating costs including the costs of utilities, possible future changes in labour relations, competition from other landlords or the oversupply of rental accommodations, the imposition of increased taxes or new taxes and capital investment requirements.

In general, economic conditions will also affect the performance of the portfolio. Additionally, the portfolio is currently weighted with 49.1% of the overall portfolio (by number of suites and sites) in Ontario (30.9% in the GTA), making CAPREIT's performance particularly sensitive to economic conditions in and changes affecting Ontario and, in particular, the GTA.

CAPREIT's investment properties generate income through rental payments made by residents. Residential tenant leases are relatively short, exposing CAPREIT to market rental-rate volatility. Upon the expiry of any lease, there can be no assurance that such lease will be renewed or the resident replaced. The terms of any subsequent lease may be less favourable to CAPREIT than the existing lease. Renewal rates may be subject to restrictions on increases to the then current rent (see Government Regulations in this section). As well, unlike commercial leases, which are generally "net"

leases and allow a landlord to recover expenditures, residential leases are generally "gross" leases (with the exception of submetering of certain utilities at some properties) under which the landlord is not able to pass on costs to residents. Moreover, there is no assurance that occupancy levels achieved to date at the properties will continue to be achieved and/or that occupancy levels expected in the future will be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to or the financial position of CAPREIT.

Energy Costs As a significant part of CAPREIT's operating expenses are attributable to energy and energy-related charges and fees, fluctuations in the price of energy and any related charges and fees (including transportation costs and commodity taxes) can have a material impact on the performance of CAPREIT, its ability to pay distributions and the value of the Units. The impact of such fluctuations could be exacerbated where such energy costs cannot be hedged.

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

Environmental Matters Environmental and ecological legislation and policies have become increasingly important, and generally more restrictive, in recent years. Under various laws, CAPREIT could be liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in regulatory enforcement proceedings and/or private claims against the owner.

Catastrophic Events CAPREIT's properties may be impacted by acts of nature, such as climate-related events. Depending on severity, these events could cause threats to the safety of CAPREIT's tenants and significant damage to CAPREIT's properties and interruptions to CAPREIT's normal operations. CAPREIT may be required to incur significant unanticipated costs to manage the impact of these events. Management of the impact of a catastrophic event would also result in time and effort being diverted from CAPREIT's day-to-day operations. There is also a possibility that CAPREIT's ability to generate revenues from impacted properties would be significantly impaired. The increased costs, time, effort and potential revenue loss could be more significant if multiple properties or operating regions are impacted by catastrophic events within a relatively short time frame.

Insurance It is CAPREIT's policy to maintain a comprehensive insurance program to cover general liabilities, such as fire, flood, injury or death, rental loss and environmental insurance, with limits and deductibles as deemed appropriate based on the nature of the risk, historical experience and industry standards. However, there are some types of losses, including those of a catastrophic nature, that are generally uninsurable or not economically feasible

to insure, or which may be subject to insurance coverage limitations, such as large deductibles, co-payments or limitations in policy language. There can be no assurance that insurance coverage will continue to be available on commercially acceptable terms.

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

Related to Financing

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

CAPREIT currently has access to the government-backed mortgage insurance program through the National Housing Act, which is administered by CMHC. CAPREIT entered into the LBA with CMHC during the third quarter of 2010. There can be no guarantee that the provisions of the mortgage insurance program will not be changed in the future so as to make the costs of obtaining mortgage insurance prohibitive or so as to restrict access to the insurance program. To the extent that any financing requiring CMHC consent or approval is not obtained or that such consent or approval is only available on unfavourable terms, CAPREIT may be required to finance a conventional mortgage, which may be less favourable to CAPREIT than a CMHC-insured mortgage.

CAPREIT's Acquisition and Operating Facility matures on June 30, 2020. CAPREIT's Acquisition and Operating Facility is at a floating interest rate and, accordingly, changes in short-term borrowing rates will affect CAPREIT's costs of borrowing. CAPREIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing or cost-effective financing. As at the date hereof, it is difficult to forecast the future state of the commercial loan market. If, because of CAPREIT's level of indebtedness, the level of cash flows, lenders' perceptions of CAPREIT's creditworthiness or other reasons, Management is unable to renew, replace or extend the Credit Facilities on acceptable terms, or to arrange for alternative financing, CAPREIT may be required to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding can be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring property capital investments, dispositions of one or more properties on unfavourable terms, reducing or eliminating future cash distributions or other discretionary uses of cash, or other more severe actions. Also, disruptions in the credit markets and uncertainty in the economy could adversely affect the banks that currently provide the Credit Facilities, could cause the banks or a bank to elect not to participate in any new Credit Facilities sought, or could cause other banks that are not currently participants in the Credit Facilities to be unwilling or unable to participate in any such new facility.

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

Related to Taxes and Regulations

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

There can be no assurance that Canadian federal income tax laws in respect of the treatment of mutual fund trusts will not be changed in a manner that adversely affects CAPREIT or its Unitholders. If CAPREIT ceases to qualify as a "mutual fund trust", CAPREIT will be required to pay a tax under Part XII.2 of the Income Tax Act ("Tax Act"). The payment of Part XII.2 tax by CAPREIT may have adverse income tax consequences for certain of CAPREIT's Unitholders, including non-resident persons and trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit-sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans ("designated savings plans"), which acquired an interest in CAPREIT directly or indirectly from another CAPREIT Unitholder. If CAPREIT ceases to qualify as a "mutual fund

trust" or "registered investment" under the Tax Act and CAPREIT Units cease to be listed on a designated stock exchange, CAPREIT Units will cease to be qualified investments for trusts governed by designated savings plans. CAPREIT will endeavour to ensure CAPREIT Units continue to be qualified investments for trusts governed by the designated savings plans; however, there can be no assurance that this will be so. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments by such trusts. Unitholders should consult their own tax advisors in this regard, including as to whether CAPREIT Units are "prohibited investments" for registered retirement savings plans, registered retirement income funds or tax-free savings accounts.

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

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

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

Excluded from the definition of a SIFT is a partnership, such as CAPLP and CAPLP2, that is not publicly traded and of which the equity (and equity-like debt) is wholly owned by any combination of a SIFT, a REIT or a taxable Canadian corporation. If CAPREIT does not qualify for the REIT Exception at any point in time in a given future year, the SIFT Rules will apply to CAPREIT for that taxation year. To the extent that CAPREIT does not qualify for the REIT Exception, CAPREIT will consider alternative measures, including restructuring, assuming that these measures are in the best interests of its Unitholders, in order to qualify for the REIT Exception in the following year. No assurances can be given that CAPREIT will continue to qualify for the REIT Exception. If applicable, the SIFT Rules may have a material adverse effect on Unitholders' returns.

CAPREIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. Judgement is required in the estimation of income taxes and deferred income tax assets and liabilities, in each of CAPREIT's operating jurisdictions. Income taxes may be paid on occasion where activities relating to the foreign subsidiaries are considered to be taxable in those countries.

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

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

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

Controls over Financial Reporting CAPREIT maintains information systems, procedures and controls over financial reporting. As a result of inherent limitations in all control systems, there cannot be complete assurance that the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include, without limitation, the possibility that Management's assumptions and judgements may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors.

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

Other Legal and Regulatory Risks CAPREIT is subject to a wide variety of laws and regulations across all jurisdictions and faces risks associated with legal and regulatory changes and litigation. If CAPREIT or its advisors fail to monitor and become aware of changes in applicable laws and regulations or if CAPREIT fails to comply with these changes in an appropriate and timely manner, it could result in fines and penalties, litigation, or other significant costs, as well as significant time and effort to remediate any violations. Additionally, such violations could result in reputational damage to CAPREIT both from an operating and investment perspective.

Related to CAPREIT's Securities, Organization and Structure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Related to the Real Estate Industry

General Economic Conditions and Competition for Residents All real property investments are subject to elements of risk. The real value of real property and any improvements thereto depends on the credit and financial stability of residents and upon the vacancy rates of such properties. The properties generate revenue through rental payments made by residents. CAPREIT is affected by changes in general economic conditions (such as the availability and cost of mortgage funds), local real estate markets (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available rental premises, including new developments, and various other factors. If a significant number of residents are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be leased on economically favourable lease terms, cash available for distribution may be adversely affected.

The real estate business is competitive. Numerous other developers, managers and owners of properties compete with CAPREIT in seeking residents. Competition for residents also comes from opportunities for individual home ownership, including condominiums, which can be particularly attractive when home mortgage loans are available at relatively low interest rates. The existence of competing developers, managers and owners and competition for CAPREIT's residents could have an adverse effect on CAPREIT's ability to lease suites in its properties and on the rents charged, and may increase leasing and marketing costs and refurbishing costs necessary to lease and release suites, all of which could adversely affect CAPREIT's revenues and, consequently, its ability to meet its obligations and pay distributions. For example, increased condominium construction in the GTA could impact the rental market and affect residential rental fundamentals. In addition, any increase in the supply of available rental accommodation in the markets in which CAPREIT operates or may operate could have an adverse effect on CAPREIT.

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

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

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

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

Cybersecurity Risk

A cybersecurity incident can lead to unauthorized access and fraudulent activities surrounding personal information, particularly that belonging to CAPREIT's tenants, vendors, and employees. This could result in direct losses to stakeholders, including tenants and employees, potential liability to third parties, operational interruption, and reputational damage to CAPREIT. CAPREIT employs a number of cybersecurity risk mitigation techniques.

Employees receive annual awareness training on data privacy and protection. Access to personal data is controlled through physical security (e.g., locked offices and storage locations, alarm monitoring, and security cameras) and IT security mechanisms (e.g., password protection, firewalls, antivirus, and encryption). Additionally, CAPREIT maintains cybersecurity insurance coverage and continues to monitor and assess the risks surrounding collection, usage, storage, protection, and retention/destruction practices of personal data. These measures, however, do not guarantee that CAPREIT's financial results will not be negatively impacted by such an incident.

Foreign Operation and Currency Risks

Effective April 11, 2014, CAPREIT entered into an external management agreement to perform certain asset management and property services for IRES (formerly CAPREIT's Irish subsidiary), which owns properties in Dublin, Ireland. In addition, CAPREIT acquired a portfolio of Dutch properties on December 23, 2016. The Irish and Dutch real estate markets differ from the Canadian environment and CAPREIT's experience and expertise in managing Canadian properties may not apply perfectly to a foreign operation. Additionally, these foreign markets may differ from Canadian markets with respect to laws and regulations, economic conditions, and market norms. Operating success in these foreign markets will depend on CAPREIT's ability to recognize these differences and adapt its business model accordingly. CAPREIT's growth in foreign jurisdictions also requires management oversight and resources that may have been otherwise focused on its Canadian properties. Additionally, it is possible that CAPREIT's subsidiaries and involvement in foreign operations will expose CAPREIT to foreign currency risk, as CAPREIT's functional and presentation currency is the Canadian dollar, while the functional currency of CAPREIT's foreign operations and its investment in IRES is the euro.

RELATED PARTY TRANSACTIONS

As at December 31, 2017, CAPREIT has a 15.7% share ownership in IRES and has determined that it has significant influence over IRES. The share ownership interest is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. For a more detailed description, see note 7 to the accompanying audited consolidated annual financial statements.

CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited ("IRES FM"), is an alternative investment fund manager under the European Union (Alternative Investment Fund Managers) Regulation, 2013 (the "AIFM Regulations") for IRES. The investment management agreement between IRES FM and IRES stipulates that IRES pays 3.0% per annum of its gross rental income as property management fees and 0.5% per annum of its net

asset value together with relevant reimbursements as asset management fees to IRES FM. The investment management agreement governs the provision of portfolio management, risk management and other related services to IRES by IRES FM. It has an initial term of five years, unless it is duly terminated pursuant to a provision of the investment management agreement, and thereafter shall continue in force for consecutive five-year periods.

Included in other income is \$6.2 million and \$5.2 million, respectively, for the year ended December 31, 2017 and 2016 from asset management and property management fees. Expenses related to the asset and property management services are included in trust expenses.

David Ehrlich resigned as Chief Executive Officer of IRES effective November 1, 2017 to take up the role of President and Chief Executive Officer of CAPREIT. Effective November 1, 2017, Mr. Ehrlich is not entitled to receive any further remuneration from IRES under his employment agreement dated December 12, 2016 between IRES and Mr. Ehrlich. Mr. Ehrlich continues to serve on the board of IRES as a non-executive director, as the investment manager's nominee. He does not receive any fees from IRES in this role.

Prior thereto, effective January 1, 2017, in addition to being an employee of IRES, Mr. Ehrlich became an employee of CAPREIT Limited Partnership pursuant to an employment agreement dated December 13, 2016 between CAPREIT Limited Partnership and Mr. Ehrlich (under which he carried out management services related to IRES under the services agreement and investment management agreement) (the "CAPREIT Employment Agreement"). The CAPREIT Employment Agreement terminated effective November 1, 2017, upon Mr. Ehrlich's resignation as Chief Executive Officer of IRES.

Mr. Ehrlich received the following compensation under the CAPREIT Employment Agreement. On February 28, 2017, Mr. Ehrlich received a one-time grant equal to \$500 in RURs in accordance with the terms of CAPREIT's Amended and Restated RUR Plan, dated May 27, 2014, as amended from time to time. Pursuant to the terms of the CAPREIT Employment Agreement, he was also entitled to be granted \$150 in RURs on an annual basis. For the year ended December 31, 2017, Mr. Ehrlich received \$75 in RURs, with the remaining \$50 payable subsequent to year end.

CAPREIT had the following transactions with key management personnel, the former President and CEO, and trustees. The loans outstanding to key management personnel, the former President and CEO, and trustees for indebtedness relating to the SELTIP and LTIP as at December 31, 2017 and 2016 were \$7,180 and \$5,953, 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 entitled to termination benefits that provide for payments of up to 36 months of benefits (based on base salary, bonus and other benefits) depending on cause.

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

(\$ Thousands)

For the Year Ended December 31,	2017	2016
Short-term employee benefits	\$ 3,432	\$ 3,400
Unit-based compensation		
– grant date amortization	3,255	3,763
	6,687	7,163
Unit-based compensation		
– fair value remeasurement	10,255	13,662
Other benefits ⁽¹⁾	1,604	–
Total	\$ 18,546	\$ 20,825

(1) Represents the accelerated vesting of previously-granted RUR Units relating to the former President and CEO.

CAPREIT leases office space from a company in which a former officer had an 18% beneficial interest. The rent paid for the office space (which is based on fair market rents at the date the lease was entered into) for the year ended December 31, 2017 was \$1.1 million (2016 – \$1.0 million) excluding property operating costs, and has been expensed as trust expenses. In 2017, the above lease was amended and extended to October 2022 with a new minimum annual rental payment of \$611 from November 2017 to October 2022.

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 audited consolidated annual financial statements.

CAPREIT is contingently liable under guarantees provided to certain of CAPREIT's lenders for certain non-recourse debt 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

On February 22, 2018, CAPREIT announced that it has agreed to sell, subject to regulatory approval, 4,270,000 units at a price of \$35.15 per unit for aggregate gross proceeds of \$150.1 million to a syndicate of underwriters led by RBC Capital Markets on a bought-deal basis. CAPREIT has granted the underwriters an over-allotment option, exercisable in whole or in part up to 30 days after closing of the Offering, to purchase up to an additional 640,500 units to cover over-allotments, if any. CAPREIT intends to use the net proceeds to partially repay the Acquisition and Operating Facility and the remainder, if any, for future acquisitions, capital expenditures and for general trust purposes.

FUTURE OUTLOOK

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 same-property 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 ancillary 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 NOI over this period.

CAPREIT believes the strong defensive characteristics of its property portfolio, due to diversification by both geography and demographic sector, will serve to mitigate the negative impact of any future unfavourable economic conditions that certain regions may experience. CAPREIT intends to continue to seek opportunities to further diversify its property portfolio. While CAPREIT's strategy is to remain principally focused on its core Canadian markets, CAPREIT continues to consider select opportunities in other geographic markets.

On April 20, 2017, the Ontario government announced it will be introducing a bill in the legislature, which was passed, and changed the *Residential Tenancies Act, 2006*. The changes include extending rent control to units built after 1991, which were previously exempt. The change means annual rent increases for all tenants will be in accordance with the annual guideline increase established by the Landlord and Tenant Board ("the Board") with the exception of any rents above the approved annual guideline increase approved by the Board (as described below). As of December 31, 2017, only 3.7% of CAPREIT's total Ontario portfolio consisted of properties built after 1991. Additionally, as a resident-focused landlord, CAPREIT has consistently adhered to the government mandated rent guideline increase in the Province of Ontario for all of its Ontario properties, including those constructed after 1991.

Another proposed change is new incentives to developers for the construction of affordable rental housing. The key incentive will be an up-front provincial rebate of development cost charges. The government intends to free up more provincial land for building affordable housing, both for sale and for rental.

Effective May 15, 2017, CMHC introduced enhancements to its multi-unit mortgage loan insurance which are:

- Extending its affordable housing flexibilities to existing rental properties, including Social Housing projects with up to five years remaining in the operating agreement, to support the preservation of existing affordable housing. Previously, affordable housing flexibilities were only available for new rental properties.
- Expanding its definition of affordability to recognize federal, provincial, territorial or municipal housing objectives. The new affordability criteria also aligns with other CMHC initiatives and is intended to incent housing developers into the affordable rental housing market.
- Introducing greater underwriting flexibilities to better support key multi-unit market segments that address the rental housing needs of Canadians including standard apartments, student housing, single room occupancy ("SRO") projects, retirement homes, and supportive housing projects. Greater underwriting flexibility is provided surrounding non-residential space, furnished suites, bulk leases, amortization periods, off-campus student housing, second mortgages, non-recourse lending and personal guarantee requirements.
- Introducing a revised premium schedule aligned with CMHC's continued participation in market segments that address the rental needs of Canadians, and is reflective of the risks associated with those segments. The revised premium schedule also supports the expansion and preservation of affordable housing units. Premium surcharges will no longer be collected for construction advances, release of rental achievement holdback, student housing or retirement homes.

CAPREIT is currently assessing the impact of the above proposed changes and continues to monitor any new future developments.

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 maintains a 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 component of CAPREIT's ability to manage annual rental increases is determined by the annual guideline increases established by certain provincial governments, currently in Ontario and British Columbia, under rent control legislation that CAPREIT must adhere to in setting annual rental rates for renewing tenants. In the Province of Ontario and British Columbia, the guideline increase for 2018 was set at 1.8% and 4.0%, respectively. In 2017, the rent guideline increase has been set at 1.5% in Ontario and in British Columbia has been set at 3.7%. An amendment to the *Residential Tenancies Act, 2006*, enacted on June 19, 2012, set Ontario's annual rent increase guideline to not more than 2.5% beginning in 2013. The Ontario rent control legislation provides that landlords may apply to the Landlord and Tenant Board (the "Board") to raise rents by more than the approved AGI. The Board can allow such an AGI for: (i) eligible capital expenditures; (ii) unusually high increases in property taxes and/or utility costs; and (iii) increases in eligible security costs. The maximum AGI permitted in connection with eligible capital expenditures is three percent per year to a maximum of nine percent over a three-year period. These same limitations do not apply to AGI applications related to unusually high increases in property taxes and/or utilities, or increases in eligible security costs.

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

The following table summarizes the status of cumulative AGI applications filed as at December 31, 2017 and December 31, 2016 for the last three years:

December 31,	2017	2016
Number of Suites and Sites Filed	14,573	10,371
Applications Settled:		
Number of Applications	61	66
Term Weighted Average Total Increase ⁽¹⁾	2.84%	4.00%
Weighted Average Term (years) ^{(1), (2)}	1.66	1.86
Applications Outstanding:		
Number of Applications	39	10
Term Weighted Average Total Increase ⁽¹⁾	3.75%	2.56%
Weighted Average Term (years) ^{(1), (2)}	1.58	1.26

(1) Weighted by number of impacted suites filed.

(2) Represents the number of years over which the AGI application is expected to apply.

Second, Management continues to focus on reducing its operating costs as a percentage of total revenues. CAPREIT invests 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 continues 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 continues to prudently focus on accretive acquisitions that meet its strategic criteria and enhance CAPREIT's geographic diversification. From time to time, CAPREIT may also identify certain non-core assets for sale that do not conform to its current portfolio composition or operating strategies, or where Management believes their value has been maximized. Management believes the realization and reinvestment of capital are fundamental components of its growth strategy and demonstrate the success of its investment programs. In addition, Management has recently entered into and continues to prudently investigate the opportunity to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT or other vacant land.

Fifth, CAPREIT will continue to effectively manage interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce borrowing costs on its credit facilities, while appropriately staggering the maturity dates within its mortgage portfolio to ensure it is not exposed to a refinancing risk in any single year. 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 payout ratio. Management believes its successful equity financing and mortgage refinancing programs have resulted in CAPREIT possessing one of the strongest balance sheets in its industry, well suited to delivering consistent, stable and secure monthly cash distributions over the long term.

Management's Responsibility for Financial Statements

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

To assist management in the discharge of these responsibilities, management has established the necessary internal controls, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. These internal controls are designed to ensure that our financial records are reliable for preparing financial statements; other financial information; transactions are properly authorized and recorded; and assets are safeguarded.


As at December 31, 2017, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, of the design and operating effectiveness of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that evaluation, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

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

The consolidated financial statements have been further reviewed and approved by the Board of Trustees and its Audit Committee.

This committee meets regularly with management and the auditors, who have full and free access to the Audit Committee.

February 27, 2018



DAVID EHRLICH
President and
Chief Executive Officer



SCOTT CRYER
Chief Financial Officer

Independent Auditor's Report

February 27, 2018

To the Unitholders of Canadian Apartment Properties Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Canadian Apartment Properties Real Estate Investment Trust (CAPREIT) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated

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

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

Opinion

In our opinion, the consolidated financial statements presents fairly, in all material respects, the financial position of CAPREIT and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants,
Licensed Public Accountants
Toronto, Ontario

Consolidated Balance Sheets

(CA\$ Thousands)

As at December 31,

	Note	2017	2016
Non-Current Assets			
Investment properties	6	\$ 8,886,556	\$ 7,642,017
Other non-current assets	7	244,217	222,072
		9,130,773	7,864,089
Current Assets			
Other current assets	7	32,611	28,905
Cash and cash equivalents		23,786	–
		56,397	28,905
		\$ 9,187,170	\$ 7,892,994
Non-Current Liabilities			
Mortgages payable	9	\$ 3,348,213	\$ 3,265,469
Bank indebtedness	10	446,895	26,408
Unit-based compensation financial liabilities	11, 12	9,898	12,717
Other non-current liabilities	8	20,645	4,909
Deferred income tax liability	18	7,263	–
		3,832,914	3,309,503
Current Liabilities			
Mortgages payable	9	233,288	227,454
Unit-based compensation financial liabilities	11, 12	54,662	47,561
Accounts payable and accrued liabilities		81,411	92,704
Other current liabilities	8	9,547	8,464
Security deposits		32,352	29,975
Exchangeable Units	11	4,876	5,061
Distributions payable		14,714	14,123
		430,850	425,342
		\$ 4,263,764	\$ 3,734,845
Unitholders' Equity			
Unit capital		\$ 2,523,419	\$ 2,441,002
Accumulated other comprehensive income (loss) ("AOCL")	19	6,515	(12,586)
Retained earnings		2,393,472	1,729,733
		\$ 4,923,406	\$ 4,158,149
		\$ 9,187,170	\$ 7,892,994

See accompanying notes to consolidated financial statements.

Signed on behalf of the Trustees



DAVID EHRLICH
Trustee



MICHAEL STEIN
Trustee

Consolidated Statements of Income and Comprehensive Income

(CA\$ Thousands)

For the Year Ended December 31,

	Note	2017	2016
Operating Revenues			
Revenue from investment properties		\$ 638,842	\$ 596,831
Operating Expenses			
Realty taxes		(67,078)	(65,462)
Property operating costs		(178,506)	(164,422)
		(245,584)	(229,884)
Net Rental Income		393,258	366,947
Trust expenses		(32,569)	(32,122)
Unit-based compensation expenses	12	(26,074)	(19,897)
Fair value adjustments of investment properties	6	626,953	227,335
Realized loss on disposition of investment properties	5	(488)	(1,813)
Amortization of property, plant and equipment		(4,434)	(4,249)
Fair value adjustments of Exchangeable Units	11	(852)	(731)
Loss on derivative financial instruments	16	(11,866)	(397)
Interest and other financing costs	20	(126,144)	(117,263)
Foreign currency translation		3,515	4,441
Other income		22,921	17,236
Net Income Before Income Taxes		844,220	439,487
Current and Deferred Income Tax Expense	18	(7,409)	(7)
Net Income		\$ 836,811	\$ 439,480
Other Comprehensive Income,			
Including Items that may be reclassified subsequently to Net Income			
Amortization of losses from AOCL to interest and other financing costs	19	\$ 3,024	\$ 3,105
Change in fair value of derivative financial instruments	16, 19	630	1,644
Change in fair value of investments	19	4,957	3,109
Foreign currency translation		10,490	(5,914)
Other Comprehensive Income		\$ 19,101	\$ 1,944
Comprehensive Income		\$ 855,912	\$ 441,424

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

(CA\$ Thousands)

	Note	Unit Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Unitholders' Equity, January 1, 2017		\$ 2,441,002	\$ 1,729,733	\$ (12,586)	\$ 4,158,149
Unit Capital					
New Units Issued	13	1,037	–	–	1,037
Distribution Reinvestment Plan	13	51,732	–	–	51,732
Unit Option Plan	12, 13	7,599	–	–	7,599
Deferred Unit Plan	12, 13	2,051	–	–	2,051
RUR Plan	12, 13	13,010	–	–	13,010
Long-Term Incentive Plan	12, 13	5,401	–	–	5,401
Employee Unit Purchase Plan	12	1,587	–	–	1,587
		82,417	–	–	82,417
Retained Earnings and Other Comprehensive Income					
Net income		–	836,811	–	836,811
Other comprehensive income		–	–	19,101	19,101
		–	836,811	19,101	855,912
Distributions on Trust Units					
Distributions declared and paid	14	–	(158,358)	–	(158,358)
Distributions payable	14	–	(14,714)	–	(14,714)
		–	(173,072)	–	(173,072)
Unitholders' Equity, December 31, 2017		\$ 2,523,419	\$ 2,393,472	\$ 6,515	\$ 4,923,406

	Note	Unit Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Unitholders' Equity, January 1, 2016		\$ 2,222,747	\$ 1,451,736	\$ (14,530)	\$ 3,659,953
Unit Capital					
New Units issued	13	157,523	–	–	157,523
Distribution Reinvestment Plan	13	51,035	–	–	51,035
Deferred Unit Plan	12, 13	110	–	–	110
RUR Plan	12, 13	732	–	–	732
Long-Term Incentive Plan	12, 13	7,547	–	–	7,547
Employee Unit Purchase Plan	12	1,308	–	–	1,308
		218,255	–	–	218,255
Retained Earnings and Other Comprehensive Income					
Net income		–	439,480	–	439,480
Other comprehensive income		–	–	1,944	1,944
		–	439,480	1,944	441,424
Distributions on Trust Units					
Distributions declared and paid	14	–	(147,360)	–	(147,360)
Distributions payable	14	–	(14,123)	–	(14,123)
		–	(161,483)	–	(161,483)
Unitholders' Equity, December 31, 2016		\$ 2,441,002	\$ 1,729,733	\$ (12,586)	\$ 4,158,149

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(CA\$ Thousands)

For the Year Ended December 31,

	Note	2017	2016
CASH PROVIDED BY (USED IN):			
Operating Activities			
Net income		\$ 836,811	\$ 439,480
Items related to operating activities not affecting cash:			
Fair value adjustments – investment properties		(626,953)	(227,335)
Fair value adjustments – Exchangeable Units		852	731
Loss on disposition of investment properties	5	488	1,813
Loss on derivative financial instruments	16	11,866	397
Amortization	7, 19, 20	13,146	12,029
Unit-based compensation expenses		26,074	19,897
Straight-line rent adjustment		(231)	138
Deferred income tax expense		7,263	–
Net profit from equity-accounted investments		(15,344)	(10,600)
Foreign currency translation		(3,515)	(4,441)
		250,457	232,109
Net income items related to financing and investing activities	22	107,562	104,578
Changes in non-cash operating assets and liabilities	22	922	20,673
Cash Provided by Operating Activities		358,941	357,360
Investing Activities			
Acquisition of investment properties	22	(471,330)	(382,783)
Capital investments	22	(163,728)	(197,493)
Disposition of investment properties	22	16,734	31,321
Change in restricted cash		(121)	(846)
Investment income received		8,478	4,519
Cash Used in Investing Activities		(609,967)	(545,282)
Financing Activities			
Mortgage financings		464,516	635,768
Mortgage principal repayments		(119,458)	(102,522)
Mortgages repaid on maturity		(266,575)	(130,810)
Financing costs		(2,928)	(4,638)
CMHC premiums on mortgages payable		(4,902)	(11,492)
Interest paid	22	(111,138)	(109,097)
Bank indebtedness		427,925	(141,803)
Proceeds on issuance of Units	22	8,121	161,914
Net cash distributions to Unitholders	22	(120,749)	(109,398)
Cash Provided by Financing Activities		274,812	187,922
Changes in Cash and Cash Equivalents During the Year		23,786	–
Cash and Cash Equivalents, Beginning of the Year		–	–
Cash and Cash Equivalents, End of the Year		\$ 23,786	\$ –

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2017

(CA\$ Thousands, except Unit and per Unit amounts)

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"), principally located in and near major urban centres across Canada. CAPREIT's net assets and operating results are substantially derived from income producing real estate located in Canada, where it is also domiciled.

CAPREIT converted from a closed-end real estate investment trust to an open-ended mutual fund trust on January 8, 2008, and is governed under the laws of the Province of Ontario by a Declaration of Trust ("DOT") dated February 3, 1997, as most recently amended and restated on May 24, 2017. 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 Limited Partnership ("CAPLP") is a wholly-owned consolidated subsidiary of CAPREIT established under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated June 26, 2007, and as amended on April 1, 2008, owns directly or indirectly the beneficial interest of all its properties along with the related mortgages and all the corporate debt obligations of CAPREIT.

CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited, entered into an external investment management agreement to perform property and asset management services for Irish Residential Properties REIT plc ("IRES"), an Irish residential REIT listed on the Irish Stock Exchange. As at December 31, 2017, CAPREIT holds 65.5 million ordinary shares representing 15.7% of the issued share capital of IRES.

In addition, CAPREIT holds its Netherland properties through Netherlands partnerships with partners that hold a nominal interest in such partnerships.

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance

CAPREIT has prepared these consolidated annual financial statements in accordance with International Financial Reporting Standards ("IFRS") applicable to the preparation of consolidated annual financial statements. These policies have been consistently applied to all years presented, unless stated otherwise.

These consolidated annual financial statements were approved by CAPREIT's Board of Trustees on February 27, 2018.

b) Basis of presentation

These consolidated annual financial statements have been prepared on a going concern basis, presented in Canadian dollars, which is also CAPREIT's functional currency, and have been prepared on an historical cost basis except for:

- i) Investment properties and certain financial instruments, which are stated at fair value
- ii) Certain Unit-based compensation accounts, which are stated at fair value; and
- iii) Certain reclassifications have been made to the prior year's financial statements to enhance comparability with the current year's financial statements following CAPREIT's presentation of the non-controlling interest as a non-current liability. Previously, non-controlling interest of the shareholders of subsidiaries was presented in equity. The non-controlling interest related to the subsidiaries in The Netherlands has been classified as a financial liability as a result of a put option feature at the discretion of the minority shareholder, which allows it to require CAPREIT to purchase its interest at a future date.

As a result, certain line items in 2016 have been amended in the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statements of cash flow, and the related notes to the financial statements. Comparative figures have been adjusted to conform to the current year's presentation. The items that were reclassified in the 2016 financial statements are as follows: \$783 of non-controlling interest in unitholder equity reclassified to non-current liability, and \$67 of net loss related to non-controlling interest net loss reclassified to interest and other financing costs.

c) Principles of consolidation

- i) **Subsidiaries** These consolidated annual financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial period. CAPREIT and its subsidiaries are collectively referred to as "CAPREIT" in these consolidated annual financial statements. Subsidiaries are all entities over which CAPREIT has control. CAPREIT controls an entity when CAPREIT is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date control commences and deconsolidated from the date control ceases. Where CAPREIT consolidates a subsidiary in which it does not have 100% ownership, the non-controlling interest is classified as a financial liability.

ii) Joint arrangements CAPREIT has joint arrangements in and joint control of a number of properties. CAPREIT has assessed the nature of its joint arrangements and determined them to be joint operations. Joint operations are accounted for using the proportionate consolidation method. For joint operations, CAPREIT recognizes its share of revenues, expenses, assets and liabilities, which are included in their respective descriptions in the consolidated balance sheets and consolidated statements of income and comprehensive income. In general, CAPREIT has recourse against all of the assets of the joint operations in the event that CAPREIT is called on to pay liabilities in excess of its proportionate share.

All balances and effects of transactions between joint operations and CAPREIT have been eliminated to the extent of CAPREIT's interest in the joint operations.

iii) Investment in associates An associate is an entity over which the investor has significant influence, but not control. Generally, CAPREIT is considered to exert significant influence when it directly or indirectly holds 20% or more of the voting power of the investee. However, determining significant influence is a matter of judgement and specific circumstances; therefore, holding less than 20% of an entity does not necessarily preclude an entity from having significant influence as the entity may exert significant influence through representation on the board of trustees, direction of management or through contractual agreements.

The financial results of CAPREIT's associates are included in CAPREIT's consolidated financial statements using the equity method, whereby the investment is carried on the consolidated balance sheets at cost, adjusted for CAPREIT's proportionate share of post-acquisition changes in CAPREIT's share of the net assets of the associate. CAPREIT's share of profits and losses is recognized in other income in the consolidated statements of income and comprehensive income. The standard provides an exception to recognizing the share of the net assets of the associate if the reporting periods of the entity and the investee are not aligned, provided the information used in preparing the financial statements is not more than three months old. The standard further requires adjustments to this information for any significant transactions or events which may have occurred between the entity's reporting date and its investee's most recent reporting date. CAPREIT has applied this guidance in accounting for its investment in IRES.

At each reporting date, CAPREIT evaluates whether there is objective evidence that its interest in an associate is impaired. The entire carrying amount of the associate is compared to the recoverable amount, which is the higher of the value in use or fair value less costs to sell. The recoverable amount of the investment is considered separately.

d) Investment properties

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

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

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

The fair value of all of CAPREIT's investment properties is determined by qualified external appraisers annually. Management regularly undertakes a review of its investment property valuation between external appraisal dates to assess the continuing validity of the underlying assumptions, such as cash flows, capitalization rates and discount rates. These assumptions are tested against market information obtained from an independent appraisal firm. Where increases or decreases are warranted, the carrying values of CAPREIT's investment properties are adjusted. See notes 3 and 6 for a detailed discussion of the significant assumptions, estimates and valuation methods used.

e) Property asset acquisitions

At the time of acquisition of a property or a portfolio of investment properties, CAPREIT evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, Business Combinations (“IFRS 3”) is only applicable if it is considered that a business has been acquired. A business, according to IFRS 3, is defined as an integrated set of activities and assets conducted and managed for the purpose of providing a return to investors or lower costs or other economic benefits directly and proportionately to CAPREIT.

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, CAPREIT applies judgement when determining whether an integrated set of activities is acquired in addition to the property or portfolio of properties. Activities can include whether employees were assumed in the acquisition or an operating platform has been acquired.

When an acquisition does not represent a business as defined under IFRS 3, CAPREIT classifies these properties or a portfolio of properties as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at their fair values at the acquisition date. Acquisition-related transaction costs are capitalized to the property.

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

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

g) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and mainly comprise head office and regional offices leasehold improvements, corporate and information technology systems, and are presented within other non-current assets on the consolidated balance sheets. These items are amortized on a straight-line basis over their estimated useful lives ranging from three to five years, or, in the case of leasehold improvements, are amortized over the shorter of the lease term and their estimated useful lives ranging from 10 to 15 years.

h) Tenant inducements

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

i) Prepaid CMHC premiums

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

j) Financial instruments

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

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

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

Cash and cash equivalents and restricted cash Cash and cash equivalents include cash and short-term investments with an original maturity of three months or less. Restricted cash does not meet the definition of cash and cash equivalents and is included in other assets on the consolidated balance sheets. Interest earned or accrued on these financial assets is included in other income.

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

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

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

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

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

Determination of fair value The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair value of financial instruments is remeasured based on relevant market data. CAPREIT classifies the fair value for each class of financial instrument based on the fair value hierarchy. The fair value hierarchy distinguishes between market value data obtained from independent sources and CAPREIT's own assumptions about market value. See note 15 for a detailed discussion of valuation methods used for financial instruments quoted in an active market and instruments valued using observable data.

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

Derivatives not designated in a hedging relationship are measured at fair value with changes therein recognized directly through the consolidated statements of income and comprehensive income within net income.

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

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

k) Hedging relationships

CAPREIT has designated its interest rate swap agreement and forward interest rate contracts as cash flow hedges. At the inception of a transaction, CAPREIT documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. CAPREIT also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of income and comprehensive income under net income. Should a hedging relationship become ineffective and/or hedge accounting become no longer appropriate, previously unrealized gains and losses remain within AOCIL and are amortized to the relevant item in the consolidated statements of income and comprehensive income in the same periods during which the hedged items affect earnings, while future changes in the fair value of the hedging derivatives are recognized within net income in the consolidated statements of income and comprehensive income.

CAPREIT's Netherlands subsidiaries own and operate properties in The Netherlands, a foreign jurisdiction. It is exposed to foreign currency fluctuations arising between the functional currency of the foreign operation (the euro) and the functional currency of CAPREIT (the Canadian dollar). As such, CAPREIT entered into a hedge effective at the date of The Netherlands acquisition (December 23, 2016). CAPREIT hedged the net investment in The Netherlands foreign operations with €22,500 euro-denominated debt on CAPREIT's consolidated balance sheets. Any foreign currency gains or losses arising from the euro-denominated debt was offset by the foreign currency gain/loss arising from the investment in The Netherlands foreign operations. The effective portion of foreign exchange gains and losses on the €22,500 euro-denominated debt was recognized in OCI and the ineffective portion was recognized in net income. The hedge was discontinued in July 2017 when the euro-denominated debt was repaid.

l) Mortgages payable and bank indebtedness

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

m) Exchangeable Units

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

n) Comprehensive income

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

o) Accumulated Other Comprehensive Income (Loss) ("AOCL")

AOCL is included on the consolidated balance sheets as Unitholders' Equity and includes foreign currency translation relating to foreign operations and

the unrealized gains and losses of the changes in the fair value of cash flow hedges, derivatives and investments. The components of AOCL are disclosed in note 19.

p) Revenue recognition

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

Other income includes interest, dividends and management fees. Interest and dividend income are recognized as earned. Management fees are recorded as the services are provided.

q) Borrowing costs and interest on mortgages payable

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

r) Distributions

Distributions represent the monthly cash distributions on outstanding Trust Units.

s) Unit-based compensation and incentive plans

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

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

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

(1) For definitions of these plans refer to notes 11, 12 and 13.

(2) Vesting one-third on grant date, and one-third on each of the subsequent two grant anniversary dates.

(3) Vesting of the options is subject to satisfaction of performance criteria over the annual reporting period.

t) Consolidated statements of cash flows

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

u) Income taxes

CAPREIT is taxed as a Mutual Fund Trust for income tax purposes and intends, at the discretion of the Board of Trustees, to distribute its income for income tax purposes each year to Unitholders to such an extent that it would not be liable for income tax under Part I of the Income Tax Act (Canada) ("Tax Act"). Accordingly, no provision for current income taxes payable is required, with the exception of income earned in subsidiaries that reside in foreign jurisdictions, as discussed below. For a comprehensive discussion of CAPREIT's liability for tax purposes, see note 18.

CAPREIT and its wholly-owned subsidiaries satisfied certain conditions available to Real Estate Investment Trusts ("REITs") (the "REIT Exception") under amendments to the Tax Act intended to permit a corporate income tax rate of nil as long as the specified conditions continue to be met.

CAPREIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. Judgement is required in the estimation of income taxes and deferred income tax assets and liabilities in each of CAPREIT's operating jurisdictions. Income taxes may be paid on occasion where activities relating to the foreign subsidiaries are considered to be taxable in those countries.

Deferred income tax is recognized, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the consolidated balance sheet date, and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

v) Earnings per Unit

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

w) Foreign currency translation

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of CAPREIT and the presentation currency for the consolidated financial statements.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated into the functional currency using the prevailing rate of exchange at the consolidated balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of income and comprehensive income. Foreign exchange gains and losses are presented in the consolidated statements of income and comprehensive income.

In determining the functional currency of CAPREIT's foreign subsidiaries, CAPREIT considers factors such as (i) the currency that mainly influences sale prices for goods and services and the country whose competitive forces and regulations mainly determine the sale prices of those goods and services and (ii) the currency that mainly influences labour, material and other costs of providing goods and services. The functional currency for CAPREIT's Irish and Dutch subsidiaries is the euro.

The results and financial position of all the subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ii) Income and expenses for each statement of income and comprehensive income are translated at average exchange rates; and
- iii) All resulting exchange differences are recognized in other comprehensive income

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken into other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statements of income and comprehensive income.

x) Non-controlling interest

Non-controlling interest represents the interest of the minority shareholders in CAPREIT's foreign subsidiaries. The share of net assets, net earnings and other comprehensive income of subsidiaries attributable to non-controlling interest is reported as a financial liability as a result of a put option feature.

y) IFRIC 21, Levies

This is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

z) Impact of accounting standards effective January 1, 2017 on CAPREIT's current year financial statements:

IAS 12, Income Taxes – Deferred Tax This amendment clarifies (i) the requirements for recognizing deferred tax assets on unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base, and (iii) certain other aspects of accounting for deferred tax assets. This amendment came into effect for years beginning on or after January 1, 2017.

IAS 7, Statement of cash flows – Disclosures related to financing activities

This amendment includes the requirement for disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment came into effect on January 1, 2017. CAPREIT has applied this standard, which discloses the changes in mortgage liability and bank indebtedness liability. Please refer to note 22.

aa) Future accounting changes

As at February 27, 2018, the following new or amended IFRS have been issued by the International Accounting Standards Board ("IASB") and are expected to apply to CAPREIT for annual reporting periods beginning after December 31, 2017:

IFRS 9, Financial Instruments ("IFRS 9") The revised IFRS 9 incorporates requirements for the classification and measurement of financial liabilities over the existing derecognition requirements of IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 also introduces new requirements for classifying and measuring financial assets; specifically, investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss. IFRS 9 was further amended in November 2013 to: (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9); and (iii) remove the previous mandatory effective date of January 1, 2015.

The final amendment of IFRS 9 as at July 2014 included: (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward-looking "expected loss" impairment model; and (iii) a mandatory effective date for IFRS 9 for annual periods beginning on or after January 1, 2018. During 2017, CAPREIT performed an assessment of key areas within the scope of IFRS 9 which includes, but not limited to, the classification and measurement of mortgages and loans receivable and available-for-sale securities, as well as additional disclosures required by IFRS 7, "Financial Instruments – Disclosure" upon initial adoption of IFRS 9. CAPREIT intends to adopt the new standards on the required effective date of January 1, 2018 and will not restate

comparative information. Quoted equity instruments currently held as available-for-sale financial assets with unrealized gains and losses recorded in OCI will, instead, be measured at fair value through profit or loss, which will increase volatility due to unrealized gains and losses being recorded in profit or loss. The available-for-sale cumulative unrealized gain of \$8,858 related to those securities, which is currently presented as accumulated OCI, will be reclassified to retained earnings upon adoption. CAPREIT does not expect a significant impact on its balance sheet or equity, as a result of this change in classification and measurement.

IFRS 15, Revenue from Contracts with Customers This new standard on revenue recognition supersedes IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The new standard provides a single, comprehensive revenue recognition model. While early adoption is permitted for IFRS reporters, this standard is effective for the interim periods within years beginning on or after January 1, 2018. CAPREIT's assessment includes a review of relevant contracts for the following key areas which CAPREIT believes are in scope of IFRS 15 including, but not limited to, laundry, cable, common area maintenance recoveries, and property and asset management fees. CAPREIT has assessed the impact of IFRS 15 and has concluded that the pattern of revenue recognition will remain unchanged upon adoption of the standard. The impact may be limited to additional note disclosure on the disaggregation of its revenue streams. CAPREIT intends to adopt the new standard on the required effective date on modified retrospective basis without restatement of prior period comparatives.

IFRS 16, Leases This new standard on leases supersedes IAS 17, Leases and related interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract: i.e. the customer ('lessee') and the supplier ('lessor'). From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model. IFRS 16 is effective from January 1, 2019; however, a company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15, Revenue from Contracts with Customers. The Company is currently assessing the impact of IFRS 16 to its consolidated financial statements.

IAS 40, Investment Property This amendment clarifies when assets are transferred to, or from, investment properties. This amendment will come into effect on January 1, 2018.

IFRIC 23, Uncertainty Over Income Tax Treatments This new IFRS interpretation clarifies how the recognition and measurement requirements of IAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments and is effective for years beginning on or after January 1, 2019.

CAPREIT is currently assessing the impact of the above standards and amendments.

3 CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS, AND JUDGEMENTS

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

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

i) Valuation of investment properties

Investment properties are measured at fair value as at the consolidated balance sheet dates. Any changes in the fair value are included within net income in the consolidated statements of income and comprehensive income. Fair value is supported by independent external valuations or detailed internal valuations using market-based assumptions, each in accordance with recognized valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method and include estimating, among other things (all considered Level 3 inputs), future stabilized net operating income, capitalization rates, reversionary capitalization rates, discount rates and other future cash flows applicable to investment properties. Fair values for investment properties are classified as Level 3 in the fair value hierarchy as disclosed in note 15.

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

CAPREIT's internal valuations and the independent appraisals are both subject to significant judgements, estimates and assumptions about market conditions in effect as at the consolidated balance sheet date. See note 6 for

a detailed discussion of valuation methods and the significant assumptions and estimates used.

ii) Valuation of financial instruments

The fair value of derivative assets and liabilities is based on assumptions that involve significant estimates. The basis of valuation for CAPREIT's derivatives is set out in note 15. The fair values of derivatives reported may differ materially from the amount they are ultimately settled for if there is volatility between the valuation date and settlement date.

iii) Unit-based compensation

The fair values of Unit-based compensation financial liabilities are based on assumptions that involve significant estimates. The basis of valuation for CAPREIT's Unit-based compensation financial liabilities is set out in note 12; however, the fair values as at the reporting date may differ materially from how they are ultimately recognized if there is volatility in listed Unit prices, interest rates or other key assumptions between the valuation date and settlement date. Market assumptions, estimates and valuation methodology are discussed in note 12.

iv) Investment in Irish Residential Properties REIT plc ("IRES")

CAPREIT has determined that its investment in IRES should be accounted for using the equity method of accounting given the significant influence it has over IRES. In making the determination that CAPREIT does not control IRES, CAPREIT used judgement when considering the extent of its ownership interest in IRES, the level of its involvement, responsibilities and remuneration as IRES's investment manager and the control exerted over IRES by its independent Board of Directors. Management will reassess this conclusion should its ownership interest or the terms of the investment management agreement change.

v) Classification of interest paid on consolidated statements of cash flows

IFRS permits the classification of interest paid as operating cash flows because they enter into the determination of profit or loss, or alternatively as financing cash flows because they are costs of obtaining financial resources. CAPREIT has applied its judgement and concluded that debt financing, which is used to provide leveraged returns to its Unitholders, is an integral part of its capital structure and not directly associated with its principal revenue-producing activities. Therefore, interest paid is classified as a financing activity in CAPREIT's consolidated statements of cash flows.

4 RECENT INVESTMENT PROPERTY ACQUISITIONS

CAPREIT completed the following investment property acquisitions since January 1, 2016, which have contributed to the operating results effective from their respective acquisition dates:

For the Year Ended December 31, 2017

	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
February 28, 2017	32	Victoria	\$ 4,934	\$ — ⁽³⁾	— ⁽³⁾	— ⁽³⁾
May 3, 2017	256	Montréal	24,059	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 1, 2017	44	Maple Ridge	11,241	3,713	1.94%	3.33
July 12, 2017	849	The Netherlands	257,881	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁴⁾
August 8, 2017	54	The Netherlands	12,691	— ⁽⁵⁾	— ⁽⁵⁾	— ⁽⁵⁾
August 18, 2017	77	The Netherlands	20,384	— ⁽⁶⁾	— ⁽⁶⁾	— ⁽⁶⁾
November 17, 2017	16	Summerside, PEI	2,379	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
November 27, 2017	56	Summerside, PEI	7,814	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 1, 2017	540	The Netherlands	129,127	— ⁽⁷⁾	— ⁽⁷⁾	— ⁽⁷⁾
	1,924		\$ 470,510	\$ 3,713		

(1) Weighted average stated interest rate on mortgage funding.

(2) Weighted average term to maturity on mortgage funding.

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

(4) The acquisition comprised of 849 suites (142 affordable, 606 mid-tier, and 101 luxury) and was financed by a new non-amortizing mortgage of €100,842 (\$147,360) with a term to maturity of 7.5 years with an interest rate of 2.04%, a contribution from a non-controlling interest of €600 (\$889), and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(5) The acquisition was financed by a new non-amortizing mortgage of €5,043 (\$7,474) with a term to maturity of 7.5 years with an interest rate of 1.95% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(6) The acquisition comprised of 77 suites (28 mid-tier and 49 luxury) was financed by a new non-amortizing mortgage of €7,951 (\$11,856) with a term to maturity of 7.5 years with an interest rate of 1.95% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(7) The acquisition comprised of 540 suites (168 affordable, 78 mid-tier, and 294 luxury) was financed by a new non-amortizing mortgage of €49,914 (\$75,540) with a term to maturity of 5.0 years with an interest rate of 1.37% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

For the Year Ended December 31, 2016

	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
January 20, 2016	670	London	\$ 53,200	\$ — ⁽³⁾	— ⁽³⁾	— ⁽³⁾
April 12, 2016	12	Charlottetown	1,162	729	2.04%	3.7
April 26, 2016	71	Greater Toronto Area	16,630	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
May 11, 2016	55	Greater Toronto Area	10,178	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
May 11, 2016	144	Fort St. John	8,668	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 15, 2016	21	Victoria	2,643	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 30, 2016 ⁽⁴⁾	850	Ottawa	184,668	24,627	3.96%	6.3
September 15, 2016	71	Halifax	17,407	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
September 30, 2016	87	London	22,813	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 1, 2016	3	Bowmanville and Grand Bend	270	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 23, 2016 ⁽⁵⁾	568	The Netherlands	95,217	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
	2,552		\$ 412,856	\$ 25,356		

(1) Weighted average stated interest rate on mortgage funding.

(2) Weighted average term to maturity on mortgage funding.

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

(4) The acquisition comprised five properties consisting of 850 suites (185 affordable and 665 mid-tier suites) located in Ottawa, Ontario. The acquisition was financed by the assumption of a \$24,627 mortgage maturing in November 2022 with an interest rate of 3.96%, new CMHC insured 10 year mortgage financings aggregating to \$106,122 with a weighted average interest rate of 2.38%, and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(5) The acquisition was financed by a new non-amortizing mortgage of €40,660 (\$57,261) maturing January 1, 2024 with an interest rate of 2.05%, a contribution from a non-controlling interest of €600 (\$850), and the balance in euro cash from CAPREIT's Acquisition and Operating Facility presented in mortgages payable.

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

5 DISPOSITIONS

The tables below summarize the dispositions completed since January 1, 2016. These dispositions do not meet the definition of discontinued operations under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

Dispositions Completed During the Year Ended December 31, 2017

Disposition Date	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
February 15, 2017	31	Saskatoon	\$ 2,025	\$ 575	\$ 1,356
October 12, 2017	50	Vancouver	19,800	16,160	3,595
	81		\$ 21,825	\$ 16,735	\$ 4,951

Dispositions Completed During the Year Ended December 31, 2016

Disposition Date	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
July 27, 2016	145	Montréal	\$ 24,849	\$ 12,480	\$ 12,085
August 22, 2016	22	Montréal	2,340	2,282	–
September 28, 2016	412	Montréal	31,350	16,559	14,322
	579		\$ 58,539	\$ 31,321	\$ 26,407

For the year ended December 31, 2017 and 2016, a loss of \$488 and \$1,813, respectively, was recognized in connection with the property dispositions. The loss represents the difference between the net proceeds after transaction costs from the disposition compared to the fair value of the respective properties at the date of disposition.

6 INVESTMENT PROPERTIES

Valuation basis

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

The fair values of all of CAPREIT's investment properties are determined by qualified external appraisers annually. The qualified external appraisers hold recognized relevant professional qualifications and have recent experience in the location and category of the respective property. Each quarter, CAPREIT utilizes market assumptions for rent increases, capitalization and discount rates provided by the external appraisers to determine the fair value of the investment properties. Capitalization rates employed by the appraisers are based on recently closed transactions for similar properties. To the extent that the stabilized forecasted cash flows of an investment property change significantly in a quarter, the fair value of the investment property would be re-assessed by the external appraisers and the fair value adjusted accordingly.

Fair values for investment properties are classified as Level 3 in the fair value hierarchy, as disclosed in note 15. On an annual basis, CAPREIT verifies all major inputs (as detailed above) to the valuation and reviews the results with the external appraisers for all independent valuations. On a quarterly basis, the market assumptions for rent increases, capitalization and discount rates provided by the external appraisers are verified in determining the fair value of the investment properties.

Discussion of the valuation process, the valuation methodology (as mentioned below), key inputs and results is held between CAPREIT and the qualified external appraisers at least once every quarter, in line with CAPREIT's quarterly reporting dates.

Changes in Level 3 fair values are analyzed at each reporting date as part of the quarterly valuation discussion between CAPREIT and the qualified external appraisers. As part of this discussion, the external valuers present a report that explains the reasons for the fair value movements.

To determine fair value, CAPREIT first considers whether it can use current prices in an active market for a similar property in the same location and condition. CAPREIT has concluded there is insufficient market evidence on which to base investment property valuation using this approach, and has therefore determined to use the Direct Income Capitalization ("DC") and Discounted Cash Flow ("DCF") methods to arrive at the fair value of the investment properties. Investment properties have been valued using the following methods and key assumptions:

a) Fee Simple and MHC Land Lease Sites CAPREIT utilizes the DC method. Under this method, capitalization rates are applied to a stabilized net operating income ("NOI") representing market-based NOI assumptions (property revenue less property operating expenses adjusted for market-based assumptions such as long-term vacancy rates, management fees, R&M costs, and general and administration costs). The most significant assumption is the capitalization rate for each specific property. The capitalization rate is based on the actual location, size and quality of the property, taking into account any available market data at the

valuation date. Generally, an increase in stabilized NOI will result in an increase to the fair value of an investment property. An increase in the capitalization rate will result in a decrease in the fair value of an investment property. The capitalization rate magnifies the effect of a change in stabilized NOI, with a lower capitalization rate causing more change in stabilized NOI than would a higher capitalization rate.

b) Operating Leasehold Interests CAPREIT utilizes the DCF method. Under this method, discount rates are applied to the forecasted cash flows reflecting market-based leasing assumptions for that specific property as well as assumptions about renewal and new leasing activity. The most significant assumption is the discount rate applied over the initial term of the lease. The discount rate is generally the weighted average cost of capital that is appropriate to the cash flow risks for the investment property. In the case of one property, the forecasted cash flows are adjusted for contractual air rights payments and the discount rate is adjusted for uncertainty regarding the renegotiation of the air rights lease at the end of the term. Generally, an increase in forecasted cash flows will result in an increase to the fair value of an investment property. An increase in the discount rate will result in a decrease to the fair value of an investment property.

c) Options to Purchase the Related Operating Leasehold Interests

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

d) Land Leasehold Interests

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

A summary of the market assumptions and ranges for each type of property interest along with their fair values as at December 31, 2017 and December 31, 2016, is presented below:

As at December 31, 2017

Type of Interest	Fair Value	WA NOI/ Cash Flow ⁽¹⁾	Rate Type	Max	Min	Weighted Average
Fee Simple Interests –						
Apartments and Townhomes	\$ 7,645,106	2,834	Capitalization rate	7.59%	2.95%	4.33%
MHC Land Lease Sites	316,710	2,608	Capitalization rate	7.50%	4.67%	6.27%
Operating Leasehold Interests ^{(2), (3), (4)}	738,990	3,622	Discount rate ⁽⁵⁾	6.00%	5.50%	5.58%
Land Leasehold Interests ⁽²⁾	185,750	4,142	Discount rate	6.50%	6.35%	6.43%
Total Investment Properties	\$ 8,886,556					

As at December 31, 2016

Type of Interest	Fair Value	WA NOI/ Cash Flow ⁽¹⁾	Rate Type	Max	Min	Weighted Average
Fee Simple Interests –						
Apartments and Townhomes	\$ 6,524,337	2,411	Capitalization rate	7.93%	2.90%	4.54%
MHC Land Lease Sites	305,250	2,538	Capitalization rate	7.00%	4.26%	6.23%
Operating Leasehold Interests ^{(2), (3), (4)}	627,740	3,361	Discount rate ⁽⁵⁾	6.25%	5.50%	5.70%
Land Leasehold Interests ⁽²⁾	184,690	3,812	Discount rate	6.50%	6.50%	6.50%
Total Investment Properties	\$ 7,642,017					

(1) Weighted average ("WA") net operating income ("NOI") or cash flow by property fair value.

(2) 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 air rights or land lease payments over the term of the leases.

(3) The fair values of Operating Leasehold Interests include the fair values of the Options to purchase the related freehold interests of \$230,520 and \$149,140, respectively, as at December 31, 2017 and December 31, 2016.

(4) The weighted average remaining lease term on Operating Leasehold Interests is 15.8 years as at December 31, 2017 (December 31, 2016 – 16.8 years).

(5) Represents the discount rate used to determine the fair value for Operating Leasehold Interests using the Discounted Cash Flow ("DCF") method. A weighted average stabilized net operating income growth of 2.9% has been assumed as at December 31, 2017 and December 31, 2016.

Reconciliation of carrying amounts of investment properties by type

	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
For the Year Ended December 31, 2017				
Balance at the beginning of the year	\$ 6,829,587	\$ 627,740	\$ 184,690	\$ 7,642,017
Additions:				
Acquisitions	470,510	–	–	470,510
Property capital investments	139,607	11,279	3,997	154,883
Capitalized leasing costs ⁽¹⁾	(267)	419	868	1,020
Foreign currency translation	12,998	–	–	12,998
Dispositions	(21,337)	–	–	(21,337)
Realized loss on disposition of investment properties	(488)	–	–	(488)
Unrealized fair value adjustments	531,206	99,552	(3,805)	626,953
Balance of Investment Properties at end of the year	\$ 7,961,816	\$ 738,990	\$ 185,750	\$ 8,886,556

	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
For the Year Ended December 31, 2016				
Balance at the beginning of the year	\$ 6,069,250	\$ 598,690	\$ 195,200	\$ 6,863,140
Additions:				
Acquisitions	414,668	–	–	414,668
Property capital investments	172,629	16,073	7,040	195,742
Capitalized leasing costs ⁽¹⁾	700	33	185	918
Dispositions	(58,793)	–	–	(58,793)
Realized loss on dispositions of investment properties	(1,813)	–	–	(1,813)
Unrealized fair value adjustments	232,758	12,944	(17,735)	227,967
Balance of Investment Properties at end of the year	\$ 6,829,587	\$ 627,740	\$ 184,690	\$ 7,642,017

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

7 OTHER ASSETS

As at December 31,	2017	2016
Other Non-Current Assets		
Property, plant and equipment ⁽¹⁾	\$ 40,462	\$ 34,526
Accumulated amortization of property, plant and equipment	(25,795)	(21,365)
Net property, plant and equipment	14,667	13,161
Prepaid CMHC premiums, net ⁽²⁾	75,140	74,174
Deferred loan costs, net ⁽³⁾	1,153	1,345
Investment	30,915	25,958
Investment in associate ⁽⁴⁾	122,342	107,434
Total	\$ 244,217	\$ 222,072
Other Current Assets		
Prepaid expenses	\$ 5,947	\$ 5,559
Other receivables	9,178	13,137
Restricted cash	7,096	6,975
Deposits	10,390	3,234
Total	\$ 32,611	\$ 28,905

(1) Consists of head office and regional offices' leasehold improvements, corporate and information technology systems.

(2) Represents prepaid CMHC premiums on mortgages payable net of accumulated amortization of \$24,014 (December 31, 2016 – \$20,250).

(3) Represents deferred loan costs related to the revolving credit facilities net of accumulated amortization of \$9,264 (December 31, 2016 – \$8,486).

(4) CAPREIT has determined that its investment in IRES should be accounted for using the equity method of accounting given the significant influence it has over IRES. In making the determination that CAPREIT does not control IRES, CAPREIT used judgement when considering the extent of its ownership interest in IRES, the level of its involvement, responsibilities and remuneration as IRES's investment manager and the control exerted over IRES by its independent Board of Directors. As at December 31, 2017, CAPREIT concluded that it continues to exert significant influence over IRES. CAPREIT will continue to reassess this conclusion should its ownership interest or terms of the asset management agreement change. Refer to note 23 for further details. The table below discloses CAPREIT's ownership in IRES and IRES's share price:

As at December 31,	2017	2016
IRES Investment		
Share ownership (%)	15.7%	15.7%
Number of IRES shares	65,500,000	65,500,000
IRES share price (€)	1.50	1.17

8 OTHER LIABILITIES

As at December 31,	Note	2017	2016
Other Non-Current Liabilities			
Hedge liability	16	\$ 14,071	\$ 4,126
Redemption liability ⁽¹⁾		6,574	783
Total		\$ 20,645	\$ 4,909
Other Current Liabilities			
Mortgage interest payable		\$ 9,547	\$ 8,464
Total		\$ 9,547	\$ 8,464

(1) The non-controlling interest related to the subsidiaries in The Netherlands has been classified as a financial liability as a result of a put option feature which allows the minority shareholder at its discretion to require CAPREIT to purchase its interest at a future date.

9 MORTGAGES PAYABLE

As at December 31, 2017, mortgages payable bear interest at a weighted average effective rate of 3.17% (December 31, 2016 – 3.30%), and mature between 2018 and 2030. The effective interest rate as at December 31, 2017 includes 0.10% (December 31, 2016 – 0.10%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of \$32,494 included in AOCL. Approximately 100.0% of CAPREIT's mortgages payable are financed at fixed interest rates as at

December 31, 2017. Investment properties at fair value of \$8,581,816 have been pledged as security as at December 31, 2017. CAPREIT has investment properties with a fair value of \$304,740 as at December 31, 2017 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. As at December 31, 2017, unamortized deferred financing costs of \$11,630 and fair value adjustments of (\$3,538) are netted against mortgages payable.

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

As at December 31, 2017	Principal Amount	% of Total Principal
2018	\$ 233,288	6.5
2019	385,135	10.7
2020	332,064	9.3
2021	443,792⁽¹⁾	12.4
2022	497,182	13.9
Subsequent to 2022	1,698,132	47.2
	3,589,593	100.0
Deferred financing costs and fair value adjustments	(8,092)	
Total Portfolio	\$ 3,581,501	
As at December 31,	2017	2016
<i>Represented by:</i>		
Mortgages Payable – non-current ^{(1), (2)}	\$ 3,348,213	\$ 3,265,469
Mortgages Payable – current	233,288	227,454
	\$ 3,581,501	\$ 3,492,923

(1) Included in mortgages payable as at December 31, 2017 is a \$65,000 non-amortizing credit facility on two of the MHC land lease sites.

(2) Included in mortgages payable as at December 31, 2016 is a €92,900 (\$131,630) non-amortizing euro LIBOR borrowing. It was repaid in 2017. See note 10 for further details.

10 BANK INDEBTEDNESS

Effective June 30, 2017, CAPREIT amended its credit agreement to, among other things: (i) allow for US base rate and US LIBOR advances and (ii) amend the “conversion date” for when the revolving facility converts to a two-year non-revolving term facility to June 30, 2018.

Effective June 30, 2016, CAPREIT amended its credit agreement to, among other things: (i) increase its credit facilities to \$505,000 in the aggregate; (ii) increase the maximum amount of its existing \$340,000 revolving credit facility to \$440,000 (the “Acquisition and Operating Facility”); (iii) add an additional lender in the syndicate thereto; (iv) amend the tangible net worth requirement to \$1,500,000; and (v) extend the maturity date of the existing \$65,000 five-year non-revolving term credit facility to June 30, 2021. In respect of the Acquisition and Operating Facility, effective December 19, 2016, the aggregate amount of euro LIBOR borrowings at any time shall not exceed €150,000 while the Canadian dollar equivalent of the aggregate principal amount of all advances (including the euro LIBOR and US LIBOR borrowings) under the Acquisition and Operating Facility shall not exceed \$440,000. Effective November 24, 2017, CAPREIT amended its credit agreement to, among other things: (i) increase its Acquisition and Operating

Credit Facility by \$100,000 to \$540,000 and (ii) amend the tangible net worth requirement to \$1,800,000.

CAPREIT’s Credit Facilities include the \$540,000 Acquisition and Operating Facility, and the existing \$65,000 five-year non-revolving term credit facility (collectively, the “Credit Facilities”). The \$65,000 five-year non-revolving term credit facility bears interest at the bankers’ acceptance rate plus 1.4% per annum (included in mortgages payable). As at December 31, 2017, CAPREIT has US LIBOR borrowings of USD \$187,000 that bears the US LIBOR rate plus a margin of 1.65% per annum. CAPREIT has euro LIBOR borrowings of €47,000 included in bank indebtedness that bears interest at the euro LIBOR rate plus a margin of 1.65% per annum. The margins are renegotiated annually. The interest rate on the Acquisition and Operating Facility is determined by interest rates on prime advances and bankers’ acceptances utilized during the year. The Acquisition and Operating Facility matures June 30, 2020. The Credit Facilities are subject to compliance with the various provisions of the Credit Facilities in order to fund operations, acquisitions, capital improvements, letters of credit and other uses.

Acquisition and Operating Facility

As at December 31,

	2017	2016
Facility	\$ 540,000	\$ 440,000
Less:		
USD LIBOR borrowings	(234,592)	
Euro LIBOR borrowings	(70,744)	(131,630) ⁽¹⁾
Bank indebtedness	(141,559)	(26,408)
Letters of credit	(6,313)	(6,040)
Available borrowing capacity	\$ 86,792	\$ 275,922
Weighted average floating interest rate	1.82%	2.55%

(1) Included in mortgages payable. Refer to note 9 for further details.

11

UNIT-BASED COMPENSATION FINANCIAL LIABILITIES AND EXCHANGEABLE UNITS

Units are issuable pursuant to CAPREIT's Unit-based compensation plans, namely the Unit Option Plan ("UOP"), the Employee Unit Purchase Plan ("EUPP"), the Deferred Unit Plan ("DUP") and the Restricted Unit Rights Plan ("RUR Plan") (each of which is more fully described in note 12). As at December 31, 2017, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 9,500,000 Units (December 31, 2016 – 9,500,000). The maximum number of Units available for future

issuance under all Unit incentive plans as at December 31, 2017 is 1,077,977 Units (December 31, 2016 – 1,346,980 Units).

On April 4, 2014, the Long-Term Incentive Plan ("LTIP"), the Senior Executive Long-Term Incentive Plan ("SELTIP"), and the Unit Purchase Plan ("UPP") were terminated by the trustees of CAPREIT, although awards previously granted under the LTIP and SELTIP remain outstanding under the original terms of such plans.

The Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans and Exchangeable Units as at December 31, 2017 and 2016 are as follows:

<i>(Number of Units)</i>						
Year Ended December 31, 2017	UOP	DUP	RUR	SELTIP/ LTIP ⁽¹⁾	Exch. Units ⁽²⁾	Total
Units, Unit Rights and Unit Options outstanding as at January 1, 2017	1,488,212	285,876	718,398	1,185,398	161,311	3,839,195
Issued, cancelled or granted during the year:						
Issued or granted	–	24,787	161,369	–	–	186,156
Exercised or settled	(224,250)	(60,708)	(383,597)	(160,000)	(30,656)	(859,211)
Cancelled	–	–	(3,646)	–	–	(3,646)
Distributions reinvested	–	10,204	29,456	–	–	39,660
Units, Unit Rights and Unit Options outstanding as at December 31, 2017	1,263,962	260,159	521,980	1,025,398	130,655	3,202,154

<i>(Number of Units)</i>						
Year Ended December 31, 2016	UOP	DUP	RUR	SELTIP/ LTIP ⁽¹⁾	Exch. Units ⁽²⁾	Total
Units, Unit Rights and Unit Options outstanding as at January 1, 2016	1,334,432	248,076	586,313	1,445,398	161,311	3,775,530
Issued, cancelled or granted during the year:						
Issued or granted	153,780	34,481	131,772	–	–	320,033
Exercised or settled	–	(7,500)	(28,364)	(260,000)	–	(295,864)
Distributions reinvested	–	10,819	28,677	–	–	39,496
Units, Unit Rights and Unit Options outstanding as at December 31, 2016	1,488,212	285,876	718,398	1,185,398	161,311	3,839,195

- (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 130,655 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 these 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 an amortized cost of \$4,876 as at December 31, 2017 (December 31, 2016 – \$5,061), which approximates the closing price of the Trust Units.

NOTES TO
CONSOLIDATED FINANCIAL
STATEMENTS

The table below summarizes the change in the total Unit-based compensation financial liabilities for the years ended December 31, 2017 and 2016, including the settlement of such liabilities through the issuance of Trust Units.

As at December 31,	2017	2016
Total Unit-based compensation financial liabilities, beginning of the year	\$ 60,278	\$ 46,163
Unit-based compensation expenses	25,809	19,679
Settlement of Unit-based compensation awards for Trust Units	(21,527)	(5,564)
Total Unit-based compensation financial liabilities, end of the year	\$ 64,560	\$ 60,278

The Unit-based compensation financial liabilities comprise:

As at December 31,	2017	2016
Current		
LTIP	\$ 14,039	\$ 13,757
SELTIP	14,620	11,192
DUP	9,703	8,968
RUR	4,874	5,391
UOP	11,426	8,253
	54,662	47,561
Non-Current		
RUR	9,898	12,717
Total Unit-based compensation financial liabilities, end of the year	\$ 64,560	\$ 60,278

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

As at December 31, 2017, 1.0% (December 31, 2016 – 3.2%) of all Trust Units outstanding were held by trustees, officers and other senior management of CAPREIT.

Normal course issuer bid (“NCIB”)

The table below summarizes the NCIB programs in place since January 1, 2016. No Trust Units were acquired and cancelled under these NCIB programs.

Period covered under the NCIB	Approval Limit
July 28, 2015 to July 27, 2016	11,493,069

12 UNIT-BASED COMPENSATION EXPENSES

These costs represent Unit-based compensation expenses, which include fair value remeasurement at each reporting date recognized over the respective vesting periods for each plan for the years ended December 31, 2017 and 2016, as follows:

Year Ended December 31,	2017	2016
UOP	\$ 6,220	\$ 3,903
LTIP	3,647	3,913
SELTIP	3,428	2,778
DUP	2,790	2,544
RUR Plan	9,724	6,541
EUPP	265	218
Unit-based Compensation Expenses	\$ 26,074	\$ 19,897

a) UOP

Under the terms of the UOP, options are granted to trustees, officers and key employees based on a performance incentive for improved service and enhancing profitability. In February 2010, the former President and CEO's employment agreement was amended to provide that during his term, the former President and CEO would be awarded options to acquire three percent (3%) of the number of Units issued by the Trust pursuant to any equity offering or acquisition transaction (not including pursuant to any compensation arrangements) at the market price of the Units at the time of completion of each such treasury issuance, in accordance with the terms of the UOP, as amended from time to time.

On August 3, 2016, the former President and CEO was granted 153,780 options at an exercise price of \$32.40 with an expiration date of August 3, 2026 with an intrinsic value of \$4.07 per option at the date of grant. The vesting of the options granted in 2016 is subject to satisfaction of performance criteria over the annual reporting period before they may be exercisable. As at December 31, 2016, the options granted in 2016 have vested.

A summary of Unit option activity for the years ended December 31, 2017 and 2016 is presented below. All Unit options are exercisable as at December 31, 2017 and 2016.

(Number of Units)

For the Year Ended December 31,	2017	2016
Balance, beginning of the year	1,488,212	1,334,432
Granted	–	153,780
Exercised	(224,250)	–
Balance, end of the year	1,263,962	1,488,212

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 December 31,	2017	2016
Number of Units	1,263,962	1,488,212
Weighted average issue price	\$ 26.22	\$ 25.33
Weighted average risk-free rate (%)	1.9	1.4
Weighted average distribution yield (%)	3.4	4.0
Weighted average expected years	6.4	7.0
Weighted average volatility (%)	17.0	19.4
Weighted average Unit option value	\$ 9.04	\$ 5.55

b) LTIP and SELTIP

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

The LTIP and SELTIP were terminated on April 4, 2014 by the Trustees of CAPREIT, although awards previously granted remain outstanding. The terms of the LTIP and SELTIP continue in effect as long as any awards pursuant to the LTIP and SELTIP remain outstanding.

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

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

Year Ended December 31,	2017		2016	
	LTIP	SELTIP	LTIP	SELTIP
Number of Units				
Balance, beginning of the year	630,683	554,715	890,683	554,715
Settled during the year	(160,000)	–	(260,000)	–
Balance, end of the year	470,683	554,715	630,683	554,715

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

Year Ended December 31,	2017		2016	
	LTIP	SELTIP	LTIP	SELTIP
Instalment Receipts				
Balance, beginning of the year	\$ 6,193	\$ 7,180	\$ 9,800	\$ 7,499
Principal repayments during the year	(2,526)	(358)	(3,607)	(319)
Balance, end of the year	\$ 3,667	\$ 6,822	\$ 6,193	\$ 7,180

The Instalment Receipts are recognized as a deduction from Unit-based compensation liability. During the years ended December 31, 2017 and 2016 interest payments in the amounts of \$582 and \$696, respectively, were applied to the outstanding Unit-based compensation liability. The outstanding balance of the instalment receivable is used in determining the fair value of the Unit and the related fair value adjustments.

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

LTIP	As at December 31,	
	2017	2016
Number of Units	470,683	630,683
Weighted average loan rate (%)	4.55	4.62
Weighted average issue price	\$ 14.32	\$ 15.15
Weighted average loan balance per Unit – current	\$ 7.50	\$ 9.57
Weighted average loan balance per Unit – at maturity	\$ 6.70	\$ 8.13
Weighted average risk-free rate (%)	1.7	0.8
Weighted average distribution yield (%)	3.4	4.0
Weighted average expected years	0.9	1.6
Weighted average volatility (%)	13.6	19.1
Weighted average Unit value	\$ 29.83	\$ 21.81

SELTIP	As at December 31,	
	2017	2016
Number of Units	554,715	554,715
Weighted average loan rate (%)	4.96	4.96
Weighted average issue price	\$ 17.84	\$ 17.84
Weighted average loan balance per Unit – current	\$ 12.07	\$ 12.74
Weighted average loan balance per Unit – at maturity ⁽¹⁾	\$ 1.42	\$ 1.80
Weighted average risk-free rate (%)	2.0	1.7
Weighted average distribution yield (%)	3.4	4.0
Weighted average expected years	18.3	19.3
Weighted average volatility (%)	20.6	23.7
Weighted average Unit value	\$ 26.36	\$ 20.18

(1) Balance at maturity is based on the assumption SELTIP will be held till the end of the 30 year term.

c) DUP

The DUP gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred units (“Deferred Units”). Each trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the “Elected Percentage”) of their annual retainer payable in respect of a calendar year (the “Elected Amount”), subject to an annual maximum Elected Percentage established by the Human Resources and Compensation Committee, in the form of Deferred Units, in lieu of cash. CAPREIT will match the Elected Amount in the form of Deferred Units having a value equal to the volume weighted average price of all Units traded on the TSX for the five trading days immediately preceding the date on which board compensation is payable. The maximum Elected Percentage in respect of 2017 is 100% (2016 – 100%) of a trustee’s annual board compensation of \$75 for 2017 and 2016.

The Deferred Units earn notional distributions based on the same distributions paid on the Units, and such notional distributions are used to acquire additional Deferred Units ("Distribution Units"). The Deferred Units and additional Distribution Units are credited to each trustee's Deferred Unit account and are not issued to the trustee until the trustee elects to withdraw such Units. Each trustee may elect to withdraw up to 20% of the Deferred

Units credited to their Deferred Unit account only once in a five-year period. The fair value of the Distribution Units represents the closing price of the Units on the TSX on the distribution date.

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

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

December 31,	2017			2016		
	Weighted Avg. Issue Price	Fair Value per Unit	Number of Units	Weighted Avg. Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the year	\$ 23.85	\$ 31.37	285,876	\$ 21.87	\$ 26.84	248,076
Granted during the year	34.32	–	24,787	30.94	–	34,481
Additional Unit distributions	33.70	–	10,204	30.02	–	10,819
Settled during the year	25.03	–	(60,708)	21.24	–	(7,500)
Outstanding, end of the year	\$ 24.34	\$ 37.32	260,159	\$ 23.85	\$ 31.37	285,876

d) RUR Plan

In 2010, CAPREIT adopted the RUR Plan as the primary plan through which long-term incentive compensation will be awarded. The RUR Plan was approved by Unitholders on May 19, 2010. The Human Resources and Compensation Committee of the Board of Trustees may award RURs, subject to the attainment of specified performance objectives to certain officers and key employees (collectively the "Participants"). The purpose of the RUR Plan is to provide its Participants with additional incentive and to further align the interests of its Participants with Unitholders through the use of RURs which, on vesting, are exercisable for Units. RUR Plan Units will be issued from treasury on vesting. The RURs vest in their entirety on the third anniversary of the grant date. The RURs earn notional

distributions in respect of each distribution paid on RURs commencing from the grant date and such notional distributions are used to calculate additional RURs ("Distribution RURs"), which are accrued for the benefit of the Participants. The Distribution RURs are credited to the Participants only when the underlying RURs on which the Distribution RURs are earned become vested. The fair value of the Distribution RURs is based on the five-business-day weighted average closing price of the Units on the TSX prior to the distribution date.

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

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

December 31,	2017			2016		
	Weighted Avg. Issue Price	Fair Value per Unit	Number of Units	Weighted Avg. Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the year	\$ 24.25	\$ 31.37	718,398	\$ 22.78	\$ 26.84	586,313
Granted during the year	32.02	–	161,369	28.64	–	131,772
Additional Unit distributions	33.46	–	29,456	29.95	–	28,677
Settled or cancelled during the year	24.33	–	(387,243)	20.14	–	(28,364)
Outstanding, end of the year	\$ 27.11	\$ 37.32	521,980	\$ 24.25	\$ 31.37	718,398

e) EUPP

The EUPP grants all employees the right to receive an additional amount equal to 20% of the Units they acquire, paid in the form of additional Units. This additional amount is expensed as compensation on issuance of the Units.

13 UNITHOLDERS' EQUITY

All Trust Units outstanding are fully paid, have no par value and are voting Trust Units. The authorized capital of CAPREIT consists of an unlimited number of Units, an unlimited number of Special Voting Units and 25,840,600 Preferred Units. As at December 31, 2017, no Preferred Units were issued and outstanding. Trust Units represent a Unitholder's proportionate undivided beneficial interest in CAPREIT. No Trust Unit has any preference or priority over another. No Unitholder has or is deemed to have any right of ownership in any of the assets of CAPREIT. Each Unit confers the right to one vote at any meeting of Unitholders and to participate pro rata in any distributions by CAPREIT and, in the event of termination of CAPREIT, in the net assets of CAPREIT remaining after satisfaction of all liabilities. Units will be issued in registered form and are transferable. Issued and outstanding Units may be subdivided or consolidated from

time to time by the trustees without Unitholder approval. No certificates for fractional Units will be issued and fractional Units will not entitle the holders thereof to vote.

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

The number of issued and outstanding Trust Units (excluding Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans) is as follows:

For the Year Ended December 31,

	Ref	2017	2016
Units outstanding, beginning of the year		134,388,458	127,139,897
Issued or granted during the year in connection with the following:			
New Units issued	(a)	–	5,126,000
Exchangeable Units	(b)	30,656	–
Distribution Reinvestment Plan ("DRIP")	(c)	1,617,392	1,791,680
EUPP	(d)	46,833	43,542
DUP	(e)	60,708	3,529
RUR Plan	(f)	383,595	23,810
UOP	(g)	224,250	–
LTIP	(h)	160,000	260,000
Units outstanding, end of the year		136,911,892	134,388,458

a) New Units Issued in 2016

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
August 2016 (the "August 2016 Equity Offering")					
Bought-Deal (August 3, 2016)	\$ 32.20	\$ 150,052	\$ 6,902	\$ 143,150	\$ 4,660,000
Over-allotment (August 3, 2016)	\$ 32.20	15,005	600	14,405	466,000
Total		\$ 165,057	\$ 7,502	\$ 157,555	\$ 5,126,000

b) Exchangeable Units

During 2017, pursuant to the terms of the Exchangeable Units, 30,656 Exchangeable Units were exchanged for 30,656 Trust Units.

c) Distribution Reinvestment Plan ("DRIP")

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

d) Employee Unit Purchase Plan ("EUPP")

The EUPP grants all employees the right to receive an additional amount equal to 20% of the Units they acquire, paid in the form of additional Units.

e) Deferred Unit Plan ("DUP")

During 2017, in accordance with the DUP, two former trustees exercised 60,708 Deferred Units and were settled for an equivalent number of Trust Units. During 2016, in accordance with the DUP, one trustee exercised 7,500 Deferred Units, out of which 3,529 DUP Units were settled for an equivalent number of Trust Units, and the remaining DUP Units were cancelled in consideration for withholding taxes owed on the Trust Units issued.

f) Restricted Unit Rights Plan (“RUR Plan”)

During 2017, 387,243 RUR Units were settled, out of which 383,595 RUR Units were settled for an equivalent number of Trust Units, 3,646 RUR Units were cancelled, and the remaining RUR Units were settled in cash. During 2016, 28,364 RUR Units were settled, out of which 23,810 RUR Units were settled for an equivalent number of Trust Units, and the remaining RUR Units were cancelled in consideration of withholding taxes owed on the Trust Units issued.

g) Unit Option Plan (“UOP Plan”)

During 2017, 224,250 options were exercised and an equivalent number of Trust Units were issued.

h) Long-Term Incentive Plan (“LTIP”)

During 2017 and 2016, 160,000 Units and 260,000 Units, respectively, previously issued were settled. The remaining instalments were repaid in full in respect of the settled Units.

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. Effective March 2017, monthly cash distributions declared to Unitholders increased to \$0.1067 (\$1.28 annually) compared to \$0.1042 (\$1.25 annually) since June 2016 and \$0.1017 (\$1.22 annually) since May 2015.

Year Ended December 31,	2017	2016
Distributions declared on Trust Units	\$ 173,072	\$ 161,483
Distributions per Unit	\$ 1.275	\$ 1.238

15

FINANCIAL INSTRUMENTS, INVESTMENT PROPERTIES AND RISK MANAGEMENT

a) Fair value of financial instruments

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

As at December 31, 2017, the fair value of CAPREIT’s mortgages payable is estimated to be \$3,554,000 (December 31, 2016 – \$3,569,000) due to changes in interest rates since the dates the individual mortgages were financed and the impact of the passage of time on the primarily fixed rate nature of CAPREIT’s mortgages. The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions, which are considered Level 2 inputs (as described below).

CAPREIT has classified and disclosed the fair value for each class of financial instrument based on the fair value hierarchy in accordance with IFRS 13. The fair value hierarchy distinguishes between market value data obtained from independent sources and CAPREIT’s own assumptions about market value. The hierarchy levels are defined below:

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

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

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

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

The following table presents CAPREIT's estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as at December 31, 2017, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts CAPREIT could ultimately realize.

	Level 1 Quoted prices in active markets for identical assets and liabilities	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Total
Recurring Measurements				
Assets				
Investment properties				
Fee simple and MHC land lease sites	\$ -	\$ -	\$ 7,961,816 ⁽¹⁾	\$ 7,961,816
Operating leasehold interests	-	-	738,990 ⁽¹⁾	738,990
Land leasehold interests	-	-	185,750 ⁽¹⁾	185,750
Investments	30,915 ⁽²⁾	-	-	30,915
Liabilities				
Derivative financial instruments – interest	-	(57) ⁽³⁾	-	(57)
Derivative financial instruments – cross currency swap	-	(14,014) ⁽³⁾	-	(14,014)
Total	\$ 30,915	\$ (14,071)	\$ 8,886,556	\$ 8,903,400

(1) Fair values for investment properties are calculated using the direct income capitalization and discounted cash flow methods, which results in these measurements being classified as Level 3 in the fair value hierarchy. See note 6 for detailed information on the valuation methodologies and fair value reconciliation.

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

(3) The valuations of the interest rate swap and cross-currency swap instruments are determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. The fair value is determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. If the total mark-to-market value is positive, CAPREIT will consider a current value adjustment to reflect the credit risk of the counterparty and, if the total mark-to-market value is negative, CAPREIT will consider a current value adjustment to reflect CAPREIT's own credit risk in the fair value measurement of the interest rate swap agreements.

Although CAPREIT has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by CAPREIT itself. As at December 31, 2017, CAPREIT has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of the derivative. As a result, CAPREIT has determined that the derivative valuations in their entirety should be classified as Level 2 of the fair value hierarchy.

b) Risk management

The main risks arising from CAPREIT's financial instruments are interest rate, liquidity, credit and foreign currency 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 or different financing terms from the hedging derivative assumptions, which may result in the hedging relationship being ineffective, causing volatility in earnings.

For the year ended December 31, 2017 and 2016, 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	
		2017	2016	2017	2016
Floating rate debt	+100	\$ (936)	\$ (1,382)	\$ -	\$ -
Floating rate debt	-100	\$ 936	\$ 1,382	\$ -	\$ -
Interest rate swap agreements	+100	\$ -	\$ -	\$ 2,863	\$ 3,550
Interest rate swap agreements	-100	\$ -	\$ -	\$ (3,002)	\$ (3,757)
Euro interest rate swap agreements	+100	\$ -	\$ 1,150	\$ -	\$ -
Euro interest rate swap agreements	-100	\$ -	\$ (1,116)	\$ -	\$ -
Cross currency swap ⁽¹⁾	+100	\$ 7,981	\$ -	\$ -	\$ -
Cross currency swap ⁽¹⁾	-100	\$ 572	\$ -	\$ -	\$ -

(1) Represents the parallel interest rate shift of both the LIBOR and EURIBOR forward rates.

CAPREIT's objective in managing interest rate risk is to minimize the volatility of earnings. As at December 31, 2017, interest rate risk has been minimized as approximately 100.0% (December 31, 2016 – 97.9%) of the mortgages payable are financed at fixed interest rates, with maturities staggered over a number of years.

Liquidity risk Liquidity risk is the risk that CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 97.0% of CAPREIT's mortgages are CMHC-insured (excluding \$372,647 of mortgages on the MHC), which reduces the risk in refinancing mortgages. CAPREIT's overall risk for mortgage refinancings is further reduced as the unamortized mortgage insurance premiums

are transferable between approved lenders and are effective for the full amortization period of the underlying mortgages, ranging between 25 and 35 years. To mitigate the risk associated with the refinancing of maturing debt, CAPREIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAPREIT manages its overall liquidity risk by maintaining sufficient available credit facilities and unencumbered assets to fund its ongoing operational and capital commitments, distributions to Unitholders, and to provide future growth in its business. As at December 31, 2017, CAPREIT had undrawn lines of credit in the amount of \$86,792 (December 31, 2016 – \$275,922).

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at December 31, 2017 are as follows:

	2018	2019–2020	2021–2022	2023 onward
Mortgages payable	\$ 233,288	\$ 717,199	\$ 940,974	\$ 1,698,132
Bank indebtedness	-	446,895	-	-
Mortgage interest ⁽¹⁾	103,526	177,369	127,871	113,935
Bank indebtedness interest ⁽¹⁾	8,151	12,205	-	-
Other liabilities	90,958	20,588	57	-
Security deposits	32,352	-	-	-
Exchangeable Units	4,876	-	-	-
Distributions payable	14,714	-	-	-
	\$ 487,865	\$ 1,374,256	\$ 1,068,902	\$ 1,812,067

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

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

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

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

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

is established. The maximum exposure to credit risk at the reporting date is the carrying value of the tenant receivables.

Foreign currency risk Foreign currency risk is the financial risk exposure to unanticipated changes in the exchange rate between two currencies. CAPREIT is exposed to foreign currency risk as CAPREIT's functional and presentation currency is the Canadian dollar while the functional currency of CAPREIT's fund management subsidiary in Dublin, Ireland, investment in IRES and CAPREIT's subsidiaries in The Netherlands is the euro.

CAPREIT manages and mitigates the exposure to foreign currency risk on its investment in IRES and subsidiaries in The Netherlands with its US LIBOR borrowings, cross-currency swap, and euro LIBOR borrowings. The gain or loss on foreign currency translation relating to CAPREIT's subsidiaries in Dublin, Ireland, and the Netherlands and IRES investment is recognized in other comprehensive income. The mark-to-market on the cross-currency swap and foreign exchange translation on the US LIBOR and euro LIBOR borrowings are recognized in the consolidated statement of income.

16

REALIZED AND UNREALIZED GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

a) Contracts for which hedge accounting is no longer effective

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

CAPREIT settled these Interest Rate Forward Contracts in 2009. The associated cumulative unamortized loss of \$9,908 included in AOCL at September 30, 2008 is being amortized to mortgage interest expense over the original terms of the hedged contracts. For the year ended December 31, 2017, \$712 (December 31, 2016 – \$784) was amortized from AOCL to mortgage interest expense.

ii) CAPREIT's Netherlands subsidiaries own and operate properties in The Netherlands, a foreign jurisdiction. They are exposed to foreign currency fluctuations arising between the functional currency of the foreign operation (the euro) and the functional currency of CAPREIT (the Canadian dollar). As such, CAPREIT entered into a hedge effective at the date of The Netherlands acquisition (December 23, 2016). CAPREIT hedged the net investment in The Netherlands foreign operations with €22,500 euro-denominated debt on CAPREIT's consolidated balance sheet. Any foreign currency gains/losses arising from the euro-denominated debt was offset by the foreign currency gain/loss arising from the investment in The Netherlands foreign operations. The effective portion of foreign

exchange gains and losses on the €22,500 euro-denominated debt was recognized in OCI. The hedge became ineffective July 2017 when the euro-denominated debt was repaid.

iii) As at December 31, 2017, CAPREIT has a \$65,000 interest rate swap agreement fixing the bankers' acceptance rate at 2.20%, which matures in September 2022, for which hedge accounting is being applied. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a 10-year term (see note 9 for further details). The related floating rate credit facility is for a five-year non-revolving term with an effective interest rate of 3.60%, and any principal that is repaid may not be reborrowed. The credit facility was amended effective June 30, 2016 and expires on June 30, 2021. On expiry of the term, it is expected to be refinanced to match the term of the interest rate swap. The hedge became ineffective July 2017. The ineffective gain component of the hedge of \$1,921 for the year ended December 31, 2017 has been recorded under derivative financial instruments on the consolidated statements of income and comprehensive income, and the cumulative mark-to-market loss of \$57 is in other non-current liabilities as at December 31, 2017. The accumulated loss recorded in AOCL will be amortized in the consolidated statements of income from AOCL over the remaining term of the credit facility.

The interest rate swap agreement has been summarized as follows:

As at December 31,	2017	2016
Hedge liability, beginning of the year	\$ (2,608)	\$ (3,527)
Change in intrinsic value	2,551	919
Hedge liability, end of the year	\$ (57)	\$ (2,608)
Hedge liability in AOCL, beginning of the year	\$ (1,883)	\$ (3,527)
Change in intrinsic value in OCI	630	1,644
Hedge liability in AOCL, end of the year	\$ (1,253)	\$ (1,883)

b) Contracts for which hedge accounting is being applied

- i) 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 have been refinanced for 10-year terms and as a result bear interest rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before

the credit spread. The change in the intrinsic value of the forward interest rate hedge has been included in OCI (see note 19). The hedging program matured in June 2013, for which hedge accounting was being applied. The ineffective portion and the difference between the settled amount and the mark-to-market has been recognized in net income. All contracts have been settled.

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

As at December 31,

	2017	2016
Hedge liability in AOCL, beginning of the year	\$ (12,833)	\$ (15,121)
Amortization from AOCL to interest and other financing costs	2,286	2,288
Hedge liability in AOCL, end of the year	\$ (10,547)	\$ (12,833)

c) Contracts for which hedge accounting is not being applied

- i) CAPREIT had a €40,000 interest rate swap agreement fixing the EURIBOR rate at 1.22%, which matures in August 2018, for which hedge accounting is not being applied. The €40,000 interest rate swap agreement was settled in July 2017. The agreement effectively converted borrowings on a EURIBOR-based floating rate credit facility to a fixed rate facility for a five-year term. The mark-to-market gain for the year ended December 31, 2017 of \$227 has been recorded in net income.

- ii) In June 2017, CAPREIT entered into a cross-currency swap to (i) hedge a US-based loan of USD \$186,436 into €163,540 effective July 2017 and (ii) convert the variable interest rate on the US-based loan of LIBOR plus 1.65% to a fixed interest rate of EURIBOR plus 1.65% equalling 1.20% and maturing in June 2019. The US-based loan was drawn from the Acquisition and Operating Facility in July 2017. The loss on the hedge has been recorded under loss on derivative financial instruments on the consolidated statements of income and comprehensive income for the year ended December 31, 2017 of \$14,014 and the cumulative mark-to-market loss of \$14,014 is in other non-current liabilities as at December 31, 2017.

**17
CAPITAL MANAGEMENT**

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

CAPREIT's Credit Facilities (see note 10) require compliance with certain financial covenants. In addition, borrowings must not exceed the borrowing base, calculated at a predefined percentage of the market value of the properties.

In the short term, CAPREIT utilizes the Credit Facilities to finance its capital investments, which may include acquisitions. In the long term, equity

issuances, mortgage financings and refinancings, including "top-ups", are put in place to finance the cumulative investment in the property portfolio and ensure that the sources of financing better reflect the long-term useful lives of the underlying investments.

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

The LBA provides for, among other things: (i) certain financial covenants and limitations on indebtedness; (ii) the posting of a revolving letter of credit with respect to certain capital expenditures on a portfolio rather than an individual property basis; and (iii) cross-collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

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

As at December 31,		2017	2016
Mortgages Payable		\$ 3,581,501	\$ 3,492,923
Bank Indebtedness		446,895	26,408
Unit-based Compensation Liabilities		64,561	60,278
Exchangeable Units		4,876	5,061
Unitholders' Equity		4,923,406	4,158,149
Total Capital		\$ 9,021,239	\$ 7,742,819
	Threshold		
Total Debt to Gross Book Value ⁽¹⁾	Maximum 70.00%	43.57%	44.31%
Tangible Net Worth ⁽³⁾	Minimum \$1,800,000	\$ 4,992,842	\$ 4,223,488
Debt Service Coverage Ratio (times) ^{(2),(4)}	Minimum 1.20	1.63	1.63
Interest Coverage Ratio (times) ^{(2),(5)}	Minimum 1.50	3.19	3.09

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

(2) Based on the trailing four quarters.

(3) As per the Credit Facilities agreement, the tangible net worth is generally represented by Unitholders' Equity and Unit-based rights and compensation liabilities or assets, including Exchangeable Units added back. As at December 31, 2016, the tangible net worth requirement was \$1,500,000 and was amended to \$1,800,000 effective November 24, 2017.

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

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

18 DEFERRED INCOME TAXES

For 2016 and 2017, CAPREIT is taxed as a "mutual fund trust" as defined under the Income Tax Act (Canada) (the "Tax Act") and continues to meet the prescribed conditions relating to the nature of its assets and revenues in order to qualify as a Real Estate Investment Trust eligible for the REIT exception to the SIFT rules. The Trust expects to distribute all of its taxable income to its unitholders, accordingly no provision for income tax has been made. Income tax obligations relating to the distributions

from CAPREIT are with the individual unitholder.

CAPREIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. Judgement is required in the estimation of income taxes and deferred income tax assets and liabilities, in each of CAPREIT's operating jurisdictions. Income taxes may be paid on occasion where activities relating to the foreign subsidiaries are considered to be taxable in those countries.

The Netherlands deferred tax liability is as follows:

As at December 31,		2017	2016
Deferred Tax Liability			
Related to Difference in Tax and Book Basis for Investment Properties		\$ 7,263	\$ -
Total		\$ 7,263	\$ -

CAPREIT did not record any taxable income attributable to the Netherlands subsidiaries for the year ended December 31, 2017. Therefore, the current income tax was nil. The income tax rate on taxable income in the Netherlands is 20% on the first 200 thousand euros and 25% on the remaining

taxable income. CAPREIT recorded a deferred tax liability attributable to the Netherlands amounting to \$7,263 for the year ended December 31, 2017, representing the difference in tax and book basis for investment properties of €19,444 and applying a capital gains tax rate of 25%.

19 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

For the Year Ended December 31,

	2017	2016
AOCL balance, beginning of year	\$ (12,586)	\$ (14,530)
Other comprehensive income:		
Amortization from AOCL to interest and other financing costs ^{(1), (2)}	3,024	3,105
Change in fair value of derivative financial instruments (note 16(b))	630	1,644
Change in fair value of investments	4,957	3,109
Foreign currency translation	10,490	(5,914)
Other comprehensive income	19,101	1,944
AOCL balance, end of year	\$ 6,515	\$ (12,586)

As at December 31,

	2017	2016
AOCL comprises:		
Loss on derivative financial instruments		
Cumulative realized loss ⁽¹⁾	\$ (9,908)	\$ (9,908)
Accumulated amortization to interest and other financing costs	8,633	7,920
Unamortized balance of loss on cash flow hedges previously settled	(106)	(130)
Gain (loss) on interest rate swap agreements	(1,253)	(1,883)
Loss on forward interest rate hedge ⁽²⁾	(22,884)	(22,884)
Accumulated amortization to interest and other financing costs	12,337	10,051
Change in fair value of investments	11,689	6,733
Cumulative gain (loss) on foreign currency translation	7,711	(2,781)
Reversal of cumulative foreign currency translation relating to IRES ownership dilution	3,127	3,127
Cumulative realized gain on sale of investments	(2,831)	(2,831)
AOCL balance, end of the year	\$ 6,515	\$ (12,586)

(1) The cumulative realized loss on derivative financial instruments aggregating to \$9,908 will be amortized to net income as mortgage interest expense over periods ending December 2017 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 \$358.

(2) The realized loss component of the \$22,884 OCI loss on forward interest rate hedges is \$22,585, which will be amortized to net income as mortgage interest expense over the original 10-year term of the hedged contracts. The estimated amount of the amortization expected to be reclassified to net income from AOCL in the next 12 months is \$2,276.

20 INTEREST AND OTHER FINANCING COSTS

For the Year Ended December 31,

	2017	2016
Interest on mortgages payable ⁽¹⁾	\$ 113,335	\$ 108,926
Amortization of		
CMHC premiums and fees	3,810	3,500
Interest on bank indebtedness and other deferred costs ⁽²⁾	3,911	4,704
Interest on Exchangeable Units	186	200
Non-controlling interest costs ⁽³⁾	4,902	(67)
	\$ 126,144	\$ 117,263

(1) Includes amortization of deferred financing costs, fair value adjustments and OCI hedge interest of \$4,124 (December 31, 2016 – \$3,616).

(2) Includes amortization of deferred loan costs of \$778 (December 31, 2016 – \$664).

(3) Represents costs related to the non-controlling interest of the minority shareholders in CAPREIT's foreign subsidiaries.

21 JOINT ARRANGEMENTS

CAPREIT's share of the assets, liabilities, revenues, expenses and cash flows from joint arrangement activities is summarized as follows:

Year Ended December 31,	2017	2016
Assets	\$ 219,600	\$ 203,874
Liabilities	73,090	75,493
Revenues	16,421	15,938
Expenses and other adjustments	(6,938)	4,289
Net income	23,359	11,649
Cash provided by (used in):		
Operating activities	\$ 8,943	\$ 8,914
Financing activities	(7,927)	(7,071)
Investing activities	(1,200)	(2,566)

22
SUPPLEMENTAL CASH FLOW INFORMATION

a) Net income items related to investing and financing activities

For the Year Ended December 31,	2017	2016
Dividend and Interest Income	\$ 8,478	\$ 4,519
Interest paid on Exchangeable Units	(186)	(199)
Interest paid on mortgages payable	(107,805)	(104,853)
Interest paid on bank indebtedness	(3,147)	(4,045)
Non-cash non-controlling interest costs	(4,902)	–
Net disbursement	<u>\$ (107,562)</u>	<u>\$ (104,578)</u>

b) Changes in non-cash operating assets and liabilities

For the Year Ended December 31,	2017	2016
Prepaid expenses	\$ (425)	\$ (807)
Tenant inducements, direct leasing costs, and other adjustments	5,640	(1,826)
Other receivables	3,948	2,002
Deposits	(1,725)	(493)
Accounts payable and other liabilities	(8,931)	18,863
Security deposits	2,415	2,934
Net receipts	<u>\$ 922</u>	<u>\$ 20,673</u>

c) Net cash distributions to Unitholders

For the Year Ended December 31,	2017	2016
Distributions declared to Unitholders	\$ (173,072)	\$ (161,483)
<i>Add:</i>		
Distributions payable at beginning of year	(14,123)	(13,073)
<i>Less:</i>		
Distributions payable at end of year	14,714	14,123
<i>Less:</i>		
Distributions to participants in the DRIP	51,732	51,035
Net disbursement	<u>\$ (120,749)</u>	<u>\$ (109,398)</u>

d) Capital investments

For the Year Ended December 31,	2017	2016
Capital investments	\$ (160,819)	\$ (203,918)
Change in capital investments included in accounts payable and other liabilities	(2,909)	6,425
Net disbursement	<u>\$ (163,728)</u>	<u>\$ (197,493)</u>

e) Acquisition of investment properties

For the Year Ended December 31,	2017	2016
Acquired properties	\$ (470,510)	\$ (414,668)
Fair value adjustment of assumed debt	9	773
Assumed debt	3,713	25,356
Deposit on purchases	(5,431)	4,906
Contributions from non-controlling interest	889	850
Net disbursement	<u>\$ (471,330)</u>	<u>\$ (382,783)</u>

f) Disposition of investment properties

For the Year Ended December 31,	2017	2016
Proceeds	\$ 21,825	\$ 60,606
Closing costs	(140)	(2,878)
Mortgages assumed by purchasers and discharged	(4,951)	(26,407)
Net proceeds	<u>\$ 16,734</u>	<u>\$ 31,321</u>

g) Issuance of Trust Units

For the Year Ended December 31,	2017	2016
Issuance of Trust Units	\$ 30,685	\$ 167,220
Conversion of Exchangeable Units to Trust Units	(1,037)	–
Settlement of Unit-based Compensation Awards for Trust Units	(21,527)	(5,306)
Net proceeds	<u>\$ 8,121</u>	<u>\$ 161,914</u>

h) Mortgage Portfolio

The following table summarizes the movement in mortgages payable during the year:

As at December 31, (\$ Thousands)	2017	2016
Balance, Beginning of the Year	\$ 3,492,923	\$ 3,097,773
New Borrowings on Acquisitions	253,375	336,468
Refinanced	211,141	299,300
Mortgage Repayments ⁽²⁾	(119,458)	(102,522)
Mortgages Matured ⁽³⁾	(266,575)	(130,810)
Mortgages Repaid on Dispositions of Investment Properties	(4,951)	(26,407)
Non-cash Adjustments:		
Assumed	3,713	25,356
Foreign Currency Translation	12,543	(4,323)
Change in Deferred Financing Costs, Fair Value Adjustments, Net	(1,210)	(1,912)
Balance, End of the Year ⁽¹⁾	\$ 3,581,501	\$ 3,492,923

(1) Included in mortgages payable as at December 31, 2016 is a €92,900 (\$131,630) non-amortizing euro LIBOR borrowing.

(2) Includes repayment of euro LIBOR borrowing of €5,000.

(3) In July 2017, euro LIBOR borrowings on the Acquisition and Operating Facility of €87,900 (\$129,336), classified as mortgages payable, were repaid.

i) Bank Indebtedness

The following table summarizes the movement in bank indebtedness during the year:

December 31, (\$ Thousands)	2017	2016
Balance, Beginning of Year	\$ 26,408	\$ 168,211
Borrowings	1,052,991	4,655,256
Repayments	(859,934)	(4,797,059)
US LIBOR borrowings ⁽¹⁾	234,869	–
Non-cash Adjustments		
Foreign Currency Exchange	(7,438)	–
Balance, End of Year	\$ 446,895	\$ 26,408

(1) During the year, US LIBOR borrowings of USD \$187,000 (\$234,869 as at December 31, 2017) were drawn on the Acquisition and Operating Facility. Euro LIBOR borrowings on the facility in the prior year were classified as mortgages payable.

23

RELATED PARTY TRANSACTIONS

a)

As at December 31, 2017, CAPREIT has a 15.7% share ownership in IRES and has determined that it has significant influence over IRES. The share ownership is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. See note 5 for a more detailed description.

CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited ("IRES FM"), is an alternative investment fund manager under the European Union (Alternative Investment Fund Managers) Regulation, 2013 (the "AIFM Regulations") for IRES. The investment management agreement between IRES FM and IRES stipulates that IRES pays 3.0% per annum of its gross rental income as property management fees and 0.5% per annum of its net asset value together with relevant reimbursements as asset management fees to IRES FM. The investment management agreement governs the provision of portfolio management, risk management and other related services to IRES by IRES FM. It has an initial term of five years, unless it is duly terminated pursuant

to a provision of the investment management agreement, and thereafter shall continue in force for consecutive five-year periods.

Included in other income for the year ended December 31, 2017 is \$6,173 (2016 – \$5,195) from asset management and property management fees. Expenses related to the asset and property management services are included in trust expenses. The amount receivable from IRES as at December 31, 2017 is \$2,911 (December 31, 2016 – \$8,024).

David Ehrlich resigned as Chief Executive Officer of IRES effective November 1, 2017 to take up the role of President and Chief Executive Officer of CAPREIT. Effective November 1, 2017, Mr. Ehrlich is not entitled to receive any further remuneration from IRES under his employment agreement dated December 12, 2016 between IRES and Mr. Ehrlich. Mr. Ehrlich continues to serve on the board of IRES as a non-executive director, as the investment manager's nominee. He does not receive any fees from IRES in this role.

Prior thereto, effective January 1, 2017, in addition to being an employee of IRES, Mr. Ehrlich became an employee of CAPREIT Limited Partnership pursuant to an employment agreement dated December 13, 2016 between CAPREIT Limited Partnership and Mr. Ehrlich (under which he carried out management services related to IRES under the services agreement and investment management agreement) (the “**CAPREIT Employment Agreement**”). The CAPREIT Employment Agreement terminated effective November 1, 2017, upon Mr. Ehrlich’s resignation as Chief Executive Officer of IRES.

Mr. Ehrlich received the following compensation under the CAPREIT Employment Agreement. On February 28, 2017, Mr. Ehrlich received a one-time grant equal to \$500 in RURs in accordance with the terms of CAPREIT’s Amended and Restated RUR Plan, dated May 27, 2014, as amended from time to time. Pursuant to the terms of the CAPREIT Employment Agreement, he was also entitled to be granted \$150 in RURs on an annual basis. For the year ended December 31, 2017, Mr. Ehrlich received \$75 in RURs, with the remaining \$50 payable subsequent to year end.

b)

CAPREIT had the following transactions with key management personnel, the former President and CEO, and trustees. The loans outstanding to key management personnel, the former President and CEO, and trustees for indebtedness relating to the SELTIP and LTIP as at December 31, 2017 and 2016 were \$7,180 and \$5,953, 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 entitled to termination benefits that provide for payments of up to 36 months of benefits (based on base salary, bonus and other benefits) depending on cause.

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

For the Year Ended December 31, (\$ Thousands)	2017	2016
Short-term employee benefits	\$ 3,432	\$ 3,400
Unit-based compensation		
– grant date amortization	3,255	3,763
	6,687	7,163
Unit-based compensation		
– fair value remeasurement	10,255	13,662
Other benefits ⁽¹⁾	1,604	–
Total	\$ 18,546	\$ 20,825

(1) Represents the accelerated vesting of previously-granted RUR Units relating to the former President and CEO.

c)

CAPREIT has a lease for office space with a company in which a former officer had an 18% beneficial interest. The rent paid for the office space for the year ended December 31, 2017 and 2016 was \$1,069 and \$1,035, respectively, excluding property operating costs, and has been expensed as trust expenses. In 2017, the above lease was amended and extended to October 2022 with a new minimum annual rental payment of \$611 from November 2017 to October 2022. Minimum rental payments for these years are as follows:

	2018	2019	2020– 2022
Minimum rent	\$ 611	\$ 611	\$ 1,731

24 COMMITMENTS

Natural gas

Through the combination of fixed and variable price contracts, CAPREIT is committed as at December 31, 2017, in the aggregate amount of \$12,001 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.

	2018	2019	2020
Gas Commodity			
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 2.87	\$ 2.77	\$ 2.70
Total of CAPREIT's Estimated Requirements	64.4%	58.0%	41.7%
Transport			
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 1.05	\$ 0.97	\$ 0.96
Total of CAPREIT's Estimated Requirements	64.5%	58.1%	41.7%

(1) Fixed weighted average cost per gigajoule ("GJ") excludes other administrative costs.

Land leasehold interests

Four of the investment properties have ground leases with various expiry dates (subject to revisions at periodic intervals) between March 31, 2045 and March 31, 2070. One land lease matures in 2045, two mature in 2068 and another matures in 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. During the years ended December 31, 2017 and 2016, total expenses under these four leases were \$2,814 and \$2,716, respectively.

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

	2018	2019	2020	2021	2022	Thereafter
Minimum annual rent	\$ 1,323	\$ 1,323	\$ 1,323	\$ 1,323	\$ 1,323	\$ 37,353

Property capital investments

Commitments primarily related to capital investments in investment properties of \$25,010 were outstanding as at December 31, 2017 (December 31, 2016 – \$36,484).

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, or have been provided for in Trust expenses where appropriate.

26 SUBSEQUENT EVENTS

On February 22, 2018, CAPREIT announced that it has agreed to sell, subject to regulatory approval, 4,270,000 units at a price of \$35.15 per unit for aggregate gross proceeds of \$150,091 to a syndicate of underwriters led by RBC Capital Markets on a bought-deal basis. CAPREIT has granted the underwriters an over-allotment option, exercisable in whole or in part up to 30 days after closing of the Offering, to purchase up to an additional 640,500 units to cover over-allotments, if any. CAPREIT intends to use the net proceeds to partially repay the Acquisition and Operating Facility and the remainder, if any, for future acquisitions, capital expenditures and for general trust purposes.

Five-Year Review

(\$ Thousands, except per Unit amounts)

Year Ended December 31,

	2017	2016	2015	2014	2013
Operating Revenues	\$ 638,842	\$ 596,831	\$ 533,798	\$ 506,411	\$ 477,023
Net Operating Income ("NOI")	\$ 393,258	\$ 366,947	\$ 324,614	\$ 303,885	\$ 273,854
Net Operating Income Margin (%)	61.6	61.5	60.8	60.0	57.4
Net Income	\$ 836,811	\$ 439,413	\$ 345,633	\$ 317,975	\$ 267,678
Normalized Funds From Operations ("NFFO")	\$ 250,474	\$ 231,808	\$ 200,027	\$ 183,353	\$ 159,375
Cash Distributions	\$ 176,024	\$ 164,413	\$ 146,198	\$ 131,044	\$ 119,256
NFFO Payout Ratio (%)	70.3	70.9	73.1	71.5	74.8
Non-taxable Distributions (%)	82.7	72.9	84.5	74.3	89.0
Normalized Funds from Operations					
NFFO per Unit – Basic	\$ 1.842	\$ 1.772	\$ 1.692	\$ 1.675	\$ 1.562
Cash Distributions per Unit	\$ 1.275	\$ 1.238	\$ 1.207	\$ 1.168	\$ 1.138
Weighted Average Number of Units (000s)	135,962	130,794	118,220	109,456	102,064
Number of Suites and Sites – total	50,624	48,767	46,790	41,688	41,552
Number of Suites and Sites – CAPREIT's share	49,469	47,612	45,635	40,533	40,397
Investment Properties	\$ 8,886,556	\$ 7,642,017	\$ 6,863,140	\$ 5,749,640	\$ 5,459,218
Unitholders' Equity	\$ 4,923,406	\$ 4,158,149	\$ 3,659,953	\$ 2,983,105	\$ 2,757,469
Overall Portfolio Occupancy (%)	98.7	98.6	97.5	97.9	98.0
Mortgage Debt to Gross Book Value (%)	38.7	44.0	43.4	44.6	44.0
Interest Coverage (times)	3.19	3.09	2.96	2.82	2.62
Weighted Average Mortgage Interest Rate (%) ⁽¹⁾	3.08	3.20	3.39	3.66	3.76
Weighted Average Mortgage Term (years)	5.7	6.1	6.3	6.3	6.0
Cumulative Compounded Return					
Since Inception (%)	1,516	1,182	950	839	652
Unit Price at Year End	\$ 37.32	\$ 31.37	\$ 26.84	\$ 25.13	\$ 21.25

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

Unitholder Information

BOARD OF TRUSTEES

Michael Stein²
Chairman and Chief Executive
Officer of MPI Group Inc.

David Ehrlich
President and Chief
Executive Officer

Harold Burke¹
Senior Vice President
of Taxation, DREAM
Unlimited Corp.

Stanley Swartzman^{2,3,4}
Corporate Director

Dr. Elaine Todres^{3,4}
President,
Todres Leadership Counsel

Dr. Gina Cody^{1,2}
Corporate Director

Paul Harris^{1,3,4}
Corporate Director,
Davis, Ward

OFFICERS

David Ehrlich
President and Chief
Executive Officer

Michael Stein
Chairman

Scott Cryer
Chief Financial Officer

Mark Kenney
Chief Operating Officer

Roberto Israel
Chief Information Officer

Jodi Lieberman
Chief Human Resources
Officer

Corinne Pruzanski
General Counsel and
Corporate Secretary

NOTES TO BOARD OF TRUSTEES:

- 1 Audit Committee
- 2 Investment Committee
- 3 Governance and Nominating
Committee
- 4 Human Resources and
Compensation Committee

HEAD OFFICE

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Fax: 416.861.9209

INVESTOR INFORMATION

Analysts, Unitholders and others
seeking financial data should
visit CAPREIT's website at
www.capreit.com or
www.capreit.net or contact:

David Ehrlich
President and Chief
Executive Officer
Tel: 416.861.9404
E-mail: ir@capreit.net

Website

www.capreit.com or
www.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

Monthly Distributions per Unit

May 2015 – May 2016:
\$0.102 (\$1.22 annually)

June 2016 – February 2017:
\$0.104 (\$1.25 annually)

March 2017 – December 2017:
\$0.107 (\$1.28 annually)

Annual Unitholders' Meeting

The Annual Meeting of
Unitholders will be held at
4:30 p.m. EDT on
Wednesday, June 6, 2018 at
One King West Hotel
1 King Street West
Toronto, Ontario M5H 1A1

We are very proud to have been selected as one of Canada's Best Employers for the fifth consecutive year in 2017. Our people are our most important asset, and it is their engagement and commitment that allow us to continue striving for excellence and to be the best in our business.


BESTEMPLOYER

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