

**CANADIAN APARTMENT PROPERTIES
REAL ESTATE INVESTMENT TRUST**

ANNUAL INFORMATION FORM

For the year ended December 31, 2015

Dated March 30, 2016

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ANNUAL INFORMATION FORM

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

(Information as at December 31, 2015, unless otherwise indicated)

1 - FORWARD-LOOKING INFORMATION

Certain statements contained, or contained in documents incorporated by reference, in this Annual Information Form of Canadian Apartment Properties Real Estate Investment Trust (“CAPREIT”) 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. In particular, 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 in general, 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 and Irish 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 Annual Information Form 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, 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, government regulations, controls over financial accounting, legal and regulatory concerns, the nature of Units and Special Voting Units (each as defined below) and Exchangeable Securities (as defined below), unitholder liability, liquidity and price fluctuation of Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, continued growth, and risks related to acquisitions. There can be no assurance the expectations of CAPREIT's management will prove to be correct. For a detailed discussion of risk factors, refer to the "Risks Factors" section of this Annual Information Form. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

2 - NOTE REGARDING FINANCIAL INFORMATION

Financial data included in this Annual Information Form has been prepared in accordance with International Financial Reporting Standards as set out in Part I of the CPA Canada Handbook ("**IFRS**"). This Annual Information Form should be read in conjunction with CAPREIT's management discussion and analysis of the results of operations and financial condition for the year ended December 31, 2015, incorporated herein by reference, and the consolidated annual audited financial statements for the year ended December 31, 2015, each of which is publicly available at www.sedar.com under CAPREIT's profile.

3 - NON-IFRS FINANCIAL MEASURES

In this Annual Information Form, CAPREIT also discloses and discusses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS, including Net Operating Income ("**NOI**"), Net Rental Revenue Run-Rate, Funds From Operations ("**FFO**"), Normalized Funds From Operations ("**NFFO**") and Adjusted Funds From Operations ("**AFFO**"), and applicable per Unit amounts and payout ratios (collectively the "**non-IFRS measures**"). These non-IFRS measures are further defined and discussed below. Since NOI, Net Rental Revenue Run-Rate, FFO, NFFO and AFFO are not measures determined under IFRS, they may not be comparable to similarly titled measures reported by other issuers. CAPREIT has presented such non-IFRS measures because management believes these non-IFRS measures are relevant measures of the ability of CAPREIT to earn and distribute cash returns to holders of units ("**Units**") and Exchangeable Units of CAPREIT (as defined below) and to evaluate CAPREIT's performance. These non-IFRS measures should not be construed as alternatives to net income (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of CAPREIT's performance.

NOI is a key non-IFRS financial measure of the operating performance of CAPREIT and includes all rental revenues generated at the property level, less: (i) related direct costs such as

utilities, realty taxes, insurance, repair and maintenance costs and on-site wages and salaries; and (ii) an appropriate allocation of overhead costs.

FFO is a measure of operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO as presented is based on the recommendations of the Real Property Association of Canada, with the exception of the amortization of certain other assets. Management considers FFO to be an important measure of CAPREIT's operating performance.

Management considers NFFO to be the key measure of CAPREIT's operating performance and the primary indicator with respect to the sustainability of CAPREIT's distributions. NFFO is calculated by excluding from FFO the effects of certain non-recurring items, including changes in fair value of hedging instruments, amortization of losses on certain hedging instruments, mortgage prepayment penalties and write-offs of fair value adjustments on assumed mortgages that were refinanced early. Management relies on NFFO on a per Unit basis as it facilitates better comparability to historical performance and provides a better indicator of CAPREIT's long-term cash flow generation capability than other measures.

4 - TRUST STRUCTURE

4.1 Overview

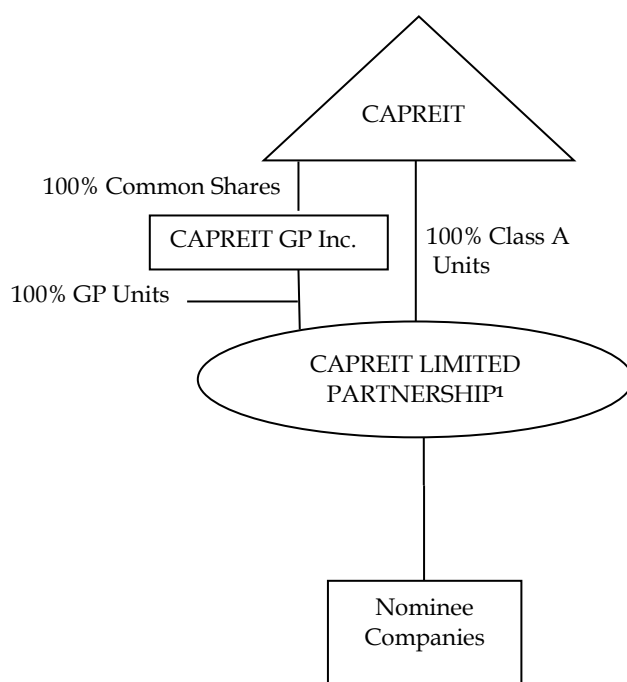
CAPREIT is an "open-end" real estate investment trust created and governed by a declaration of trust dated February 3, 1997, under the laws of the Province of Ontario, as amended and restated from time to time, including most recently on June 12, 2014 (the "**Declaration of Trust**").

Although CAPREIT qualifies as a "mutual fund trust" as defined in the *Income Tax Act* (Canada) (the "**Tax Act**"), CAPREIT is not a "mutual fund" as defined by applicable securities legislation.

The head and registered office of CAPREIT is located at 11 Church Street, Suite 401, Toronto, Ontario, M5E 1W1.

CAPREIT Limited Partnership ("**CAPLP**"), a subsidiary of CAPREIT, is a limited partnership established and existing under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated June 26, 2007, as amended, among CAPREIT GP Inc., CAPREIT and other limited partners from time to time. CAPREIT GP Inc., a company incorporated under the laws of the Province of Ontario on June 21, 2007, is the general partner of CAPLP and CAPREIT is the sole shareholder of CAPREIT GP Inc. CAPLP is CAPREIT's only material subsidiary.

4.2 Structure Chart (Simplified)



¹ CAPREIT indirectly holds all of its real estate beneficially through CAPLP, which holds such real estate directly (through nominee companies) or indirectly through other entities, including partnerships, trusts and their nominees. With the exception of five nominee companies in which CAPREIT owns indirectly a 50% interest, CAPREIT owns, directly or indirectly, a 100% interest in all nominee companies.

4.3 Amendments to the Declaration of Trust

On May 26, 2005, the Declaration of Trust was amended by the Board of Trustees as follows: (i) to impose a single restriction to the effect that CAPREIT's borrowings, including the Acquisition and Operating Facility, shall not exceed 70% of the gross book value of CAPREIT's assets and (ii) to grant the Board of Trustees the authority to convert CAPREIT's structure from a "closed-end" to an "open-end" trust and to add a limited redemption right for holders of Units ("**Unitholders**").

On May 25, 2006, the Declaration of Trust was amended by resolution of the Unitholders of CAPREIT (i) to provide investment restrictions that would permit investments by CAPREIT outside of Canada and in buildings that may not be substantially occupied; (ii) to change the investment restrictions to add flexibility to CAPREIT's ability to participate in joint ventures and to provide that CAPREIT may guarantee the indebtedness of a third party; (iii) to permit investments in securities of other entities, including corporations, provided their activities are similar to those of CAPREIT; (iv) to provide that the exclusive test for limiting indebtedness be

measured on a portfolio basis and be limited to a maximum of 70% of the gross book value of CAPREIT's assets and to provide that the restrictions on CAPREIT's floating rate and short-term debt may be overridden where the Board of Trustees believes it is in the interests of CAPREIT to do so.

On January 8, 2008, the Declaration of Trust was amended by resolution of the Board of Trustees of CAPREIT to convert CAPREIT from a "closed-end" trust to an "open-end" trust. As part of the conversion, the Declaration of Trust was also amended to include a right of redemption (see "Right of Redemption"). The Declaration of Trust was also amended to modify those provisions that restrict the investments that may be made by CAPREIT in accordance with paragraph 108(2)(b) of the Tax Act.

On May 21, 2008, the Declaration of Trust was amended by resolution of the Unitholders and holders ("**Special Unitholders**") of special voting units of CAPREIT ("**Special Voting Units**") of CAPREIT to, among other things: (i) allow CAPREIT to acquire, invest in, develop, and manage a broader range of assets (real property-related businesses outside the category of multi-unit residential real property; (ii) to remove the restriction on the amount of indebtedness of CAPREIT at floating interest rates or having original maturities of less than one year to 10% of CAPREIT's total indebtedness and (iii) to give the Board of Trustees the flexibility to establish and amend operating policies related to appropriate delegations of authority in connection with acquisitions, dispositions, and financing of CAPREIT.

On May 21, 2013 the Declaration of Trust was amended by special resolution of Unitholders and Special Unitholders to permit the Board of Trustees to adopt an advance notice policy and to permit the Board of Trustees to use the notice-and-access provisions under applicable securities laws.

On June 12, 2014 the Declaration of Trust was amended by resolution of the Board of Trustees to, among other things, (i) create a governance and nominating committee (the "**Governance and Nominating Committee**") and a human resources and compensation committee (the "**Human Resources and Compensation Committee**") to replace the compensation and governance committee (the "**Compensation and Governance Committee**"); and (ii) amend the definition of "Independent Trustee" to mean, for the purpose of the audit committee (the "**Audit Committee**"), a trustee who, in relation to CAPREIT, is independent for the purposes of National Instrument 52-110 - *Audit Committees* ("**NI 52-110**") and, for all other purposes, a trustee who, in relation to CAPREIT, is independent for the purposes of National Instrument 58-101 - *Disclosure of Corporate Governance Practices*, as amended from time to time ("**NI 58-101**") and (iii) require that all of the trustees on the audit committee be independent (subject to any applicable exceptions in NI 52-110).

5 - INTERPRETATION

CAPREIT owns all of its property interests, owes all of its mortgage debt and debt obligations, and carries on its operating business, indirectly through CAPLP. For simplicity, and unless the context otherwise requires, we use terms in this Annual Information Form to refer to CAPREIT's business and operations as a whole. Accordingly, in this Annual Information Form, unless the context otherwise requires, references to CAPREIT include

CAPLP and its subsidiaries. References to CAPREIT's business, properties or portfolios and operations refer to the activities of CAPREIT and its subsidiaries as a whole, including CAPLP, CAPREIT's ownership of and investment in properties indirectly through CAPLP and other subsidiaries and CAPREIT's operations through its indirect interest in CAPLP, respectively.

6 - GENERAL DEVELOPMENT OF THE BUSINESS

6.1 History

CAPREIT commenced activities on February 4, 1997, when it acquired six multi-unit residential apartment buildings. On May 21, 1997, in connection with the closing of its initial public offering ("**Initial Public Offering**") of Units, CAPREIT acquired an additional six multi-unit residential apartment buildings and 117 townhomes. CAPREIT continued to expand by acquiring selected multi-unit residential properties over the years, and combining with Residential Equities Real Estate Investment Trust ("**ResREIT**") on June 1, 2004.

CAPREIT owns primarily interests in multi-unit residential rental properties, including apartments, townhomes and manufactured home communities ("**MHC**") located in and near major urban centres across Canada. As at December 31, 2015, CAPREIT had ownership or co-ownership interests in 46,790 residential units, comprised of 40,501 residential suites and 30 MHCs comprising 6,289 land lease **sites**. As at December 31, 2015, CAPREIT had 937 employees (840 employees as at December 31, 2014). The investment policies and operations of CAPREIT are governed by its Declaration of Trust and are subject to the control and direction of its trustees, a majority of whom must at all times be "independent" (as defined in NI 58-101). CAPREIT's property management and other day-to-day operations have been fully internalized since November 11, 1999. Since April 1, 2008, CAPREIT's day-to-day operations and property management have been carried out by CAPLP, following CAPREIT's conversion to an "open-end" real estate investment trust on January 8, 2008. See "Management of CAPREIT, Trustees and Executive Officers".

On September 10, 2013, CAPREIT, through CAPREIT Ireland Limited, an indirect wholly-owned subsidiary, acquired a portfolio of 338 apartment suites in four residential properties located in Dublin, Ireland. On March 20, 2014, Irish Residential Apartments REIT Limited (formerly, CAPREIT Ireland Limited) registered as a public limited company and changed its name to Irish Residential Properties REIT public limited company ("**IRES**"). It was listed on the Irish Stock Exchange on April 16, 2014, and on admission, IRES issued 200,000,000 ordinary shares to the public on top of the existing 2,000,000 ordinary shares owned by CAPLP, which resulted in dilution of CAPLP's beneficial interest in IRES by 79.2%. On March 25, 2015, CAPREIT invested an additional €23.5 million in Ordinary Shares in IRES as part of IRES' €215.0 million secondary equity offering. As at December 31, 2015, CAPLP held a beneficial interest in 65.5 million ordinary shares of IRES representing 15.7% of the issued and outstanding share capital of IRES.

6.2 Three Year Developments

Equity Offerings

On October 9, 2015, CAPREIT issued 8,720,000 Units at \$28.70 per Unit on a bought-deal basis for aggregate gross proceeds of approximately \$250.3 million. The net proceeds of approximately \$239.4 million were used to partially repay a temporary bridge facility, which was utilized by CAPREIT to partially fund the acquisition of an apartment portfolio in Montréal, Québec consisting of 3,661 suites for a purchase price (excluding transaction costs) of \$490.0 million.

On March 25, 2015, CAPREIT issued 5,555,000 Units at \$27.85 per Unit on a bought-deal basis for aggregate gross proceeds of approximately \$154.7 million, which included the exercise in full of the over-allotment option granted to the underwriters in connection with the equity offering. The net proceeds of approximately \$147.7 million were used to repay borrowings on the Acquisition and Operating Facility (as defined below).

On October 10, 2013, CAPREIT issued 6,327,000 Units at \$20.55 per Unit on a bought-deal basis for aggregate gross proceeds of approximately \$130.0 million. On October 22, 2013, CAPREIT issued an additional 949,050 Units at \$20.55 per Unit for aggregate gross proceeds of approximately \$19.5 million, pursuant to the exercise in full of the over-allotment option granted to the underwriters in connection with the equity offering. The net proceeds of approximately \$142.7 million were used to repay borrowings on the Acquisition and Operating Facility (as defined below).

2014 Annual and Special Meeting

At CAPREIT's annual and special meeting of Unitholders and Special Unitholders held on May 27, 2014, Unitholders and Special Unitholders approved amendments to CAPREIT's Employee Unit Purchase Plan, Deferred Unit Plan, RUR Plan and Unit Option Plan (each as defined below) to increase the maximum number of Units issuable under such plans by 2,500,000 Units to 9,500,000 Units, in aggregate, by amending the relevant provisions of such plans. Unitholders and Special Unitholders also approved amendments to the Employee Unit Purchase Plan to allow all participants (including "insiders") to receive an additional number of Units equal to twenty percent (20%), in total, of the Units purchased by such participants pursuant to the Employee Unit Purchase Plan.

2013 Annual and Special Meeting

At CAPREIT's annual and special meeting of Unitholders and Special Unitholders held on May 21, 2013, Unitholders and Special Unitholders approved amendments to CAPREIT's Declaration of Trust to permit the Board of Trustees to adopt an advance notice policy and to permit the Board of Trustees to use the notice-and-access provisions under applicable securities laws.

Increases in Distributions

In 2015, CAPREIT increased its annual cash distributions from \$1.18 per unit to \$1.22 per Unit. In 2014, CAPREIT increased its annual cash distributions to \$1.18 per Unit, and 2013, CAPREIT increased its annual cash distributions to \$1.15 per Unit.

Property Acquisitions and Dispositions

CAPREIT continues to further diversify its property portfolio by geography and to maintain a balance among asset types and demographic segments.

Acquisitions Completed During the Year Ended December 31, 2015

(\$ Thousands)	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
January 28, 2015 ⁽⁴⁾	Luxury	270	Dublin, Ireland	\$ 125,416	\$ —	— (3)	— (3)
February 18, 2015	Mid-tier	126	Edmonton	31,092	—	— (3)	— (3)
March 31, 2015	Mid-tier	285	Burlington	54,500	—	— (3)	— (3)
June 15, 2015	Mid-tier	32	Victoria	5,479	—	— (3)	— (3)
June 30, 2015	Affordable	108	Langley	13,010	—	— (3)	— (3)
July 31, 2015	Luxury	58	Langley	17,070	—	— (3)	— (3)
September 14, 2015	Various ⁽⁶⁾	919	Greater Vancouver Area	170,611	—	— (3)	(3)
September 30, 2015	Various ⁽⁷⁾	3,661	Montréal	502,276	—	— (5)	— (5)
November 1, 2015	MHC	4	Bowmanville and Grand Bend	372	—	— (3)	— (3)
December 17, 2015	Mid-tier	169	Victoria	29,474	3,030 ⁽⁸⁾	1.80% ⁽⁸⁾	4.2 ⁽⁸⁾
Total		5,632		\$ 949,300	\$ 3,030		
Subsequent Acquisition Financing					\$ 382,203	2.36%	8.2

(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 Rockbrook Portfolio acquisition is the first portfolio CAPREIT acquired for IRES for €89.7 million (including transaction costs), under the Pipeline Agreement (as defined below).

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

(6) The acquisition comprised 919 suites (807 mid-tier and 112 luxury suites) in 19 properties located in the Greater Vancouver Area.

(7) The acquisition comprised 3,661 suites (717 affordable, 1,356 mid-tier, and 1,588 luxury suites) in 51 buildings located in Montréal.

(8) The acquisition was funded by the assumption of a \$3.0 million mortgage maturing in February 2020 with an effective interest rate of 1.8% and cash from CAPREIT's Acquisition and Operating Facility.

Dispositions Completed During the Year Ended December 31, 2015

(\$ Thousands)	Demographic Sector	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
February 18, 2015	Mid-tier	260	Toronto	\$ 47,000	\$ 23,642	\$ 22,901
March 31, 2015	Luxury ⁽¹⁾	270	Dublin, Ireland	123,450	362	123,016
Total		530		\$ 170,450	\$ 24,004	\$ 145,917

(1) Pursuant to the terms of the Pipeline Agreement (as defined below), on March 31, 2015, CAPREIT sold the Rockbrook Portfolio via the sale of its interest in Rockbrook SPV (as defined below) to IRES at the original acquisition cost of €89.7 million and earned an underwriters' fee of €0.9 million. IRES repaid the loan to CAPREIT for approximately €89.7 million, the original acquisition cost (for which CAPREIT had initially drawn from its Acquisition and Operating Facility for the purchase of the Rockbrook Portfolio). In total, IRES paid €90.6 million for the acquisition of the Rockbrook Portfolio. CAPREIT repaid the Euro LIBOR borrowings of €90.3 million subsequent to the sale. Included in foreign currency translation in the consolidated statements of income and comprehensive income is a foreign exchange loss of \$3.2 million relating to the disposition and a foreign exchange gain of \$3.1 million in respect of the repayment of the Euro LIBOR borrowings.

Acquisitions Completed During the Year Ended December 31, 2014

(\$ Thousands)	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
January 15, 2014	Commercial ⁽³⁾	–	Burlington	\$ 11,356	\$ – ⁽⁴⁾	– ⁽⁴⁾	– ⁽⁴⁾
April 17, 2014	MHC	2	Bowmanville and Grand Bend	141	– ⁽⁴⁾	– ⁽⁴⁾	– ⁽⁴⁾
July 31, 2014	Various ⁽⁵⁾	213	Charlottetown	20,624	14,747	3.95%	3.1
September 30, 2014	Mid-tier	126	Regina	17,097	8,391	3.05%	8.9
November 20, 2014	MHC	5	Bowmanville and Grand Bend	426	– ⁽⁴⁾	– ⁽⁴⁾	– ⁽⁴⁾
December 8, 2014	Mid-tier	31	Calgary	7,570	2,984	3.27%	2.0
December 16, 2014	MHC	97	Brooks, Alberta	4,331	– ⁽⁴⁾	– ⁽⁴⁾	– ⁽⁴⁾
Total		474		\$ 61,545	\$ 26,122		

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

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

(3) The acquisition of a commercial property is situated beside an existing residential property in the Burlington area.

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

(5) The acquisition comprised 213 suites (48 mid-tier and 165 luxury suites) in nine properties located in Charlottetown, Prince Edward Island.

Dispositions Completed During the Year Ended December 31, 2014

(\$ Thousands)	Demographic Sector	Suite Count	Region	Sale Price	Mortgage Discharged
April 16, 2014	Luxury ⁽¹⁾	338	Dublin, Ireland	\$ 70,871	\$ 7,599
Total		338		\$ 70,871	\$ 7,599

(1) The disposition of CAPREIT's wholly owned subsidiary in Ireland, CAPREIT Ireland Limited (renamed Irish Residential Properties REIT plc) comprised a portfolio of 338 apartment suites in four properties located in Dublin, Ireland relating to IRES obtaining admission of its ordinary shares to the Irish Stock Exchange. The public offering decreased CAPREIT's ownership of IRES from 100% to 20.8% at admission.

Other Developments

(a) King High Line Project

On July 29, 2015, CAPREIT entered into an agreement to acquire a one-third undivided interest in the residential component of the King High Line Project, a mixed-use property development in Toronto, Ontario. The property will consist of approximately 160,000 square

feet of commercial retail space (which will not be owned by CAPREIT) and three rental residential towers containing 506 suites. CAPREIT will pay \$60.3 million for its interest in the residential component of the development to be financed from CAPREIT's Acquisition and Operating Facility. CAPREIT has been granted the property management contract and will be responsible for the lease-up of the residential towers for a market fee. Closing will take place upon substantial completion of construction, which is expected to occur in 2018.

(b) Management Agreements with IRES

IRES Fund Management Limited ("**IRES Fund Management**"), an Irish subsidiary of CAPREIT, became authorized as an alternative investment fund manager ("**AIFM**") by the Central Bank of Ireland on October 28, 2015 and was appointed as the AIFM of IRES effective November 1, 2015 and of Irish Residential Properties Fund, an Irish subsidiary of CAPREIT, effective November 5, 2015.

IRES and IRES Fund Management entered into an Amended and Restated Investment Management Agreement dated effective as of November 1, 2015 (the "**Investment Management Agreement**") which governs the provision to IRES by IRES Fund Management of investment management services (including risk management, portfolio management and other services).

IRES, CAPLP and IRES Fund Management entered into an Amended and Restated Services Agreement with effect from November 1, 2015 (the "**Services Agreement**") which governs the provision by CAPLP of property management services, asset management services and administrative services to IRES Fund Management during the term of the Investment Management Agreement.

In connection with the appointment of IRES Fund Management as AIFM of IRES, the Amended and Restated Delegation Agreement between Gandon Alternative Fund Management Limited ("**Gandon**"), a private limited company which is registered with the Irish Companies Registration Office and which was appointed as the AIFM by IRES until such time as IRES Fund Management became authorized as an AIFM, and IRES Fund Management (the "**Delegation Agreement**") was terminated effective October 31, 2015. The Delegation Agreement governed the provision of certain asset and property management services by IRES Fund Management to Gandon for which Gandon had responsibility under its agreement with IRES.

(c) Pipeline Agreement

CAPLP entered into an agreement with IRES on November 21, 2014 (as amended February 9, 2015) (the "**Pipeline Agreement**") to make available up to €150 million for a period ending on the earlier of the one year anniversary of the Pipeline Agreement and completion of a capital raise by IRES to acquire high quality properties in Ireland, and to subsequently permit IRES to acquire such properties from CAPLP once IRES has sourced additional funding. The Pipeline Agreement provides CAPLP with an underwriting fee of 1.0% of the purchase price of any assets acquired by CAPLP under the Pipeline Agreement at such time as the assets are acquired by IRES.

Under the Pipeline Agreement, CAPLP will bid for and, if successful, acquire properties, approved by CAPREIT's Board of Trustees and IRES' independent directors, through special purpose vehicles ("SPVs"). Upon having sufficient financing, IRES will acquire the SPVs at a price equal to the price paid for the relevant property investments held by that SPV (together with all third party costs incurred by CAPLP) and an underwriting fee of 1% of the purchase prices of the relevant property investment (the "**Acquisition Cost**") (net of indebtedness) provided that IRES acquires the SPV within six months of the acquisition of the property, and thereafter at the greater of: (i) the fair market value of the assets of the SPV, at the time they are acquired by IRES (net of indebtedness), plus an underwriting fee equal to 1% of the purchase price of the relevant property investment and (ii) the Acquisition Cost, which includes an underwriting fee of 1% of the relevant property investment, (net of indebtedness). If IRES does not acquire the SPV within one year of the acquisition of the relevant property, CAPLP would be permitted, but not obliged, to sell the property for its own benefit.

On January 28, 2015, CAPREIT, through a wholly-owned Irish subsidiary ("**Rockbrook SPV**"), acquired a portfolio consisting of 270 residential suites and approximately 50,214 square feet of mixed-use commercial space located in Dublin, Ireland under the Pipeline Agreement for €87.3 million (including VAT) and other acquisition costs of €2.4 million (the "**Rockbrook Portfolio**"). The Rockbrook Portfolio was the first portfolio CAPREIT acquired for IRES under the Pipeline Agreement. Pursuant to the terms of the Pipeline Agreement, IRES acquired the Rockbrook SPV for the underwriters' fee of €0.9 million and repaid the loan of €89.7 million to CAPREIT on March 31, 2015.

The Pipeline Agreement will terminate upon the earlier of the date of termination of the Investment Management Agreement or the date of termination of the Services Agreement. The €150.0 million facility commitment provided by CAPREIT to IRES under the Pipeline Agreement terminated on March 26, 2015 on completion of IRES's secondary equity offering. The facility commitment may be reauthorized by CAPREIT's Board of Trustees at a later date.

(d) Third Party External Management Agreements

Late in 2012, CAPREIT entered into third party external management agreements to perform certain asset management duties and property services for a third party real estate investment trust in the United States, which owned and operated 16 manufactured home communities in Colorado, Texas, Arizona, and Michigan. The third party management agreements were terminated effective January 31, 2014.

(e) SAP Implementation

During the third quarter of 2011, CAPREIT began a multi-phase implementation of a new enterprise resource planning system. As at December 31, 2015, CAPREIT had incurred approximate costs of \$8.5 million. CAPREIT believes this unified platform will continue to improve operational efficiencies.

(f) Natural Gas Supply

CAPREIT entered into fixed natural gas contracts covering fiscal year 2015. As at December 31, 2015, CAPREIT is committed to natural gas contracts for a fixed price of \$3.66 and \$3.00 per gigajoule (“GJ”) for fiscal year 2016 and 2017, respectively. These fixed natural gas contracts represent approximately 59.2% and 33.7% of CAPREIT’s natural gas estimated requirements for fiscal year 2016 and 2017, respectively. In addition, transportation costs, which are estimated at \$1.66 and \$1.12 per GJ were committed for fiscal year 2016 and 2017, respectively.

(g) Credit Facilities

On September 30, 2015, CAPREIT amended its credit agreement for the \$340.0 million revolving credit facility (“**Acquisition and Operating Facility**”) to provide for a six-month temporary bridge facility of up to \$450.0 million (the “**Bridge Increase**”) to fund specific acquisitions. The Bridge Increase was a term credit facility and any principal amount repaid may not be reborrowed, and its maturity date was six months from the initial drawdown of the advance, which was September 30, 2015. As at December 31, 2015, the Bridge Increase has been fully repaid. In respect to the Acquisition and Operating Facility, the aggregate amount of euro LIBOR borrowings at any time shall not exceed €70.0 million while the Canadian dollar equivalent of the aggregate principal amount of all advances (including the euro LIBOR borrowings) under the Acquisition and Operating Facility shall not exceed \$340.0 million.

CAPREIT’s credit facilities include the \$340.0 million Acquisition and Operating Facility, the Bridge Increase and the existing \$65.0 million five-year non-revolving term credit facility (the “**Land Lease Facility**”) (collectively, the “**Credit Facilities**”). The Land Lease Facility (included in mortgages payable) bears interest at the bankers’ acceptance rate plus 1.4% per annum. As at December 31, 2015, CAPREIT has euro LIBOR borrowings (included in mortgages payable) of €63.0 million that bears interest at the euro LIBOR rate plus a margin of 1.65% per annum. The margin is 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, 2018. The interest rate on the Bridge Increase was determined by the interest rates on prime advances and bankers’ acceptances (plus a margin of 1.90% per annum) utilized during the six-month period. 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.

CAPREIT has a €40 million interest rate swap agreement fixing the EURIBOR rate at 1.22%, which matures in August 2018. The agreement effectively converts borrowings on a EURIBOR-based floating rate credit facility to a fixed rate facility for a five-year term.

7 - DESCRIPTION OF THE BUSINESS

7.1 Summary

The objectives of CAPREIT are (i) to provide Unitholders with long-term, stable and predictable monthly cash distributions; (ii) to grow NFFO, sustainable distributions and Unit value through the active management of its properties, accretive acquisitions and strong

financial management; and (iii) to reinvest capital within the property portfolio in order to ensure life safety of residents and maximize earnings and cash flow potential.

7.2 The Residential Real Estate Market

The Multi-Unit Residential Real Estate Market

CAPREIT's real property portfolio is comprised primarily of interests in income-producing multi-unit residential properties. Properties consist of well-located, low-rise and high-rise apartment buildings and townhome complexes in or near urban centres throughout Canada. This particular type of real estate differs significantly from the commercial real estate investment market particularly because of the following:

- residential tenancy agreements tend to have terms of one year or less, thereby allowing for more frequent changes to rental rates;
- cash flow for each property is generated by a diverse resident base. The temporary loss of any one of these residents through turnover or exposure to bad debt from any one of these residents, will have no significant effect on CAPREIT's overall income stream;
- the demand for residential rental accommodation is much more consistent and stable than the demand for commercial rental space, reflecting demographic trends and reflecting that the need for housing, unlike its commercial counterpart, is governed to a lesser extent by economic business cycles;
- the costs necessary to attract and retain residential tenants are generally lower and much more predictable than in the case of commercial tenancies, regardless of the stage of the business cycle;
- the value of residential properties has historically been less susceptible to economic business cycles than other classes of income-producing real estate; and
- properties can often be purchased at amounts below replacement cost.

While the characteristics detailed above mitigate the detrimental effects of severe cyclical swings in the real estate industry, the residential market is not completely immune to supply and demand imbalances nor variances in general economic conditions (see "Risk Factors").

The Manufactured Home Communities Real Estate Market

CAPREIT has supplemented its portfolio of multi-unit residential properties with the acquisition of MHCs in Ontario, British Columbia, Alberta, Saskatchewan, Prince Edward Island and New Brunswick. Homeowners in a MHC own their homes and enter into lease agreements for the lots on which their homes are located for a monthly rental charge. In Ontario and BC, residents are subject to annual provincial guideline rent increases. Homeowners are responsible for all of their utility costs and all sites are connected to full municipal services. The homes are constructed by a home builder in a variety of styles and floor plans, and can be customized to an owner's specifications. Homeowners are primarily persons seeking the

lifestyle and amenities and in some cases, provided by these communities along with the serenity, security, location and affordability they offer. Owning and operating a MHC is similar to owning and operating a multi-unit residential property. However, owning and operating MHCs offers the following advantages: significantly lower capital investment and maintenance costs; minimal rent collection issues; reduced exposure to energy costs; stable occupancies; and generally longer lease terms with low resident turnover.

7.3 Competition

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 which are presently seeking, or which may seek in the future, real property investments similar to those sought 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 an increase in interest in real property investments may increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

CAPREIT's growth in the past has come from its focused acquisition program. Management has demonstrated an ability to locate and complete property purchases at accretive purchase prices. There is a risk that continuing increased competition for apartment, townhome, and manufactured home communities' acquisitions may increase purchase prices to levels that are not accretive to Unitholders or which could substantially increase future refinancing risk.

Ownership of apartment buildings and manufactured home communities is diverse and very fragmented, and the owner often performs rental management. CAPREIT believes there are acquisition opportunities as a result of the fragmented market and opportunities to enhance income through the application of professional management practices and gaining efficiencies of scale.

Competition for Residents

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

Many city centres in our markets have seen a significant increase in new condominium construction. In certain markets a significant proportion of new condominiums constructed are being used as rental properties. Condominiums are targeted primarily at the luxury market and provide competition for CAPREIT in this market segment.

In addition, in view of the current low interest rate environment, mortgage loans for home ownership are available at attractive interest rates, providing competition to CAPREIT for

residents. This competition could adversely affect CAPREIT's ability to lease suites in its properties and on the rents charged and could lead to increased leasing, marketing and refurbishment costs necessary to lease and release suites.

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. While ensuring the needs of its residents are met, CAPREIT also carefully monitors operating costs to ensure it is delivering services to residents both efficiently and cost effectively. CAPREIT strives to capture potential economies of scale and cost synergies arising from past growth.

7.4 Owned Properties

Types of Property Interests

CAPREIT's investments in its property portfolio reflect different forms of property interests, including fee simple, operating leasehold interests and land leasehold interests.

The majority (December 31, 2015 - 76.2%; December 31, 2014 - 73.3%) of CAPREIT's investments in its property portfolio, based on total residential suites and MHC land lease sites, are in the form of fee simple, representing freehold ownership of the properties subject only to typical encumbrances that run with the property, including mortgages.

CAPREIT owns leasehold interests in fifteen properties located in the GTA. The leases mature between 2033 and 2037. While separate lease arrangements exist for each property, all such leases have a common general structure: 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. Operating leasehold interests accounted for approximately 8.2% of CAPREIT's total residential suites and MHC land lease sites as at December 31, 2015 (December 31, 2014 - 9.2%). CAPREIT has the option to acquire fee simple interests in 14 of the properties exercisable between the 26th and 35th year of the respective leases. In the case of the 15th property, comprising 327 suites, CAPREIT's option entitles it to acquire a prepaid operating leasehold interest in the property maturing in 2072. The purchase options are independently exercisable, enabling CAPREIT to acquire additional interests in any or all of the properties. The option prices vary by property and by the year in which the option is exercised. If CAPREIT elects 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 original rent based on the remaining lease term. In addition, under certain circumstances, the option price may be reduced by the unamortized portion of certain capital expenditures incurred during the last ten years of the lease term.

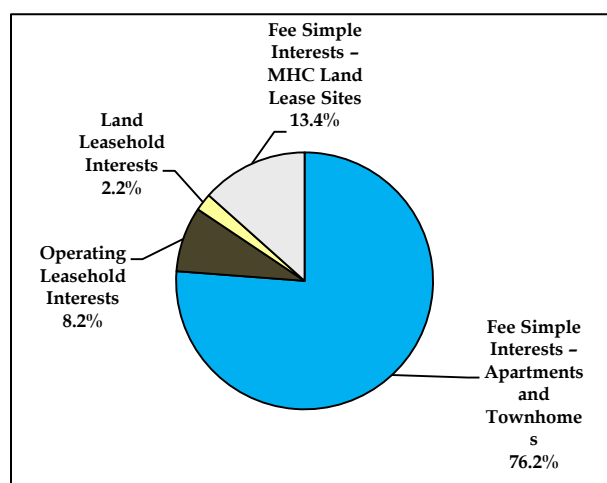
CAPREIT owns leasehold interests in four land parcels located in Calgary, Edmonton and Vancouver. CAPREIT has acquired a residential building on each of the four land parcels and must pay ground rent on an annual basis for its use of the land. CAPREIT's leasehold interests in one property matures in 2045, two properties in 2068 and one property in 2070. CAPREIT does not have the right to acquire the land or to extend the lease term upon maturity of the respective leases. These four leasehold interests accounted for approximately 2.2% of

CAPREIT's total residential suites and MHC land lease sites as at December 31, 2015 (December 31, 2014 - 2.5%).

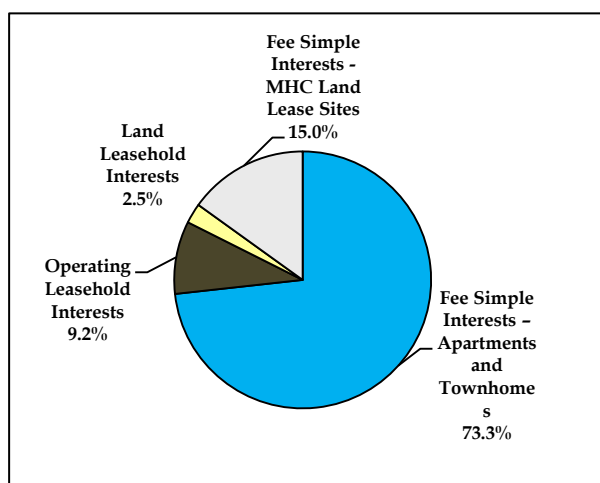
CAPREIT has fee simple interests in 30 MHC land lease sites in Ontario, British Columbia, Alberta, Saskatchewan, New Brunswick, and Prince Edward Island whereby CAPREIT owns lots, which it rents to residents under long-term leases. Interests in MHCs accounted for approximately 13.4% of CAPREIT's total residential suites and MHC land lease sites as at December 31, 2015 (December 31, 2014 - 15.0%).

Portfolio by Interest Type

As at December 31, 2015



As at December 31, 2014



Portfolio Diversification

CAPREIT's investment property portfolio is diversified by geography and balanced among asset types and demographic segments. CAPREIT's long-term goal is to further enhance the geographic diversification and defensive nature of its portfolio through future acquisitions, as well as through dispositions of non-core and underperforming properties.

The tables that follow provide certain additional information relating to CAPREIT's diversification by geographic region and property type.

<i>Property Portfolio by Geography</i>				
As at December 31				
	2015 Number of Suites and Sites	%	2014 Number of Suites and Sites	%
Ontario				

Property Portfolio by Geography				
As at December 31				
	2015 Number of Suites and Sites	%	2014 Number of Suites and Sites	%
GTA	15,518	33.2	15,780	37.9
Ottawa	1,527	3.3	1,527	3.7
London/Kitchener / Waterloo	1,650	3.5	1,649	3.9
Other Ontario	1,696	3.6	1,410	3.4
	20,391	43.6	20,366	48.9
Québec				
Greater Montréal Region	8,243	17.6	4,581	11.0
Québec City	2,729	5.8	2,728	6.6
	10,972	23.4	7,309	17.6
British Columbia				
Greater Vancouver Region	3,030	6.5	1,948	4.7
Victoria	1,381	3.0	1,180	2.8
	4,411	9.5	3,128	7.5
Alberta				
Edmonton	436	0.9	310	0.7
Calgary	1,883	4.0	1,883	4.5
	2,319	4.9	2,193	5.2
Nova Scotia				
Halifax	1,588	3.4	1,588	3.8
Saskatchewan				
Saskatoon	133	0.3	133	0.3
Regina	234	0.5	234	0.6
	367	0.8	367	0.9
Prince Edward Island				
Charlottetown	453	1.0	453	1.1
Total Residential Suites	40,501	86.6	35,404	85.0
MHC Land Lease Sites				
Ontario	2,690	5.7	2,685	6.4
British Columbia	130	0.3	130	0.3
Alberta	415	0.9	415	1.0
Saskatchewan	246	0.5	246	0.6
Prince Edward Island	500	1.1	500	1.2
New Brunswick	2,308	4.9	2,308	5.5
Total MHC Land Lease Sites	6,289	13.4	6,284	15.0
Total Residential Suites and MHC Land Lease Sites	46,790	100.0	41,688	100.0

<i>Property Portfolio by Sector</i>				
As at December 31	2015	%	2014	%
Affordable	3,291	7.0	2,470	5.9
Mid-tier	21,679	46.4	19,161	46.1
Luxury	15,531	33.2	13,773	33.0
Total Residential Suites	40,501	86.6	35,404	85.0
MHC Land Lease Sites	6,289	13.4	6,284	15.0
Total Residential Suites and MHC Land Lease Sites	46,790	100.0	41,688	100.0

The following table summarizes certain aspects of CAPREIT's properties on a property-by-property basis. Unless otherwise indicated, CAPREIT holds the fee simple.

Portfolio Average Monthly Rents and Occupancy by Demographic Sector

As at December 31,	Total Portfolio			
	2015		2014	
	AMR	Occ. %	AMR	Occ. %
Affordable	\$ 815	95.7	\$ 869	94.9
Mid-tier	\$ 1,028	98.1	\$ 1,033	98.6
Luxury	\$ 1,152	96.6	\$ 1,170	97.6
Average Residential Suites	\$ 1,059	97.4	\$ 1,076	97.9
Average MHC Land Lease Sites	\$ 366	98.2	\$ 356	97.5
Overall Portfolio Average	\$ 963	97.5	\$ 964	97.9

Portfolio Average Monthly Rents and Occupancy by geography

As at December 31,	Total Portfolio			
	2015		2014	
	AMR	Occ. %	AMR	Occ. %
Residential Suites				
Ontario				
Greater Toronto Area	\$ 1,218	99.1	\$ 1,181	98.8
Ottawa	946	99.7	937	100.0
London / Kitchener / Waterloo	894	97.3	883	97.9
Other Ontario	1,126	99.1	1,095	99.1
	\$ 1,171	99.0	\$ 1,140	98.8
Québec				
Greater Montréal Region	\$ 830	96.6	\$ 895	97.0
Québec City	947	95.5	938	96.8
	\$ 859	96.4	\$ 911	96.9
British Columbia				
Greater Vancouver Region	\$ 1,095	99.6	\$ 1,100	99.6
Victoria	1,017	99.9	972	99.3
	\$ 1,070	99.7	\$ 1,052	99.5
Alberta				
Edmonton	\$ 1,157	91.5	\$ 1,201	98.1
Calgary	1,118	89.9	1,211	96.5
	\$ 1,125	90.2	\$ 1,209	96.7
Nova Scotia				
Halifax	\$ 1,004	92.1	\$ 995	90.8
Saskatchewan				
Saskatoon	\$ 894	88.7	\$ 965	97.7
Regina	1,022	95.7	1,021	95.3
	\$ 975	93.2	\$ 1,000	96.2
Prince Edward Island				
Charlottetown	\$ 951	84.8	\$ 930	94.9
Total Residential Suites	\$ 1,059	97.4	\$ 1,076	97.9
MHC Land Lease Sites				
Ontario	\$ 500	99.6	\$ 489	99.6
British Columbia	411	96.9	409	99.2
Alberta	404	100.0	381	98.6
Saskatchewan	353	97.2	335	100.0
Prince Edward Island	140	95.8	138	95.6
New Brunswick	250	96.8	244	94.8
Total MHC Land Lease Sites	\$ 366	98.2	\$ 356	97.5
Total Residential Suites and MHC Land Lease Sites	\$ 963	97.5	\$ 964	97.9

7.5 Cyclical Nature of the Business

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

7.6 Property Capital Improvements and Investments

Given the expertise and experience of its executives and employees, CAPREIT's growth strategy includes the acquisition of properties below current replacement costs which may require immediate and/or planned capital improvements and repairs. CAPREIT's acquisition strategy includes improving the operating performance of such properties by investing annually in capital improvements to grow and sustain the portfolio's future rental income potential over the useful economic life. Prior to acquisition, CAPREIT obtains a building condition audit conducted by an independent professional engineer in respect of each of its properties for the purposes of evaluating the condition and structural integrity of each building and major building and operating components and systems and identifying and assessing the cost of deficiencies that are the subject of any outstanding or likely work orders and/or deferred maintenance items. Each property is measured against a standard that is at least consistent with its market segment and current rent levels. Each of the building condition audits is completed on the basis of work which is required to be completed within approximately one to five years and may include work which is recommended to be performed in subsequent years. The investments identified by these audits, which include improvements to major building structures, parking garages and balconies, are estimated at the time of acquisition and included in the acquisition analysis to ensure the transaction is expected to be accretive to Unitholders and are funded periodically over several years from mortgage advances or refinancings and equity financings.

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. CAPREIT believes that these building improvement programs, combined with existing suite improvement, common area and environment-friendly and energy-savings initiatives, will enable CAPREIT to reposition its portfolio and maintain high occupancy levels. These investments are expected to continue to increase average monthly rents while improving life safety and resident services. CAPREIT also believes that strategic investments will position the portfolio for improved operating performance as the economy strengthens and will enhance the quality and value of the portfolio over the long term.

For the year ended December 31, 2015, CAPREIT made property capital investments (excluding disposed properties, head office assets, tenant improvements and signage) of \$161.7 million, as compared to \$143.6 million for the year ended December 31, 2014.

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

Property Capital Investments by Category					
Year ended December 31	2015	%	2014	%	
(\$ Thousands)					
Building Improvements	\$ 59,436	36.7	\$ 59,000	41.1	
Suite Improvements	44,018	27.2	33,503	23.3	
Common Area	25,336	15.7	20,885	14.5	
Energy-Saving Initiatives	2,196	1.4	1,230	0.9	
Equipment	10,926	6.8	11,519	8.0	
Boiler and Elevators	16,394	10.1	15,031	10.5	
Appliances	3,364	2.1	2,441	1.7	
	\$ 161,670	100.0	\$ 143,609	100.0	

The change in timing of capital investments, especially relating to acquisitions acquired since 2011, has led CAPREIT to adjust its multi-year capital investment programs to increase the anticipated levels for 2016 and beyond. Based on a revised multi-year property capital investment plan, management expects CAPREIT to complete property capital investments of approximately \$170 million to \$180 million during 2016, including approximately \$87 million targeted at acquisitions over the past 3 years and approximately \$20 million in investments in high-efficiency boilers and other energy-saving initiatives.

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 for 2016 through 2019 for properties owned as of December 31, 2015. Building improvements represent the most significant category of property capital investment at present, but are expected to decline significantly in the coming years.

Future Investments in Building Improvements

Year Ending December 31 (\$ Thousands)	Properties Held As At December 31, 2015 Excluding Acquisitions Since 2012 Estimated Range ^{(1), (2)}		Acquisitions Since 2012 Estimate ⁽¹⁾
2016	\$ 23,000	-	\$ 27,000
2017	\$ 19,000	-	\$ 23,000
2018	\$ 14,000	-	\$ 18,000
2019	\$ 6,000	-	\$ 10,000

Notes:

(1) Excludes property capital investments in other categories, such as suite improvements and common areas.

(2) Excludes disposed properties.

Capital Investment Strategy

CAPREIT's capital investment strategy will continue to:

- focus on environmentally friendly and energy savings initiatives, including high efficiency boilers that will reduce greenhouse gas emissions and be in a position to benefit from future carbon credit programs, energy-efficient lighting systems and water savings;
- invest in building improvement programs to ensure life safety conditions to re-position the portfolio or newly-acquired assets and to complete value-enhancing capital investments combined with continued emphasis on improving life safety and resident service;
- direct discretionary capital investments at properties and initiatives where management expects to generate additional NOI as an outcome of the improvements; and
- emphasize common area improvements and curbside appeal to maintain CAPREIT's high quality and occupancy goals.

7.7 Environmental

CAPREIT is exposed to potential liability in respect of environmental hazards or liability under various environmental laws and regulations (see "Risk Factors - Environmental Matters") accordingly management has developed environmental policies, procedures and practices to protect the environment and minimize CAPREIT's risks and liabilities.

Pursuant to the Declaration of Trust, unless determined otherwise by the Board of Trustees, it is CAPREIT's operating policy to obtain a Phase I environmental assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property. Such reports are reviewed by CAPREIT's internal Environmental and Life Safety Manager. Phase I environmental assessments have been performed in respect of each of the properties acquired by CAPREIT to date. Where Phase I environmental assessments warrant further assessment, it is CAPREIT's operating policy to complete further assessments. CAPREIT also follows this policy in connection with the refinancing of any property. Wherever required by environmental regulations, CAPREIT also carries out assessments to determine the presence of asbestos-containing material to ensure compliance with appropriate provincial legislation. Also, as part of the Phase I environmental assessment, an assessment is carried out to determine the presence of underground storage tanks. The environmental assessments which CAPREIT has obtained to date with respect to its properties have not revealed any environmental liability that management believes could have a material adverse effect on CAPREIT.

Management believes that CAPREIT can reduce its impact on the environment, while improving its long-term financial performance, through energy and waste management programs focussed on optimizing its utility consumption, as well as encouraging and training residents to reduce waste. Since its inception, CAPREIT has strived to reduce energy and water consumption in a cost-effective manner, which has the added benefit of reducing emissions while simultaneously contributing to better financial results.

Most of CAPREIT's portfolio is heated with natural gas, a clean-burning energy source. The remainder of the portfolio is heated using electricity or heating oil, and over the last few years, a number of such properties were converted to natural gas, reducing overall emissions produced, as well as operating costs. CAPREIT has also implemented a suite-metering program, installing individual meters in suite, in parts of its property portfolio where possible. Upon lease turnover, new rental agreements include metered billing payable by the resident, which acts as the strongest incentive to reduce energy consumption by tenants.

One of CAPREIT's strategies is to implement energy-efficient initiatives at every newly acquired property promptly upon acquisition. These initiatives, with favourable payback periods, include the installation of LED lamps, energy efficient T5 lighting technology, and occupancy sensors in common areas and parking garages; the installation of over 81,000 heat-reflector panels since 2009 to cost-effectively reduce heat-loss; the replacement, where necessary, of laundry machines and kitchen appliances with over 3,500 energy-star compliant refrigerators, ranges and refrigerators replaced in 2015; the installation of 59 high efficiency booster pumps with variable speed drives across Canada since 2014; and the installation of new high-efficiency, state-of-the-art boilers and chillers. These boiler plants are then remotely monitored by CAPREIT's in-house engineers, allowing for optimal temperatures for residents' comfort with minimal energy waste. Each of these initiatives requires an initial capital investment by CAPREIT, but has resulted in significant decreases in energy usage and related costs. Another initiative with no upfront capital cost is the regular cleaning of all in-suite heating coils, fins and radiators by building staff, which notably reduces energy waste.

Expenditures on energy consumption optimization investments were approximately \$10.7 million in 2015, \$8 million in 2014 and \$9.8 million in 2013.

Similar to the strategy for reducing energy consumption, CAPREIT also promptly installs a variety of water-efficient equipment at every newly acquired property, as previously owned properties have already been modernized. Such initiatives include the use of next-generation, ultra-high-efficient toilets, low-flow showerheads and faucets using aerators as well as high-efficiency laundry facilities. Additionally, CAPREIT's commitment to reduction of water consumption continues with mature properties whereby equipment has been upgraded more than once when newer and cost-effective technology has allowed even greater reduction in water usage.

Waste-management is also a key element of CAPREIT's operational focus on the environment. Beginning in 2007, CAPREIT implemented a waste-diversion strategy and expanded recycling initiatives at all of its properties. This strategy, consisting of increased usage of 'blue bins' and new compactors, adaptation of building waste collection substructure for recycling and importantly, the training and education of residents as to the benefits of recycling, minimized municipal waste-collection levies. Management estimates that such programs, in place across most of the portfolio, have successfully increased recycling by tenants and significantly reduced landfill waste generation.

7.8 Divestitures

On March 20, 2014, Irish Residential Apartments REIT Limited (formerly, CAPREIT Ireland Limited, a wholly-owned subsidiary of CAPREIT) registered as a public limited company and changed its name to Irish Residential Properties REIT public limited company. It comprised a portfolio of 338 apartment suites in four residential properties located in Dublin, Ireland. It was listed on the Irish Stock Exchange on April 16, 2014. On admission, IRES issued 200,000,000 shares to the public on top of the existing 2,000,000 shares owned by CAPREIT LP, which resulted in dilution of CAPREIT LP's beneficial interest in IRES by 79.2%. On dilution, CAPREIT LP had a loss of control of its subsidiary resulting in CAPREIT no longer consolidating IRES but rather equity accounting for its retained investment. As a result of the disposition, CAPREIT recognized a gain of \$717 thousand relating to the consideration received in lieu of the net asset value of the properties in IRES on the disposition date, which is recorded in other income. On March 25, 2015, CAPREIT invested an additional €23.5 million in Ordinary Shares in IRES as part of IRES' €215.0 million secondary equity offering. As at December 31, 2015, CAPREIT LP holds 65.5 million ordinary shares representing 15.7% of the issued share capital of IRES.

7.9 Mortgage Financing

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. 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. CAPREIT is required to comply with limitations on its debt contained in the Declaration of Trust and under the terms of its other borrowing agreements. As at December 31, 2015, CAPREIT was in compliance in all material respects with the debt restrictions under the Declaration of Trust and under the terms of its borrowing agreements.

As at December 31, 2015, the weighted average interest rate on outstanding mortgage indebtedness was 3.39% (December 31, 2014 - 3.66%), excluding 0.12% (December 31, 2014 - 0.15%) for amortization of the realized component of loss on the settlement of derivative financial instruments in accumulated other comprehensive loss ("AOCL").

CAPREIT focuses on ownership of multi-unit residential real estate which is eligible for government-backed mortgage insurance administered by CMHC (with the exception of MHCs). As a result, CAPREIT is able to obtain lower interest rates than are available under conventional mortgages and the overall renewal risk for mortgage refinancing is reduced as the mortgage insurance premium is transferable between CMHC approved lenders and is effective for the full amortization period of the underlying mortgage (ranging between 25-35 years). As at December 31, 2015, 96.5% of CAPREIT's mortgage portfolio was CMHC insured (excluding MHC interests) (December 31, 2014 - 95.7%).

The large borrower agreement with CMHC dated August 9, 2010 ("LBA") provides for, among other things, the cross-collateralization of mortgage loans for CAPREIT's largest CMHC-

insured mortgage lenders, secured by the registration of fixed and floating charge debentures on each such lender's pool of charged CAPREIT properties. Such debentures are subordinate to the charges securing the related mortgage loans and senior to the debentures securing the Acquisition and Operating Facility.

Management believes CAPREIT is well-positioned to meet its mortgage renewals and refinancing goals for 2016 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages maturing during 2016 of approximately \$145.4 million, which have an effective interest rate of approximately 4.10%, and refinancing approximately \$93.7 million principal repayments through 2016 with new mortgages. Management expects to raise between \$275 million and \$325 million in total mortgage renewals and refinancing's for 2016.

The following table summarizes future mortgage principal repayments, including maturities, and effective weighted average interest rates as at December 31, 2015.

(\$ Thousands)								
Year	Principal Repayments		Mortgage Maturities		Mortgage Balance		% of Total Mortgage Balance	Interest Rate (%) ⁽¹⁾ ⁽²⁾
2016	\$	93,709	\$	145,442	\$	239,151	7.7	4.10
2017 ⁽³⁾		91,683		171,163		262,846	8.5	4.17
2018 ⁽⁴⁾		92,550		192,850		285,400	9.2	3.02
2019		89,066		240,250		329,316	10.6	3.52
2020		83,852		222,309		306,161	9.9	2.58
2021		72,736		255,335		328,071	10.6	4.12
2022		63,180		318,225		381,405	12.3	3.11
2023		45,150		249,786		294,936	9.5	3.23
2024		30,602		230,133		260,735	8.4	3.84
2025		20,552		299,390		319,942	10.2	2.76
2026 - 2030		14,337		80,443		94,780	3.1	3.93
Total	\$	697,417	\$	2,405,326	\$	3,102,743	100.0	3.39
Deferred financing costs and fair value adjustments						(4,970)		
Mortgages Payable					\$	3,097,773		

Notes:

(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, 2015 would be 3.52% (December 31, 2014 - 3.81%).

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

(4) Included in mortgages payable is a €63.5 million non-amortizing Euro LIBOR borrowing.

7.10 Credit Facilities

On September 30, 2015, CAPREIT renewed and amended its existing credit agreement for the Acquisition and Operating Facility with two Canadian chartered banks to provide for a six-month temporary bridge facility of up to \$450.0 million (the Bridge Increase) to fund specific acquisitions. The Bridge Increase was a term credit facility and any principal amount repaid may not be reborrowed, and its maturity date was six months from the initial drawdown of the

advance, which was September 30, 2015. As at December 31, 2015, the Bridge Increase has been fully repaid. In respect to the Acquisition and Operating Facility, the aggregate amount of euro LIBOR borrowings at any time shall not exceed €70.0 million while the Canadian dollar equivalent of the aggregate principal amount of all advances (including the euro LIBOR borrowings) under the Acquisition and Operating Facility shall not exceed \$340.0 million. The Acquisition and Operating Facility matures June 30, 2018.

The Credit Facilities include the Acquisition and Operating Facility, the Bridge Increase and the Land Lease Facility. The Credit Facilities are subject to compliance with the various provisions of the credit agreement in order to fund operations, acquisitions, capital improvements, letters of credit and other uses.

The maximum amount available under the Acquisition and Operating Facility is \$340 million, subject to compliance with various provisions of the credit agreement. The Acquisition and Operating Facility is used to fund ongoing working capital requirements, general trust purposes, acquisitions and improvements to the properties and matures on June 30, 2018.

The maximum amount available under the Land Lease Facility is \$65 million, subject to compliance with various provisions of the credit agreement. The Land Lease Facility matures on September 30, 2017. At December 31, 2015, the borrowings outstanding under the Land Lease Facility were \$65 million. The Land Lease Facility has been fully advanced and there is no further availability under this credit facility.

At December 31, 2015, the borrowings outstanding under the Euro-denominated Facility were €63.5 million (Canadian Dollar equivalent of \$95.4 million).

The Acquisition and Operating Facility is secured by fixed charge debentures on most of CAPREIT's properties, and floating charge debentures on the remainder of the properties. In each case, such debentures are subordinate to the charges securing CAPREIT's mortgage financing. As at December 31, 2015, the weighted average floating interest rate for amounts drawn under the Acquisition and Operating Facility was 2.56% (December 31, 2014 - 3.09%), excluding standby and upfront fees. At December 31, 2015, the borrowings outstanding under the Acquisition and Operating Facility were \$168.2 million (December 31, 2014 - \$113.2 million). As at December 31, 2015, letters of credit in the amount of approximately \$6.0 million (December 31, 2014 - approximately \$6.1 million) were outstanding, which reduce the maximum amount available under the Acquisition and Operating Facility.

7.11 Employees

As of December 31, 2015, CAPREIT employed 937 individuals (December 31, 2014 - 840) in various capacities at CAPREIT's corporate offices and on site at its properties.

7.12 Future Trends

The discussion that follows, including as to specific anticipated performance of the investment property portfolio by geographic region, constitutes forward-looking information and is subject to the risk factors and based on the assumptions set out herein (see "Forward-Looking Information" and "Risk Factors"). The ownership interests, expressed as percentages,

are based on suite and site count in the province to CAPREIT's total suite and site count.

Performance – Geographic Region

With a stable national economy, management believes the multi-unit residential rental business will continue to strengthen in the majority of the markets in which CAPREIT operates. As a result, management expects to generate modest annual increases in overall average monthly rents while stabilizing average occupancies in the range of 97% to 98% on an annual basis. Management also anticipates operating revenues will benefit from programs over the long term to enhance revenues from parking, commercial leases, laundry, cable, telecommunications and other income sources. In addition, numerous successful cost control initiatives have proven effective, which should lead to stable NOI over this period. CAPREIT also believes the defensive characteristics of its nationwide portfolio and its ongoing strategies to further diversify among Canada's major rental markets and by property type will continue to protect Unitholders from downturns in any specific geographic region or demographic sector. This characteristic is demonstrated by CAPREIT's ability to increase overall average monthly rents and maintain high occupancy levels in the course of the recent soft economic climate.

CAPREIT's investment property residential portfolio interests in Ontario represent 43.6% of CAPREIT's total investment property portfolio interests (including leasehold interests) and had an occupancy rate of 99.0% as at December 31, 2015 (48.9% and 98.8% as at December 31, 2014, respectively). Management believes that CAPREIT's Ontario residential market will remain strong and generate steady returns in the medium term. The rent guideline increase for 2016 has been set at 2.0%, compared to 1.6% in 2015.

CAPREIT's investment property residential portfolio interests in Québec represent 23.4% of CAPREIT's total investment property portfolio interests and had an occupancy rate of 96.4% as at December 31, 2015 (17.6% and 96.9% as at December 31, 2014, respectively). Management believes the Québec rental market will remain stable and generate steady to improving returns in the medium term.

CAPREIT's investment property residential portfolio interests in British Columbia represent 9.5% of CAPREIT's total investment property portfolio interests and had an occupancy rate of 99.7% as at December 31, 2015 (7.5% and 99.5% as at December 31, 2014, respectively). CAPREIT has established sufficient critical mass to support the establishment of local infrastructure in British Columbia. As a result, CAPREIT is well positioned to build its presence in British Columbia through accretive acquisitions and improve its operating performance. Management believes the British Columbia rental market will remain strong in the medium term and will benefit from the guideline increase of 2.9% in 2016.

CAPREIT's investment property residential portfolio interests in Alberta represent 4.9% of CAPREIT's total investment property portfolio interests and had an occupancy rate of 90.2% as at December 31, 2015 (5.2% and 96.7% as at December 31, 2014, respectively). Despite recent declines in the price of oil on international markets, management believes its well-located properties and CAPREIT's proven property management programs should help mitigate any downturn in the local market. In addition, with Alberta representing only 7.8% of CAPREIT's

total NOI in 2015, it is not overly exposed to any unanticipated significant downturn in the Alberta multi-unit residential rental business.

CAPREIT's Nova Scotia investment property residential portfolio interests represent 3.4% of CAPREIT's total investment property portfolio interests and had an occupancy rate of 92.1% as at December 31, 2015 (3.8% and 90.8% as at December 31, 2014, respectively). CAPREIT expects that its presence in primarily downtown locations in Halifax will serve to maintain or increase occupancy and rents in the medium term.

CAPREIT's Saskatchewan investment property residential portfolio interests represent 0.8% of CAPREIT's total investment property portfolio interests and had an occupancy rate of 93.2% as at December 31, 2015 (0.9% and 96.2% as at December 31, 2014, respectively). The Saskatchewan economy is generally strong and CAPREIT believes that it can maintain or improve occupancy levels and average monthly rents, primarily on turnovers, over the medium term. The overall impact to CAPREIT of its Saskatchewan property portfolio is minimal at less than 1% and, accordingly, operating improvements are not expected to materially affect the performance of CAPREIT.

CAPREIT's Prince Edward Island investment property residential portfolio interests represent 1.0% of CAPREIT's total investment property portfolio interests and had an occupancy rate of 84.8% as at December 31, 2015 (1.1% and 94.9% as at December 31, 2014, respectively).

CAPREIT's MHC land lease sites investment property portfolio interests represent 13.4% of CAPREIT's total investment property portfolio interests and had an occupancy rate of 98.2% as at December 31, 2015 (15.0% and 97.5% as at December 31, 2014, respectively). The MHC land lease sites investment property portfolio includes investments in Ontario, British Columbia, Alberta, Saskatchewan, Prince Edward Island and New Brunswick. CAPREIT believes that it can maintain or improve occupancy levels and average monthly rents, over the long term. Management believes its MHC land lease sites investment property portfolio will provide accretive growth in the long term.

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

Our Growth Strategies

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.

- Management will maintain its focus on maximizing occupancy and average monthly rents in accordance with local conditions in each of its markets. Since its inception in

May 1997, CAPREIT's hands-on management style, focus on resident communications and capital investment programs aimed at increasing the long-term value of its properties have contributed to a strong track record of stable portfolio occupancy and average monthly rents.

- Management will continue to focus on reducing its operating costs as a percentage of total revenues. CAPREIT is investing in various environment-friendly and energy-saving initiatives including energy-efficient boilers and lighting systems, and is evaluating all energy purchasing programs to reduce or stabilize overall net energy costs.
- Management will continue to direct its efforts on its building infrastructure improvement programs to upgrade properties across the portfolio and to reposition the portfolio by completing value-enhancing capital investments. These investments are expected to enhance the life safety of residents, improve the portfolio's long-term cash flow generating potential and increase its useful life over the long term.
- Management will continue to prudently focus on accretive acquisitions that meet its strategic criteria and, where possible, enhance CAPREIT's geographic diversification. From time to time, CAPREIT will also identify certain non-core assets for sale that do not conform to its current portfolio composition or operating strategies. Management believes the realization and reinvestment of capital are fundamental components of its growth strategy and demonstrate the success of its investment programs.
- Management will continue to effectively manage interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce borrowings on its credit facilities. CAPREIT will also appropriately stagger the maturity dates within its mortgage portfolio to reduce exposure in any one year to excessive refinancing risk. Management believes that because of the continuing availability of financing insured by CMHC at a 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.
- Management will continue to maintain its conservative approach to its capital structure, leverage and coverage ratios and strive to further improve its distribution payout ratio, which may enable future distribution increases.
- Management will continue 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.

7.13 Risk Factors

There are certain risks inherent in an investment in the Units and in the activities of CAPREIT, including the following.

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.

CAPREIT is committed to preserving the life safety of its residents and to ensuring its properties are well maintained. CAPREIT believes that investing back into its properties increases resident satisfaction, which ultimately makes CAPREIT's business more profitable. The multi-unit residential rental business, like any other real estate enterprise, is capital intensive and is exposed to various risks associated with maintaining the infrastructure of its property portfolio. CAPREIT takes into account the capital maintenance requirements of its properties when determining future cash flows available for distributions. A significant increase in capital maintenance requirements could adversely impact the cash available to CAPREIT.

Leasehold Interests

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

Pursuant to the terms of certain of CAPREIT's long-term leases, CAPREIT is responsible for payment of all taxes, utilities, insurance, maintenance, repairs and replacements in respect of all of the leased premises, with certain exceptions in the last ten years of each of those long-term leases. Upon the transfer of such a long-term lease by CAPREIT, CAPREIT will only be released from liability thereunder if the transferee meets certain tests. The lessor under any such long-term lease may terminate such long-term lease, only if there is a substantial event of default (as defined in the leases) by CAPREIT, which remains uncured after a cure period.

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

Co-ownerships

CAPREIT has entered into co-ownership relationships with two other entities. If the properties in the respective portfolios do not perform, do not perform as expected, or there is a default on financial obligations, CAPREIT would risk bearing its proportionate share of any related losses. CAPREIT aims to reduce this risk by seeking to: (i) negotiate contractual rights

upon default of a partner; (ii) enter into agreements with financially stable partners; and/or (iii) work with partners who have a historical record of success.

Investment Restrictions

CAPREIT has been structured and operates in adherence to the stringent investment restrictions and operating policies as set out in its Declaration of Trust 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 Declaration of Trust, CAPREIT’s overall leverage is limited to 70% of its reported gross book value, unless a majority of trustees, in 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 (See “Description of Capital Structure and Governing Policies”).

Operating Risk

CAPREIT is subject to general business risks and to risks inherent in the multi-unit 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.

Changes in general economic conditions will also affect the performance of the portfolio. Additionally, the portfolio is currently weighted with 49.3% of its overall portfolio (by number of suites and sites) in Ontario (33.2% in the GTA), making CAPREIT’s performance particularly sensitive to its performance in and changes affecting, Ontario and, in particular, the GTA.

CAPREIT’s investment properties generate income through rental payments made by the residents thereof. 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 sub-metering of certain utilities at some properties) and the landlord is not able to pass on costs to its residents. Moreover, there is no assurance that occupancy levels achieved to date at the properties 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 and Hedging

As a significant part of CAPREIT's operating expenses are attributable to energy and energy-related charges and fees, fluctuations in the price of energy and any related charges and fees (including 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.

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

During 2015, 2014 and 2013, CAPREIT entered into new natural gas physical delivery contracts, fixing a portion of its variable rate natural gas commitments. The fixed price arrangement is intended to mitigate the risk of rising natural gas prices over the related period.

Environmental Matters

Environmental and ecological legislation and policies have become increasingly important, and generally restrictive, in recent years. Under various laws, CAPREIT could be liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in regulatory enforcement proceedings and/or private claims against the owner. Unless determined otherwise by the Board of Trustees, it is CAPREIT's operating policy to obtain a Phase I environmental assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property. Phase I environmental assessments have been performed in respect of each of the properties. Where Phase I environmental assessments warrant further assessment, it is CAPREIT's operating policy to obtain Phase II or Phase III environmental assessments. Wherever required by environmental regulations, CAPREIT also carries out assessments to determine the presence of asbestos-containing material and underground storage tanks to ensure compliance with appropriate provincial legislation. CAPREIT maintains environmental liability insurance to protect Unitholders against such risks (see "Insurance" in this section). Notwithstanding the foregoing, management is not aware of any environmental condition with respect to any of the properties that it believes would have a material adverse effect on CAPREIT, nor is management aware of any material non-compliance with environmental laws or of any pending or threatened investigations or actions by environmental regulatory authorities relating to environmental conditions at its properties that would have a material adverse effect on CAPREIT.

Insurance

All real property investments owned and operated by CAPREIT entail an inherent risk of liability. From time to time, CAPREIT will be subject to lawsuits as a result of its business operations. It is CAPREIT's policy to protect against this risk by maintaining a comprehensive

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

Capital Investments

For prudent management of its property portfolio, CAPREIT makes significant property capital investments throughout the period of ownership of its properties (for example, to upgrade and maintain building structure, balconies, parking garages, 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 difficulties securing financing or the availability of financing on reasonable terms could adversely impact the cash available to CAPREIT and its ability to pay distributions.

Related to Financing

Indebtedness

A portion of CAPREIT's cash flow is devoted to servicing its debt, and there can be no assurance that CAPREIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. CAPREIT has and will continue to have substantial outstanding consolidated indebtedness comprising mainly property mortgages and indebtedness under its Credit Facilities. CAPREIT is subject to the risks associated with debt financing, including the risk that CAPREIT may be unable to make interest or principal payments or meet loan covenants, the risk that defaults under a loan could result in cross-defaults or other lender rights or remedies under other loans, and the risk that existing indebtedness may not be able to be refinanced or that the terms of such refinancing may not be as favourable as the terms of existing indebtedness 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 may not be changed in the future so as to make costs of obtaining mortgage insurance prohibitive or so as to restrict access to the insurance program in the future. 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 of \$340 million matures on June 30, 2018. 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 could be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring property capital investments, dispositions of one or more properties on unfavourable terms, reducing or eliminating future cash distributions or other discretionary uses of cash, or other, more severe actions. Also, disruptions in the credit markets and uncertainty in the economy could adversely affect the banks that currently provide the Credit Facilities, could cause the banks or a bank to elect not to participate in any new Credit Facilities sought, or could cause other banks that are not currently participants in the Credit Facilities to be unwilling or unable to participate in any such new facility.

Furthermore, given the relatively small size of the Canadian marketplace, there are a limited number of lenders from which CAPREIT can reasonably expect to borrow and 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 refinancing any particular property owned by CAPREIT or otherwise, may not be available or may not be available on favourable terms.

Interest Rate Hedging

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

In general, hedging activities may subject CAPREIT to additional costs, such as transaction fees or breakage costs, if these arrangements are terminated. In addition, although management enters into such hedge contracts with financially sound counterparties in order to

mitigate the risk that the counterparty may fail to honour its obligations, the risk cannot be mitigated completely.

Related to Taxes and Regulations

Taxation Related Risks

There can be no assurance that Canadian federal income tax laws in respect of the treatment of mutual fund trusts will not be changed in a manner that adversely affects CAPREIT or 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 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” and a “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 saving plans, registered retirement income funds, or tax free savings accounts.

On June 22, 2007, the specified investment flow-through rules (“**SIFT Rules**”) were enacted in the Tax Act, which modify the federal income tax treatment of certain publicly traded trusts and partnerships that are specified investment flow through (“**SIFT**”) trusts or partnerships. Under the SIFT Rules, a SIFT will generally be taxed in a manner similar to corporations on income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act) at a rate similar to the combined federal/provincial tax rate of a corporation. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be taxed as eligible dividends from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. The SIFT Rules did not apply until the 2011 taxation year to SIFTs that were publicly traded prior to November 1, 2006 provided such SIFTs complied with the “Normal Growth Guidelines” released by the Department of Finance (Canada).

In accordance with the Tax Act, for fiscal 2014 and 2015, CAPREIT qualified as a real estate investment trust (“**REIT**”) for income tax purposes and, as such, was exempted from the SIFT Rules.

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 real estate investment trust exemption rule (the "**REIT Exception**") at any point in time in a given future year, the SIFT Rules will apply to CAPREIT for that taxation year.

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

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

Harmonization of Federal Goods and Services Tax and Provincial Sales Tax

Both Ontario and British Columbia harmonized their respective provincial sales tax ("**PST**") with the federal goods and services tax ("**GST**") into the harmonized sales tax ("**HST**"), effective July 1, 2010. Currently, there is generally no HST on residential rents (i.e., they are generally HST exempt). As input tax credits for HST paid can only be claimed if the payments

are in respect of commercial activities and as renting residential properties is not a commercial activity, CAPREIT is not able to claim input tax credits for HST paid. In the future, the effect of increasing the HST rate or extending its application to a variety of new business input costs presently not subject to HST means landlords will have to absorb the additional tax costs on business inputs. Effective April 1, 2013, however, British Columbia reverted back to the original PST and federal GST. British Columbia consumers pay PST on those goods and services that were subject to PST before the implementation of the HST and all permanent PST exemptions were re-implemented.

Land Transfer Tax

On February 18, 2016, the Ontario Ministry of Finance announced retroactive amendments to the regulations under the *Land Transfer Tax Act* (Ontario) that impact the availability of an exemption from Ontario land transfer tax for certain transactions involving trusts (including real estate investment trusts) and partnerships. Management of the REIT is currently evaluating the impact of the amendments, the effect of which could be significant.

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 require 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 attempts 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, fire and maintenance standards, etc. Additional information relating to each province where CAPREIT owns properties is provided below.

In Ontario, the *Residential Tenancies Act, 2006* (Ontario) (the "RTA"), which came into force January 31, 2007, provides restrictions upon the ability of a landlord to increase rents above an annually prescribed guideline, and requires that the landlord give tenants ninety days' prior written notice of an increase in rent. Unless landlord and tenant mutually agree that landlord will add a parking space or an additional "prescribed" service, rent cannot be increased more than once in any twelve month period, or at least twelve months after a new tenant has taken occupancy of a unit. The Ontario guideline for 2016 is 2.0%. For subsequent years, the guideline will be the percentage change from year to year in the Consumer Price Index for Ontario for prices of goods and services as reported monthly by Statistics Canada,

averaged over the twelve-month period that ends at the end of May of the previous calendar year. Effective June 19, 2012, the Ontario provincial government amended the RTA so that the annual rent increase guideline, commencing in 2013, is capped at 2.5%.

In order to increase rents above the guideline, a landlord must make an application to the Landlord and Tenant Board (the “**Board**”) based on an extraordinary increase in the cost for municipal or utility levies and charges, certain eligible capital expenditures incurred with respect to a residential complex or rental unit therein, or operating costs related to third-party security services provided in respect of a residential complex or building in which rental units are located. A rent increase based on capital expenditures or security services may not be more than 3% above the prescribed guideline for each year, provided that if a landlord can justify a larger increase, such increase may be taken over three years. There is no limit for rent increases based on increases in the cost for municipal or utility levies. Furthermore, a landlord’s application to increase rent can be dismissed in the event that the landlord has not completed items in work orders for which the compliance period has expired and which were found by the Board to be related to a serious breach of a health, safety, housing or maintenance standard. Similarly, a tenant can make an application to the Board on the grounds that the residential complex or units in it do not comply with health, safety, housing and maintenance standards, and in such event, the Board can order, among other things, that the landlord complete related items in work orders. As a result, CAPREIT may, in the future, incur capital or other expenditures which may not be fully recoverable from tenants.

The RTA also permits tenants to bring proceedings to reduce rent due to reductions or discontinuances in services or facilities or due to a reduction in the applicable municipal taxes. The RTA also provides for automatic rental reductions upon expiry of prescribed periods where rent has been increased in connection with eligible capital expenditures or upon reductions in municipal taxes or utility costs.

The RTA provides tenants of residential rental properties with a high level of security of tenure and prescribes certain procedures, including mandatory notice periods, which must be followed by a landlord in order to terminate a residential tenancy. As certain proceedings may need to be brought before the Board it may take several months to terminate a residential lease, even where the tenant’s rent is in arrears.

The applicable legislation may be subject to further regulations or may be amended, repealed or enforced, or new legislation may be enacted, in a manner which will materially adversely affect the ability of CAPREIT to maintain the historical level of earnings of its properties.

In Alberta, landlords are generally restricted from increasing rents payable in respect of existing residential tenancies more than once in a period of 365 days (which period commences on the commencement of the tenancy or the last increase in rent, as applicable). Pursuant to the regulations made under the *Residential Tenancies Act* (Alberta) (the “**AB RTA**”), a landlord shall not increase the rent payable by a tenant under a residential tenancy agreement in respect of a fixed-term tenancy for a term of one year or more. Further, a landlord shall not increase the rent payable by a tenant who is occupying the same premises under 2 or more consecutive residential tenancy agreements in respect of fixed-term tenancies each for a term of less than

one year unless 365 days has passed since the commencement of the first of those tenancies or the last increase in rent, whichever is later. Pursuant to the regulations under the AB RTA, if the 365th day occurs during the term of a fixed-term tenancy, the landlord shall not increase the rent until the expiration of that tenancy.

Pursuant to the AB RTA a landlord shall not increase the rent payable under a residential tenancy agreement unless the landlord serves on the tenant a written notice of the increase in rent: (a) in respect of a weekly tenancy, at least 12 tenancy weeks before the effective date of the increase; (b) in respect of a monthly tenancy, at least 3 tenancy months before the effective date of the increase; and (c) in respect of any other periodic tenancy (as that term is defined in the AB RTA), at least 90 days before the effective date of the increase. A residential tenancy agreement could require a period of notice longer than the periods specified by the AB RTA and the landlord must comply with such longer period of notice before increasing the rent payable.

In the case of MHCs, Alberta's *Mobile Home Sites Tenancies Act* (2000) prescribes that the landlord deliver written notice of a rent increase at least 180 days prior to the date the increase is to be effective; however a tenancy agreement may prescribe a period of notice longer than 180 days and the landlord must comply with such longer period of notice before increasing the rent payable. Further, a landlord shall not increase the rent payable under a tenancy agreement unless 180 days has passed since the commencement of the tenancy or last rent increase, whichever is later.

In British Columbia, landlords are restricted from increasing rents payable in respect of existing residential tenancies within twelve months of the commencement of the tenancy or a previous rental increase, and any such rental increases require three months prior notice to the tenants. The *Residential Tenancy Act*, S.B.C. 2002 (the "BC RTA"), and in the case of MHCs, the *Manufactured Home Park Tenancy Act*, S.B.C. 2002, restricts the ability of a landlord to increase rents above a prescribed amount. A landlord may not impose a rent increase that is greater than the percentage amount equal to the inflation rate plus 2%, or in the case of MHCs, a rent increase that is greater than the sum of the inflation rate, plus 2%, plus a proportional amount (being the sum of the change in local government levies and utility fees in respect of the manufactured home park divided by the number of manufactured home sites in the landlord's manufactured home park). The inflation rate is the 12 month average percent change in the all-items Consumer Price Index for British Columbia ending in the July that is most recently available for the calendar year in which the rent increase takes effect, being 0.9% for a rent increase taking effect in 2016. The rent guideline increase for 2016 is 2.9%. Unless tenants agree in writing, a landlord may only impose a rent increase greater than the prescribed amount by an order granted following an application (fees are between \$300 - \$600) made pursuant to the applicable legislation, followed by notice to all tenants and a hearing. Grounds for a rent increase exceeding the prescribed amount include situations where: (i) the landlord has completed significant repairs or renovations that could not have been foreseen under reasonable circumstances and will not re-occur within a reasonable time period; (ii) where there have been extraordinary increases in operating expenses that have caused the landlord to incur a financial loss; (iii) financial loss has been incurred arising from an unforeseen increase in financing costs; or (iv) it can be demonstrated that rent is significantly lower than similar units

in the area. As a result, CAPREIT may, in the future, incur capital or other expenditures which may not be fully recoverable from tenants, unless such an application was successfully made.

In Nova Scotia, the *Residential Tenancies Act* (the “**NS RTA**”) has undergone significant recent changes. The most significant changes were to the circumstances under which a landlord may provide notice to quit. The amendments to the NS RTA removed a landlord’s right to provide notice to quit without good reason. Section 10 (3A) of the NS RTA states that a landlord shall not give to the tenant a notice to quit residential premises except in accordance with Section 10. Section 10 then sets out the limited circumstances under which a landlord may provide notice to quit. Under the NS RTA tenants are now granted a right of redemption. Where a year-to-year, month-to-month or fixed term tenant is in arrears, within 15 days of receiving a notice to quit, the tenant may pay the rent that is in arrears and upon payment, the notice to quit is void. Alternatively, a tenant may apply to the Director for an order setting aside the notice to quit. The NS RTA now provides that the Director may set aside a notice to quit given by a landlord.

The NS RTA continues to provide that landlords are restricted from increasing rents payable in respect of existing residential tenancies more than once in a period of one year (a withdrawal of services is deemed to be a rent increase) and any such rental increases require four months’ prior notice for a year-to-year or month-to-month lease or eight weeks’ notice for a week-to-week lease. For a fixed-term lease, the lease must set out the amount and effective dates of any increases.

In New Brunswick, the *Residential Tenancies Act* (the “**NB RTA**”) sets out certain restrictions on landlords. In order to increase rent, a landlord must provide a tenant with the proper amount of written notice of the increase. The amount of the notice depends on the type of tenancy and whether the tenant lives on a mobile home site or is a long-term tenant. If the tenancy is weekly or monthly, two months’ notice is required. For yearly tenancies, three months’ notice must be given to tenants.

The NB RTA provides that a tenant is a long-term tenant if the same tenant has lived in the same rental for at least five years in a row. The landlord must give three months’ written notice to increase the rent to long-term tenants, and the landlord may only increase the rent fairly and by the same amount as other similar units in the same building or only by what is reasonable in other similar units in the same area. In the event a tenant disputes the increase, he or she can apply to the rentalsman within fifteen days of receipt of the notice to have the increase reviewed. The rentalsman will require the landlord establish that the requirements necessary for increasing rent have been met.

In the event the tenant is a tenant of a mobile home site, pursuant to the NB RTA the landlord must give at least six months’ written notice. In addition, the landlord must also increase the rent for each mobile home site in the mobile home park or in the same area of the park by the same percentage. As with long-term tenants, a tenant of a mobile home site may apply to the rentalsman to have the notice reviewed, and the landlord will be required to establish it has met the necessary requirements for increasing rent.

In Prince Edward Island, the *Rental of Residential Property Act* R.S.P.E.I. c. R-13.1 (the “**PEI RRPA**”) is administered by the Director of Residential Rental Property (the “**PEI Director**”) who is appointed by the Island Regulatory and Appeals Commission (the “**PEI Commission**”).

The PEI RRPA provides that lessors are restricted from increasing rent more than once in a 12 month period, and must provide the lessee, in the case of a monthly rental arrangement, with at least 3 months’ notice, and in the case of a weekly rental arrangement, at least 3 weeks’ notice, of any increase in rent using the prescribed Form 10. The amount of rent increase shall not exceed the prescribed percentage amount established by order of the PEI Commission between January 1 and December 31 of any year. The allowable percentage increase for 2016 is 0% for heated premises, 0% for non-heated premises, and 0% for mobile home sites in mobile home parks.

Where lessors seek a rent increase greater than the permitted percentage for any given year, application is required to be made to the PEI Director for approval of the proposed increase not later than 10 days after notifying the lessee. Application must be made on the prescribed Form 12 and served on the other party, following which the PEI Director will give notice of the place and date of hearing to the lessor and lessee. Factors that the PEI Director may consider at the hearing include: (a) whether the increase in rent is necessary to prevent financial loss by the lessor in operation of the building; (b) increased operating costs or capital expenditures as advised by the lessor; (c) the expectation of the lessor to have a reasonable return on his capital investment; and (d) any other matters as may be prescribed by the regulations. The lessor may not charge or collect a rent increase pending the outcome of a rental increase application. A right of appeal lies to the PEI Commission from a decision of the PEI Director within 20 days of the date of the decision, and shall be heard within 30 days of receipt of notice of the appeal.

In Saskatchewan, pursuant to *The Residential Tenancies Act, 2006*, S.S. 2006, c. R-22.0001 and the regulations made thereunder (collectively, the “**Saskatchewan RTA**”), landlords are restricted from increasing rents payable in respect of fixed term tenancies unless the amount of the increase and time when an increase is to come into effect were agreed to between the landlord and the tenant at the time they entered into the tenancy agreement. No later than two months before a fixed term tenancy ends, a landlord must provide written notice to fixed lease tenants regarding its willingness to enter into a new agreement and, if willing, to specify the terms of the new agreement. There are no legislated restrictions on the amount of an increase in rent a landlord can specify in the new agreement.

The Saskatchewan RTA provides landlords, such as CAPREIT, who are members in good standing of Saskatchewan Rental Housing Industry Association Inc. (“**SRHIA**”), with preferred rent increase timelines for periodic tenancies. Landlords who are members of SRHIA, such as CAPREIT, are restricted from increasing rents payable in respect of existing periodic tenancies or existing mobile home sites more than once in a period of six months and any such rental increase requires six months’ prior notice to the tenants. For new periodic tenancies and new mobile home sites, landlords are restricted from increasing rents payable until twelve months after the commencement of the tenancy, and thereafter six months after any previous increase, and any such rental increase requires six months’ prior notice. There is no restriction in

the Saskatchewan RTA on the amount by which a landlord can increase rent for periodic tenancies and an increase in rent for additional occupants is not subject to the above time or notice provisions provided the written tenancy agreement sets out the amount by which rent varies with the number of occupants. Notwithstanding a landlord's ability to increase rent in accordance with the time and notice provisions, landlords cannot terminate or restrict services or facilities, nor impose or increase a charge for a service or facility unless the tenant agrees or the landlord obtains an order from the Office of Residential Tenancies.

The Saskatchewan RTA creates three restrictions which are unique to landlords of MHC. Pursuant to the Saskatchewan RTA, landlords cannot: (a) limit the occupancy of the mobile home unless the residential property has never been used as a mobile home site; (b) unreasonably restrict or interfere with a tenant's attempt to sell a mobile home situated on the residential property; and (c) charge any fee in connection with a sale or attempted sale of a mobile home situated on the residential property unless the landlord has provided some service with respect to that sale or attempted sale.

In Québec, the Civil Code of Quebec provides restrictions upon the ability of a landlord to increase rents, as well as notice requirements in respect of rent increases. A new tenant or a subtenant may apply to the court for the fixing of the rent if his rent is higher than the lowest rent paid during the twelve months preceding the beginning of the lease or sublease, as the case may be, unless that rent has already been fixed by the court.

A tenant is entitled to maintain occupancy of its premises until renewal of its lease. At the renewal of the lease, the landlord may modify its conditions, particularly the term or the rent, but only if a notice of modification is given to the tenant not less than three months nor more than six months before the expiration of the given lease. If the term of the lease is less than twelve months, the notice shall be given not less than one month nor more than two months before the end of the lease term. A landlord may not modify a lease with an indeterminate term unless he gives the tenant a notice of not less than one month nor more than two months. A tenant who objects to the modification proposed by the landlord is required to notify the landlord, within one month after receiving the notice of modification of the lease, that he or she objects or that he or she is vacating the premises; otherwise, the tenant is deemed to have agreed to the renewal of the lease on the conditions proposed by the landlord. Where a tenant refuses any such rent increase, the landlord may bring an application to a residential tenancies tribunal within one month after receiving the notice of objection, otherwise, the lease is renewed of right on the same conditions. The tribunal reviews such matters on a case-by-case basis. Even if there is no ceiling on rent increases or fixed rates of increase, the tribunal will generally apply the annual percentages prescribed by the *Regulation respecting the criteria for the fixing of rent*.

Alberta, Nova Scotia and Saskatchewan do not specifically limit the rents payable by residential tenants.

In each province, the applicable legislation may be subject to further regulations or may be amended, repealed or enforced in a way, or new legislation may be enacted, which will materially adversely affect the ability of CAPREIT to maintain such properties' historical level of earnings.

The nature of high-rise apartment construction and operation is such that refurbishment and structural repairs are required periodically, in addition to regular ongoing maintenance. In addition, legislation relating to, among other things, environmental and fire safety standards is continuously evolving and changes thereto may give rise to ongoing financial and other obligations of CAPREIT, the costs of which may not be fully recoverable from tenants.

Controls over Financial Reporting

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

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part 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. CAPREIT relies on internal and external legal counsel to assist in remaining current with legal and regulatory changes and its ability to respond to litigation.

Related to Reporting Investment Property at Fair Value

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

There is a risk that general declines in real estate markets or sales of assets by CAPREIT under financial or other hardship would impact the fair values reported, or the cash flows associated with owning or disposing of such properties. Market assumptions applied for valuation purposes do not necessarily reflect CAPREIT's specific history or experience and the conditions for realizing the fair values through a sale may change or may not be realized. Consequently, there is a risk that the actual fair values may differ, and the differences may be material. In addition, there is an inherent risk related to the reliance on and use of a single appraiser, as this approach may not adequately capture the range of fair values that market

participants would assign to the investment properties. Certain ratios and covenants could be negatively affected by downturns in the real estate market and could significantly impact CAPREIT's operating revenues and cash flows, as well as the fair values of the investment properties.

Related to CAPREIT's Securities, Organization and Structure

Nature of CAPREIT Units

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

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

Unitholder Liability

Recourse for any liability of CAPREIT is limited to the assets of CAPREIT. The Declaration of Trust 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 any liability whatsoever, in tort, contract or otherwise, to any person in connection with the property or the affairs of CAPREIT, including, without limitation, for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of CAPREIT or of the trustees or any obligation which a Unitholder, Special Unitholder or annuitant would otherwise have to indemnify a trustee for any personal liability incurred by the trustee, but rather the assets of CAPREIT only are intended to be liable and subject to levy or execution for satisfaction of such liability. Each Unitholder, Special Unitholder and annuitant under a plan of which a Unitholder or Special Unitholder acts as trustee or carrier shall be entitled to be reimbursed out of the assets of CAPREIT in respect of any payment of an obligation of CAPREIT made by such Unitholder, Special Unitholder or annuitant. Certain provincial legislatures have passed legislation that provides for statutory limited liability for unitholders of public income trusts governed as a contractual matter by the laws of their jurisdictions. Certain of these statutes have not yet been judicially considered and it is possible that reliance on such statute by a Unitholder or Special Unitholder or annuitant could be successfully challenged on jurisdictional or other grounds.

Liquidity and Price Fluctuation of Units

CAPREIT is an unincorporated “open-end” investment trust and its Units are listed on the Toronto Stock Exchange (“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 Declaration of Trust imposes various restrictions on Unitholders. Non-residents and non-Canadian partnerships are prohibited from beneficially owning more than 49% of the outstanding Units (on a non-diluted and diluted basis). These restrictions may limit (or inhibit the exercise of) the rights of certain non-resident persons and partnerships to acquire Units, to continue to hold Units and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and other investors and thereby adversely affect the liquidity and market value of the Units.

Dilution

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 determine 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 Unitholders. Furthermore, timing differences may occur between the issuance of additional Units and the time the proceeds may be used to invest in new properties. Depending on the duration of this timing difference, this may be dilutive.

Distributions

Cash distributions are not guaranteed. Distributions on the Units are established by the Board of Trustees and are subject to change at the discretion of the Board of Trustees. 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 and 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 of the fact that certain of the trustees and officers of CAPREIT are engaged in a wide range of real estate and other business activities. CAPREIT may become involved in transactions 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.

Thomas Schwartz is a director of IRES Fund Management and a director of IRES as nominee of IRES Fund Management. He is also a trustee and chief executive officer and president of CAPREIT. This may give rise to conflicts of interest with his directorships of CAPREIT, IRES Fund Management and IRES particularly in any dispute relating to the Investment Management Agreement or the Services Agreement. David Ehrlich is the chief executive officer and a director of IRES. He is also a trustee of CAPREIT. This may give rise to conflicts of interest with his directorships of CAPREIT and IRES particularly in any dispute relating to the Investment Management Agreement or Services Agreement. Voting restrictions have been put in place in the memorandum and articles of association of IRES to manage any conflicts of interest that may arise out of these roles and the Declaration of Trust also contains “conflict of interest” provisions (see “Conflict of Interest Restrictions and Provisions”) but such conflicts of interest may still exist.

CAPREIT’s Declaration of Trust 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 depend 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 thereof. 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 become 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.

CAPREIT will maintain its focus on maximizing occupancy and average monthly rents in accordance with local conditions in each of its markets. Since its inception in May 1997, CAPREIT's hand-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.

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 which 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 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.

Continued Growth

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

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 and 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.

Foreign Operation and Currency Risks

Effective April 11, 2014, CAPREIT, through IRES Fund Management, CAPREIT's Irish subsidiary, entered into an agreement to perform certain asset management and property services for IRES which owns properties in Dublin, Ireland. The Irish real estate market differs from the Canadian environment and CAPREIT's experience and expertise in managing Canadian properties may not apply perfectly to a foreign operation. In an effort to reduce its risk exposure CAPREIT aligns with experienced Irish operating companies and hires locally-based employees with real estate experience and works closely with local board advisors and consultants. There can be no certainty, however, that CAPREIT's operation will be successful. Additionally, it is possible that IRES Fund Management 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 fund management subsidiary in Dublin, Ireland, IRES Fund Management and CAPREIT's investment in IRES is the euro. CAPREIT will in part mitigate this risk through the use of euro-denominated debt.

8 - DESCRIPTION OF CAPITAL STRUCTURE AND GOVERNING POLICIES

8.1 General

CAPREIT is an unincorporated "open-end" real estate investment trust created pursuant to the Declaration of Trust and governed by the laws of the Province of Ontario.

8.2 Units and Special Voting Units

The beneficial interests in CAPREIT are divided into two classes of trust units, described and designated as Units and Special Voting Units. The aggregate number of Units and Special Voting Units which CAPREIT may issue is unlimited. As at December 31, 2015, there were 128,746,606 Units (excluding 248,076 Deferred Units (as defined herein) and 586,313 RURs (as defined herein), but including 890,683 units issued under the LTIP (as defined below), 554,715 issued under the SELTIP (as defined below), and 161,311 Class B LP units of CAPLP that are exchangeable for Units of CAPREIT (the "Exchangeable Units")) issued and outstanding and a further 1,759,162 Units are issuable pursuant to CAPREIT's Unit incentive plans, which consist of a Unit Option Plan, Employee Unit Purchase Plan, Deferred Unit Plan and RUR Plan (effective April 4, 2014, the Board of Trustees terminated CAPREIT's Unit Purchase Plan, SELTIP and LTIP (all as defined below)). The 161,311 Exchangeable Units were issued as partial consideration for the acquisition of two MHCs in Ontario located near Bowmanville and Grand Bend (the "Rice Portfolio") pursuant to the terms of an exchange agreement dated July 9, 2007 between CAPREIT, CAPREIT GP Inc. and CAPLP. As at December 31, 2015, there were 161,311 Special Voting Units issued and outstanding.

Each Unit represents a Unitholder's proportionate undivided beneficial interest in CAPREIT. No 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

Board of Trustees without Unitholder approval. No certificates for fractional Units will be issued and fractional Units will not entitle the holders thereof to vote.

Holders of Special Voting Units are not entitled to any share of or interest in the distributions or net assets of CAPREIT. Special Voting Units may be issued in series and may only be issued in connection with or in relation to securities of any trust, limited partnership or corporation other than CAPREIT that are convertible or exchangeable directly for Units without the payment of additional consideration thereof (for example, the Exchangeable Units) (the “**Exchangeable Securities**”) issued and shall be automatically cancelled on the issuance of Units on exercise, conversion or cancellation of Exchangeable Securities. Subject to the restrictions set forth in the Declaration of Trust, each holder of Special Voting Units is entitled to a number of votes at all meetings of Unitholders or in respect of any written resolution of Unitholders equal to the number of Units into which the Exchangeable Securities to which such Special Voting Units relate are, directly or indirectly, exchangeable or convertible (other than in respect of Exchangeable Securities which have been so exchanged, converted or cancelled). Holders of Special Voting Units are not entitled to any distributions of any nature whatsoever from CAPREIT nor do they have any legal or beneficial interests in any assets of CAPREIT on termination or winding-up of CAPREIT.

8.3 Meetings of Unitholders

The Declaration of Trust provides that meetings of Unitholders and Special Unitholders must be called and held for the appointment, election or removal of trustees; the appointment or removal of the auditors of CAPREIT; the approval of amendments to the Declaration of Trust (except as described under “**Amendments to Declaration of Trust**”), including the amendment of any right with respect to any outstanding Units to reduce the amount payable thereon upon termination of CAPREIT or to diminish or eliminate any voting rights pertaining thereto, the amendment of the duration or termination provisions of CAPREIT and the amendment of the powers, duties, obligations, liabilities or indemnification of the trustees; the sale or transfer of the assets of CAPREIT as an entirety or substantially as an entirety other than as part of an internal reorganization of the assets of CAPREIT as approved by the Board of Trustees; and the termination of CAPREIT. Meetings of the Unitholders and Special Unitholders will be held at such time and place as the Board of Trustees shall prescribe for the purpose of electing trustees, appointing the auditors of CAPREIT and transacting such other business as the Board of Trustees may determine or as may properly be brought before the meeting. The annual meeting of Unitholders and Special Unitholders shall be held after delivery to the Unitholders and Special Unitholders of the annual report and, in any event, within 180 days after the end of each fiscal year of the trust, or such later date (not later than fifteen months after holding the last preceding annual meeting of the Unitholders and Special Unitholders) as the Board of Trustees may determine is in the best interests of the Unitholders and Special Unitholders, subject to the receipt of all applicable regulatory approvals.

A meeting of Unitholders and Special Unitholders may be convened at any time and for any purpose by the Board of Trustees and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 5% of the Units and Special Voting Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting. Unitholders and Special Unitholders have the right to

obtain a list of Unitholders and Special Unitholders to the same extent and upon the same conditions as those which apply to shareholders of a corporation governed by the *Canada Business Corporations Act*.

Unitholders and Special Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxy need not be a Unitholder or Special Unitholder.

8.4 Purchases of Units

CAPREIT may from time to time purchase for cancellation Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such purchases will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof. A Unitholder will not have the right at any time to require CAPREIT to purchase such Unitholder’s Units, except as described under “Right of Redemption” below (see “Market for Securities – Normal Course Issuer Bids”).

8.5 Take-over Bids

The Declaration of Trust contains provisions to the effect that if a take-over bid is made for Units or Special Voting Units, within the meaning of the *Securities Act* (Ontario) and not less than 90% of the Units (or Special Voting Units, if the take-over bid is made for Special Voting Units), other than Units (or Special Voting Units, if the take-over bid is made for Special Voting Units) held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror, are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units (or Special Voting Units, if the take-over bid is made for Special Voting Units) held by Unitholders who did not accept the offer either at the election of such Unitholders, on the terms offered by the offeror or at the fair value of such Unitholders’ Units (or Special Voting Units, if the take-over bid is made for Special Voting Units) determined in accordance with the procedures set out in the Declaration of Trust.

8.6 Issuance of Units and Special Voting Units

CAPREIT may issue new Units and Special Voting Units from time to time. Unitholders and Special Unitholders do not have any pre-emptive rights whereby additional Units or Special Voting Units proposed to be issued are first offered to existing Unitholders or Special Unitholders. New Units may be issued for cash through public offerings, through rights offerings to existing Unitholders (i.e., in which Unitholders receive rights to subscribe for new Units in proportion to their existing holdings of Units, which rights may be exercised or sold to other investors) or through private placements (i.e., offerings to specific investors which are not made generally to the public or existing Unitholders), except that Special Voting Units shall only be issued in connection with the issuance of Exchangeable Securities. In certain instances, CAPREIT may also issue new Units or Special Voting Units as consideration for the acquisition of new properties or assets. The price or the value of the consideration for which Units or Special Voting Units may be issued will be determined by the Board of Trustees, and in the case of offerings of Units, generally in consultation with investment dealers or brokers, if applicable, who may act as underwriters or agents in connection with such offerings.

8.7 Right of Redemption

Units (but not Special Voting Units) are redeemable at any time on demand by the holders thereof upon delivery to CAPREIT of the certificate or certificates representing such Units, accompanied by a duly completed and properly executed notice requesting redemption. Upon receipt of the redemption request by CAPREIT, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the “**Redemption Price**”) equal to the lesser of (i) 90% of the “market price” of the Units on the principal market on which the Units are quoted for trading during the ten (10) trading day period ending on the date on which the Units are surrendered to CAPREIT for redemption; and (ii) the “closing market price” of the Units on the principal market on which the Units are quoted for trading on the date that the Units are surrendered to CAPREIT for redemption.

“**Market price**” will be an amount equal to the simple average of the closing price of the Units for each of the ten (10) trading days on the principal market on which the Units are quoted for trading and on which there was a closing price; provided that, if the applicable exchange or market does not provide a closing price but only provides the highest and lowest prices of the Units traded on a particular day, the market price shall be an amount equal to the weighted average of the highest and lowest prices for each of the trading days on which there was a trade; and provided further that if there was trading on the applicable exchange or market for fewer than five (5) of the ten (10) trading days, the “market price” shall be the weighted average of the following prices established for each of the ten trading days: the average last bid and last ask prices for each day on which there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides for a closing price; and the weighted average of the highest and lowest price of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day. The “closing market price” on a particular day shall be an amount equal to the closing price of the Units if there was a trade on that day and the exchange or market provides a closing price; an amount equal to the weighted average of the highest and lowest prices of Units if there was trading and the exchange or other market provides only the highest and lowest prices of Units traded on that day; and the weighted average of the last bid and last ask prices of the Units if there was no trading on that day.

The aggregate cash Redemption Price payable by CAPREIT in respect of any Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment on the last day of the following month; provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that (i) the total amount payable by CAPREIT in respect of such Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000, provided that such limitation may be waived at the discretion of the Board of Trustees; (ii) at the time such Units are tendered for redemption the outstanding Units of CAPREIT shall be listed for trading on a stock exchange or traded or quoted on any other market which the Board of Trustees considers, in its sole discretion, provides representative fair market value prices for the Units; or (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which CAPREIT Units are quoted for trading) on the date that the Units are tendered for redemption or for more than five trading

days during the ten day trading period commencing immediately after the date on which the Units are tendered for redemption.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of the foregoing limitations, then the Redemption Price for such Units shall be satisfied by the distribution *in specie* of certain securities held by CAPREIT, as determined by the Board of Trustees and, subject to any applicable regulatory approvals. No fractional securities owned by CAPREIT (the “**Securities**”) will be distributed and where a number of Securities to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number. CAPREIT shall be entitled to all income paid or accrued and unpaid on the Securities on or before the date of the distribution *in specie*. The holders of Securities will be subject to the provisions of all material agreements that relate to such Securities.

8.8 Limitation on Non-Resident Ownership

At no time may non-residents of Canada (within the meaning of the Tax Act) be the beneficial owners of more than 49% of the Units, on a basic or fully-diluted basis (and for greater certainty, including Units into which Exchangeable Securities may be converted or exchanged), and the Board of Trustees shall inform the transfer agent and registrar of this restriction. The transfer agent and registrar, at the request of CAPREIT, shall require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the transfer agent and registrar becomes aware, as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of 49% of the Units (on a basic or fully-diluted basis, including Units into which Exchangeable Securities may be converted or exchanged) are, or may be, non-residents or that such a situation is imminent, the transfer agent and registrar will advise the Board of Trustees and, upon receiving direction from the Board of Trustees, may make a public announcement thereof and shall not accept a subscription for Units from or issue or register a transfer of Units to a person unless the person provides a declaration that the person is not a non-resident and does not hold such Units for the benefit of non-residents. If, notwithstanding the foregoing, the transfer agent and registrar determines that more than 49% of the Units (on a basic or fully-diluted basis, including Units into which Exchangeable Securities may be converted or exchanged) are held by non-residents, the transfer agent and registrar upon receiving direction and a suitable indemnity from the Board of Trustees, may send a notice to non-resident holders of the Units or Exchangeable Securities, chosen in inverse order to the order of acquisition or registration or in such manner as the Board of Trustees may consider equitable and practicable, requiring them to sell their Units or Exchangeable Securities or a portion thereof within a specified period of not more than 30 days. If the Unitholders receiving such notice have not sold the specified number of Units or Exchangeable Securities or provided the Board of Trustees with satisfactory evidence that they are not non-residents within such period, the transfer agent and registrar may on behalf of such Unitholders sell such Units or Exchangeable Securities and, in the interim, shall suspend the voting and distribution rights attached to such Units or Exchangeable Securities (other than the right to receive the net proceeds from the sale). Upon such sale or conversion, the affected holders shall cease to be Unitholders or Exchangeable Securities and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificate representing such securities.

8.9 Information and Reports

CAPREIT will furnish to Unitholders and Special Unitholders such consolidated financial statements (including quarterly and annual consolidated financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders' or Special Unitholders' tax returns under the Tax Act and equivalent provincial legislation.

Prior to each annual or special meeting of Unitholders and Special Unitholders, the Board of Trustees will provide the Unitholders and Special Unitholders (along with notice of such meeting) with information similar to that required to be provided to shareholders of a public corporation governed by the *Canada Business Corporations Act*.

8.10 Amendments to Declaration of Trust

The Declaration of Trust may be amended or altered from time to time. Certain amendments (including termination of CAPREIT) require approval by at least two-thirds of the votes cast at a meeting of the Unitholders and Special Unitholders called for such purpose. Other amendments to the Declaration of Trust require approval by a majority of the votes cast at a meeting of the Unitholders and Special Unitholders called for such purpose.

The Board of Trustees may, without the approval of the Unitholders and Special Unitholders, make certain amendments to the Declaration of Trust, including:

- amendments for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Board of Trustees or over CAPREIT, its status as a "mutual fund trust", a "registered investment" or, if applicable, a "real estate investment trust" under the Tax Act or the distribution of Units or Special Voting Units;
- amendments which, in the opinion of the Board of Trustees, provide additional protection for the Unitholders or Special Unitholders;
- amendments, which in the opinion of the Board of Trustees, are necessary or desirable to remove any conflicts or inconsistencies in the Declaration of Trust;
- amendments of a minor or clerical nature or to correct typographical mistakes, ambiguities or manifest omissions or errors, which amendments in the opinion of the Board of Trustees are necessary or desirable and not prejudicial to the Unitholders and Special Unitholders;
- such amendments to the Declaration of Trust as the Board of Trustees in its discretion deems necessary or desirable as a result of changes in taxation laws or accounting standards from time to time which may affect CAPREIT, the Unitholders, the Special Unitholders or annuitants under a plan of which a Unitholder or Special Unitholder acts as a trustee or carrier;

- amendments, which in the opinion of the Board of Trustees, are not prejudicial to Unitholders or Special Unitholders and are necessary or desirable (which, for greater certainty, exclude amendments in respect of which a Unitholder and Special Unitholder vote is specifically otherwise required); and
- amendments, which in the opinion of the Board of Trustees, are necessary or desirable to enable CAPREIT to issue Units or Special Voting Units for which the purchase price is payable on an instalment basis, as permitted pursuant to section 5.3 (Consideration of Units) of the Declaration of Trust.

8.11 Term of CAPREIT and Sale of Substantially All Assets

CAPREIT has been established for an indefinite term. Pursuant to the Declaration of Trust, termination of CAPREIT or the sale or transfer of the assets of CAPREIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of CAPREIT as approved by the Board of Trustees) requires approval by at least two-thirds of the votes cast at a meeting of the Unitholders and Special Unitholders.

8.12 Unitholders' Rights Plan

CAPREIT has established a Unitholders' rights plan (the "**Rights Plan**"). The Rights Plan utilizes the mechanism of a permitted bid (a "**Permitted Bid**") (as hereinafter described) to ensure that a person seeking control of CAPREIT gives Unitholders and the Board of Trustees sufficient time to evaluate the bid, negotiate with the initial bidder and encourage competing bids to emerge. The purpose of the Rights Plan is to protect Unitholders by requiring all potential bidders to comply with the conditions specified in the Permitted Bid provisions or risk being subject to the dilutive features of the Rights Plan. Generally, to qualify as a Permitted Bid, a bid must be made to all Unitholders and must be open for 60 days after the bid is made. If more than 50% of the Units held by Independent Unitholders (as hereinafter defined) are deposited or tendered to the bid and not withdrawn, the bidder may take up and pay for such Units. The take-over bid must then be extended for a further period of ten days on the same terms to allow those Unitholders who did not initially tender their Units to tender to the take-over bid if they so choose. Thus, there is no coercion to tender during the initial 60-day period because the bid must be open for acceptance for, at least, for a further ten days after the expiry of the initial tender period. The intention of the Rights Plan is to make it impractical for any person to acquire more than 20% of the outstanding Units without the approval of the Board of Trustees except pursuant to the Permitted Bid procedures or pursuant to certain other exemptions outlined below. Management believes that the Rights Plan taken as a whole, should not be an unreasonable obstacle to a serious bidder willing to make a bona fide and financially fair offer open to all Unitholders while permitting the Board of Trustees to fully consider the bidder's offer and, if appropriate, investigate and pursue alternatives.

The terms of the Rights Plan were established on a basis that takes account of concerns expressed by institutional investors with respect to certain of the provisions of such plans. The provisions of the Rights Plan relating to portfolio managers are designed to prevent the triggering of the Rights Plan by virtue of the customary activities of such persons (see "Portfolio Managers" below).

Summary

The following is a summary of the principal terms of the Rights Plan.

Term

At CAPREIT's annual and special meeting of Unitholders held on May 21, 2013, Unitholders approved the Rights Plan with effect on May 21, 2013 (to replace the previous Unitholders' rights plan). The term of the Rights Plan is five years, beginning on May 21, 2013 (the "**Effective Date**") and ending on May 21, 2018, subject to the Rights Plan being reconfirmed by the Unitholders after three years.

Issue of Rights

On the Effective Date, one right (a "**Right**") was issued and attached to each outstanding Unit. One Right was also issued and attached to each subsequently issued Unit and will be issued and will attach to any subsequently issued Units. The initial exercise price of each Right is \$100 (the "**Exercise Price**"), subject to appropriate anti-dilution adjustments.

Rights Exercise Privilege

The Rights will separate from the Units to which they are attached and will become exercisable at the time (the "**Separation Time**") that is ten trading days after the earlier of (i) a person having acquired, or (ii) the commencement or announcement date in respect of a take-over bid to acquire, 20% or more of the Units of CAPREIT, other than by an acquisition pursuant to a Permitted Bid.

The acquisition by a person (an "**Acquiring Person**"), including persons acting in concert, of 20% or more of the Units of CAPREIT, other than by way of a Permitted Bid in certain circumstances, is referred to as a "Flip-in Event". Any Rights held by an Acquiring Person on or after the earlier of the Separation Time or the first date of public announcement by CAPREIT or an Acquiring Person that an Acquiring Person has become such, will become void upon the occurrence of a Flip-in Event. Ten trading days after the occurrence of the Flip-in Event, the Rights (other than those held by the Acquiring Person) will permit the holder to purchase, for example, Units with a total market value of \$200, on payment of \$100 (i.e., at a 50% discount).

The issue of the Rights is not initially dilutive. Upon a Flip-in Event occurring and the Rights separating from the attached Units, reported earnings per Unit on a fully diluted or non-diluted basis may be affected. Holders of Rights who do not exercise their Rights upon the occurrence of a Flip-in Event may suffer substantial dilution.

Certificates and Transferability

Prior to the Separation Time, the Rights will be evidenced by a legend imprinted on certificates for Units and will not be transferable separately from the attached Units. From and after the Separation Time, the Rights will be evidenced by Rights certificates which will be transferable and traded separately from the Units.

Permitted Bid Requirements

The requirements of a Permitted Bid include the following:

- The take-over bid must be made by way of a take-over bid circular.
- The take-over bid must be made to all holders of Units, other than the bidder.
- The take-over bid must contain, and the provisions for the take-up and payment for securities tendered or deposited thereunder must be subject to, an irrevocable and unqualified condition that no securities shall be taken up or paid for pursuant to the take-over bid prior to the close of business on a date which is not less than 60 days following the date of the take-over bid.
- The take-over bid must contain irrevocable and unqualified provisions that, unless the take-over bid is withdrawn, securities may be deposited pursuant to the take-over bid at any time prior to the close of business on the date of first take-up or payment for securities and that all securities deposited pursuant to the take-over bid may be withdrawn at any time prior to the close of business on such date.
- The take-over bid must contain an irrevocable and unqualified condition that more than 50% of the outstanding Units held by Independent Unitholders (defined below), determined as at the close of business on the date of first take-up or payment for securities under the take-over bid, must be deposited to the take-over bid and not withdrawn at the close of business on the date of first take-up or payment for securities.
- The take-over bid must contain an irrevocable and unqualified provision that in the event that more than 50% of the Units held by Unitholders other than the bidder, its affiliates and persons acting jointly or in concert with the bidder (the “**Independent Unitholders**”) are deposited to the take-over bid and not withdrawn as at the close of business on the date of first take-up or payment for securities under the take-over bid, the bidder will make a public announcement of that fact and the take-over bid will remain open for deposits and tenders of securities for not less than 10 business days from the date of such public announcement.

The Rights Plan allows a competing Permitted Bid (a “**Competing Permitted Bid**”) to be made while a Permitted Bid is in existence. A Competing Permitted Bid must satisfy all the requirements of a Permitted Bid except that, provided it is outstanding for a minimum period of 35 days (or such other minimum period of days as may be prescribed by applicable law in Ontario), it may expire on the same date as the Permitted Bid.

Waiver and Redemption

The Board of Trustees acting in good faith may, with the consent of the Unitholders (or instalment receipts related to Units, if any), prior to a Flip-in Event, waive the dilutive effects of the Rights Plan in respect of a particular Flip-in Event. At any time prior to the occurrence of a Flip-in Event, the Board of Trustees may, at their option, redeem all, but not less than all, of the outstanding Rights at a price of \$0.001 each.

Waiver of Inadvertent Flip-in Event

The Board of Trustees acting in good faith may, in respect of any Flip-in Event, waive the application of the Rights Plan to that Flip-in Event, provided that (i) the Board of Trustees has determined that the Acquiring Person became an Acquiring Person by inadvertence and without any intent or knowledge that it would become an Acquiring Person, and (ii) such Acquiring Person has reduced its beneficial ownership of Units (or instalment receipts related to Units, if any) such that at the time of waiver it is no longer an Acquiring Person.

Portfolio Managers

The provisions of the Rights Plan relating to portfolio managers are designed to prevent the occurrence of a Flip-in Event solely by virtue of the customary activities of such managers, including trust companies and other persons, where a substantial portion of the ordinary business of such person is the management of funds for unaffiliated investors, so long as any such person does not propose to make a take-over bid either alone or jointly with others.

Supplement and Amendments

CAPREIT is authorized to make amendments to the Rights Plan to correct any clerical or typographical error or, subject to certain exceptions, which are required to maintain the validity of the Rights Plan as a result of any changes in law or regulation.

General

Until a Right is exercised, the holders thereof, as such, will have no rights as a Unitholder.

9 - EQUITY INCENTIVE PLANS

9.1 Active Plans

(1) Restricted Unit Rights Plan

CAPREIT has adopted a restricted unit rights plan (the “**RUR Plan**”) as the primary plan through which long-term incentive compensation will be awarded. The Human Resources and Compensation Committee of the Board of Trustees may award restricted unit rights (“**RURs**”), subject to the attainment of specified performance objectives to certain officers and key employees, collectively the “**Participants**”. The purpose of the RUR Plan is to provide its Participants with additional incentive and to further align the interest of its Participants with Unitholders through the use of RURs which, upon vesting, are exercisable for Units. RUR Plan Units will be issued from treasury upon vesting.

The RURs 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 upon which the Distribution RURs are earned become vested.

The maximum available for future issuance under all Unit incentive plans as at December 31, 2015 was 1,759,162 Units. As at December 31, 2015, 586,313 RURs were issued and outstanding under the RUR Plan.

(2) **Employee Unit Purchase Plan**

CAPREIT has adopted an employee unit purchase plan (“**Employee Unit Purchase Plan**”) that is available to certain full-time employees and senior officers of CAPREIT (a “**Participant**”). Under the terms of the Employee Unit Purchase Plan, each Participant is entitled to acquire a number of Units up to a maximum of 10% of their respective annual salary from payroll deductions. A Participant may not assign, transfer or dispose of his interest in the Employee Unit Purchase Plan and CAPREIT reserves the right to amend or terminate the Employee Unit Purchase plan at any time. Units issuable under the Employee Unit Purchase Plan will be issued at the weighted average trading price of the Units on the TSX for the five trading days immediately preceding the date of issue. In addition, Participants (including “insiders”) receive an additional amount equal to 20% of the Units purchased pursuant to the Employee Unit Purchase Plan, which amount is automatically paid in the form of additional Units at the time of purchase of Units. The maximum available for future issuance under all Unit incentive plans as at December 31, 2015 was 1,759,162 Units. As at December 31, 2015, 230,422 Units have been issued under the Employee Unit Purchase Plan.

(3) **Deferred Unit Plan**

CAPREIT has adopted a deferred unit plan (the “**Deferred Unit Plan**”) to promote a greater alignment of interests between the non-executive trustees of CAPREIT and Unitholders.

Under the terms of the Deferred Unit Plan, non-executive trustees have the right to receive a percentage of their annual retainer in the form of deferred units (“**Deferred Units**”). Each trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the “**Elected Percentage**”) of his annual retainer payable in respect of a calendar year (the “**Elected Amount**”), subject to an annual maximum Elected Percentage established by the Human Resources and Compensation Committee of the Board of Trustees, 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 2015 is 100% of a trustee’s annual board compensation.

Under no circumstances shall Deferred Units be considered Units nor entitle a participant to any Unitholder rights, including, without limitation, voting rights, distribution entitlements (other than as described below) or rights on liquidation. One Deferred Unit is equivalent in value to one Unit.

The Deferred Units earn additional Deferred Units for the distributions that would otherwise have been paid on the Deferred Units. The Deferred Units and additional Deferred Units are credited to each trustee’s Deferred Unit account and are not issued to the trustee until the trustee elects to withdraw such Units. Each trustee may elect to withdraw up to 20% of the

Deferred Units credited to his Deferred Unit account only once in a five-year period. Upon withdrawal, one Unit is issued for each withdrawn Deferred Unit.

The maximum available for future issuance under all Unit incentive plans as at December 31, 2015 was 1,759,162 Units. As at December 31, 2015, 248,076 Deferred Units have been issued and were outstanding under the Deferred Unit Plan.

(4) **Unit Option Plan**

CAPREIT has adopted a Unit option plan (the “**Unit Option Plan**”). Participation in the Unit Option Plan is restricted to (i) trustees, officers and employees of CAPREIT, (ii) persons or companies engaged to provide ongoing management or consulting services for CAPREIT, and (iii) personal holding companies or family trusts of any persons referred to in (i) and (ii), all as approved by the Human Resources and Compensation Committee of the Board of Trustees. Options have a maximum term of ten years and are exercisable at a price not less than the closing price of the Units on the TSX on the last trading day on which the Units traded prior to the date of that grant, except with respect to any options issued to the President and Chief Executive Officer relating to an equity offering, which are exercisable at the greater of the price the Units are issued under such equity offering and the market price. The maximum available for future issuance under all Unit incentive plans as at December 31, 2015 was 1,759,162 Units. As at December 31, 2015, options in respect of 3,700,432 Units have been granted (of which 2,366,000 were exercised, cancelled or expired and 1,334,432 are outstanding) under the Unit Option Plan. Except with respect to any options which are required to be awarded to the President and Chief Executive Officer in accordance with the terms of his employment contract, the Board of Trustees’ current policy is not to award any further options under the Unit Option Plan.

(5) **Executive RRSP Plan**

The CAPREIT Executive Registered Retirement Savings Plan (the “**RRSP Plan**”) was established in 2008 in order to assist designated executives in accumulating retirement savings.

Under the RRSP Plan, CAPREIT or one of its affiliates may make contributions on designated executives’ behalf, in such amounts and in such years as it determines at its sole discretion. The contributions will be deposited into participants’ self-directed RRSP accounts to be used solely for purposes of the RRSP Plan. It is CAPREIT’s general expectation that RRSP Plan contributions will be made annually and equal to 5 percent of participating executives’ base salary, subject to applicable Tax Act limitations. However, there is no guarantee that contributions will be made in any particular year or that any contributions which are made will equal any specific amount. Without limiting the generality of the foregoing, the making of contributions or the level thereof in any given year may depend on CAPREIT and/or individual performance in that year.

9.2 Terminated Plans

(1) **Senior Executive Long-Term Incentive Plan**

CAPREIT adopted a senior executive long-term incentive plan (the “**SELTIP**”) that was available to the Chief Executive Officer and Chief Financial Officer of CAPREIT and such other persons as the Compensation and Governance Committee of the Board of Trustees (constituted at the time) may from time to time direct (the “**SELTIP Participants**”). The SELTIP was intended to facilitate long-term ownership of Units by the SELTIP Participants and to provide SELTIP Participants with additional incentives by increasing their interest, as owners, in CAPREIT. The Compensation and Governance Committee of the Board of Trustees (constituted at the time) was able to award SELTIP Units, subject to the attainment of specified performance objectives, to SELTIP Participants. The SELTIP Participants can subscribe for Units of CAPREIT at a purchase price equal to the weighted average trading price of the Units on the TSX for five trading days prior to issuance. SELTIP Participants who were non-executive trustees were permitted to participate in the SELTIP, provided that no such trustee was at any time be issued Units under the SELTIP which would result in the non-executive trustees collectively holding an aggregate number of Units (including Units issuable pursuant to the exercise of options granted pursuant to CAPREIT’s Unit Option Plan) in excess of 0.5% of the aggregate number of Units, on a non-diluted basis, outstanding from time to time. The purchase price is payable in instalments, with an initial instalment of 5% paid when the Units were issued. The balance of the beneficial ownership of the SELTIP Units is represented by instalment receipts issued by CAPREIT (the “**SELTIP Instalment Receipts**”) which are due over a term not exceeding thirty years. Participants are required to pay interest at a thirty-year fixed rate based on CAPREIT’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 principal instalments until the tenth anniversary of issuance. Following the tenth anniversary, cash distributions shall be applied to pay interest only and any excess shall be distributed to the SELTIP Participants. On the thirtieth anniversary of the date of issuance of the SELTIP Units, the SELTIP Participants must pay the balance, if any, of the principal in respect of SELTIP Instalment Receipts. SELTIP Participants may pre-pay any remaining instalments at their discretion. The SELTIP Instalment Receipts are non-recourse to the SELTIP Participants and are secured by the Units as well as the distributions on the Units. If a SELTIP Participant fails to pay interest and/or principal, CAPREIT may elect to re-acquire or sell the pledged Units in satisfaction of the outstanding amounts. As at December 31, 2015, 817,914 Units have been issued under the SELTIP and 554,715 Units were still outstanding under the SELTIP. This figure includes 672,084 Units originally issued to CAPREIT’s Chief Executive Officer and its former Chief Financial Officer pursuant the LTIP (as defined below) that were, effective August 21, 2007, “converted” to Units on the terms and conditions of the SELTIP, pursuant to a resolution of Unitholders at the Annual and Special Meeting of Unitholders of CAPREIT held on May 23, 2007. On April 4, 2014, the SELTIP was terminated by the Board of Trustees, although awards previously granted under the SELTIP remain outstanding.

(2) **Long-Term Incentive Plan**

CAPREIT adopted a long-term incentive plan (the “**LTIP**”) that was available to certain trustees, officers and employees of CAPREIT (“**LTIP Participants**”). The objective of the LTIP was to encourage increased long-term equity participation in CAPREIT by LTIP Participants. The Compensation and Governance Committee of the Board of Trustees (constituted at the time) were able to award LTIP Units, subject to the attainment of specified performance

objectives to LTIP Participants. The LTIP Participants could subscribe for Units of CAPREIT at a purchase price equal to the weighted average trading price of the Units on the TSX for five trading days prior to issuance. Non-executive trustees were permitted to participate in the LTIP, provided that no such trustee was to at any time be issued Units under the LTIP which would result in the non-executive trustees collectively holding an aggregate number of Units (including Units issuable pursuant to the exercise of options granted pursuant to CAPREIT's Unit Option Plan) in excess of 0.5% of the aggregate number of Units, on a non-diluted basis, outstanding from time to time. The purchase price is payable in instalments, with an initial instalment of 5% paid when the Units were issued. The balance of the beneficial ownership of the LTIP Units is represented by instalment receipts issued by CAPREIT (the "**Instalment Receipts**") which are due over a term not exceeding fifteen years. Participants are required to pay interest at a ten-year fixed rate based on CAPREIT's fixed borrowing rate for long-term mortgage financing for the first ten years following the issuance of the Instalment Receipts, and are required to pay interest at the five-year fixed rate based on CAPREIT's fixed borrowing rate for long-term mortgage financing thereafter. Participants are required to apply cash distributions received by them on these Units towards the payment of interest and remaining instalments. 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 re-acquire or sell the pledged Units in satisfaction of the outstanding amounts. As at December 31, 2015, 1,682,927 have been issued under the LTIP and 890,683 Units were still outstanding under the LTIP. On April 4, 2014, the LTIP was terminated by the Board of Trustees, although awards previously granted under the LTIP remain outstanding.

(3) **Unit Purchase Plan**

On April 4, 2014, the Unit purchase plan (the "**Unit Purchase Plan**") was terminated by the Board of Trustees. As of December 31, 2015, there were no awards outstanding under the Unit Purchase Plan.

10 - INVESTMENT RESTRICTIONS AND OPERATING POLICIES

10.1 Investment Restrictions

The Declaration of Trust provides for certain restrictions on investments which may be made by CAPREIT. The assets of CAPREIT may be invested only in accordance with the following restrictions:

- (a) CAPREIT shall focus its activities primarily on the acquisition, holding, developing, maintaining, improving, leasing, or management of income producing real property with an emphasis on real property which is being utilized or intended to be utilized to provide living accommodation (the "**Focus Activities**");
- (b) notwithstanding anything else contained in the Declaration of Trust, CAPREIT shall not make any investment, take any action or omit to take any action that would result in Units or Special Voting Units not being units of a "mutual fund

trust” within the meaning of the Tax Act, that would result in Units being disqualified for investment by registered retirement savings plans, registered retirement income funds or deferred profit sharing plans or that would, if CAPREIT is a registered investment within the meaning of the Tax Act, result in CAPREIT paying a tax under the registered investment provisions of the Tax Act imposed for exceeding certain investment limits;

- (c) CAPREIT may, directly or indirectly, make such investments, do all such things and carry out all such activities as are necessary or desirable in connection with the conduct of its activities provided they are not otherwise specifically prohibited under the Declaration of Trust;
- (d) CAPREIT may invest in freehold, leasehold, or other interests in property (real, personal, moveable or immovable);
- (e) CAPREIT may make its investments and conduct its activities directly or indirectly through an investment in one or more persons on such terms as the Board of Trustees may from time to time determine;
- (f) except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province of Canada, short-term government debt securities, or money market instruments of, or guaranteed by, a Canadian bank listed on Schedule I to the *Bank Act* (Canada) maturing prior to one year from the date of issue, CAPREIT may not hold securities other than securities of a person:
 - (i) acquired in connection with the carrying on, directly or indirectly, of CAPREIT’s activities or the holding of its assets; or
 - (ii) which focuses its activities primarily on Focus Activities and ancillary activities;
- (g) CAPREIT shall not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as incidental to an investment in real property;
- (h) CAPREIT shall not acquire any interest in a single real property if, after giving effect to the proposed acquisition, the cost to CAPREIT of such acquisition (net of the amount of acquisition debt) will exceed 20% of CAPREIT’s Adjusted Unitholders’ Equity (as defined in the Declaration of Trust);
- (i) CAPREIT may invest in operating businesses;
- (j) CAPREIT may invest in mortgages and mortgage bonds (including a participating or convertible mortgage) where the aggregate amount of such investments after giving effect to the proposed investment, will not exceed 20% of the Adjusted Unitholders’ Equity; and

- (k) notwithstanding any other provision of the Declaration of Trust but subject always to (b) above, CAPREIT may make investments not otherwise permitted under the Declaration of Trust, provided the aggregate amount of such investments (which, in the case of an amount invested to acquire real property, is the purchase price less the amount of any indebtedness assumed or incurred by CAPREIT and secured by a mortgage on such property) will not exceed 20% of the Adjusted Unitholders' Equity of CAPREIT after giving effect to the proposed investment.

10.2 Operating Policies

The Declaration of Trust provides that the operations and affairs of CAPREIT shall be conducted in accordance with the following policies:

- (a) CAPREIT shall not purchase, sell, market or trade in currency or interest rate futures contracts otherwise than for hedging purposes where, for the purposes hereof, the term "hedging" shall have the meaning ascribed thereto by National Instrument 81-102 - *Mutual Funds*, as amended from time to time;
- (b) (i) any written instrument creating an obligation which is or includes the granting by CAPREIT of a mortgage, and (ii) to the extent the Board of Trustees determines to be practicable and consistent with its fiduciary duty to act in the best interests of the Unitholders and Special Unitholders, any written instrument which is, in the judgment of the Board of Trustees, a material obligation shall contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the trustees, Unitholders, Special Unitholders, annuitants under a plan of which a Unitholder or Special Unitholder acts as a trustee or carrier, or officers, employees or agents of CAPREIT, but that only property of CAPREIT or a specific portion thereof shall be bound; CAPREIT, however, is not required, but shall use all reasonable efforts, to comply with this requirement in respect of obligations assumed by CAPREIT upon the acquisition of real property;
- (c) CAPREIT shall not incur or assume any indebtedness if, after giving effect to the incurring or assumption of the indebtedness, the total indebtedness of CAPREIT (including the amount then advanced under the Credit Facilities) would be more than 70% of the Gross Book Value, unless a majority of the trustees, in their discretion, determine that the maximum amount of indebtedness shall be based on the appraised value of the real properties of CAPREIT. For the purposes of this subparagraph, "indebtedness" means (without duplication) on a consolidated basis:
 - (i) any obligation of CAPREIT for borrowed money (other than under the Credit Facilities),

- (ii) any obligation of CAPREIT (other than under the Credit Facilities) incurred in connection with the acquisition of property, assets or businesses other than the amount of future income tax liability arising out of indirect acquisitions,
- (iii) any obligation of CAPREIT issued or assumed as the deferred purchase price of property, and
- (iv) any capital lease obligation of CAPREIT;

provided that (A) for the purposes of (i) through (iv), an obligation (other than convertible debentures) will constitute indebtedness only to the extent that it would appear as a liability on the consolidated balance sheet of CAPREIT in accordance with generally accepted accounting principles, (B) obligations referred to in clauses (i) through (iii) exclude trade accounts payable, security deposits, distributions payable to Unitholders, contingent liabilities and accrued liabilities arising in the ordinary course, and (C) convertible debentures will constitute indebtedness to the extent of the principal amount thereof outstanding;

- (d) CAPREIT shall obtain an independent appraisal of each real property that it intends to acquire;
- (e) CAPREIT shall obtain and maintain at all times insurance coverage in respect of potential liabilities of CAPREIT and the accidental loss of value of the assets of CAPREIT from risks, in amounts, with such insurers, and on such terms as the Board of Trustees considers appropriate, taking into account all relevant factors including the practices of owners of comparable properties; and
- (f) unless the Board of Trustees determines it is not necessary, CAPREIT shall have conducted a Phase I environmental audit of each real property to be acquired by it and, if the Phase I environmental audit report recommends that further environmental audits be conducted, CAPREIT shall have conducted such further environmental audits, in each case by an independent and experienced environmental consultant; such audit, as a condition to any acquisition, shall be satisfactory to the Board of Trustees.

10.3 Amendments to Investment Restrictions and Operating Policies

Pursuant to the Declaration of Trust, all of the investment restrictions set out under the headings "Investment Restrictions" and the operating policies set out under the heading "Operating Policies" may be amended only with the approval of at least 66²/₃% of the votes cast at a meeting of Unitholders and Special Unitholders called for such purpose except for amendments, which in the opinion of the Board of Trustees, are not prejudicial to Unitholders or Special Unitholders and are necessary or desirable (which, for greater certainty, exclude amendments in respect of which a Unitholder and Special Unitholder vote is specifically otherwise required).

11 - DISTRIBUTIONS

11.1 Distribution Policy

The following outlines the distribution policy of CAPREIT as contained in the Declaration of Trust. The distribution policy may be amended only with the approval of a majority of the votes cast at a meeting of Unitholders and Special Unitholders.

Distributions are determined by the Board of Trustees. All declared distributions are due and payable on or about the 15th day of each month with the exception of the year end distribution which is payable on December 31st and due on January 15th of the immediately following year. Distributions may be adjusted for amounts paid in prior periods.

Distributions are made in cash or Units pursuant to any distribution reinvestment plan or Unit purchase plan.

The cost for Canadian tax purposes of Units held by a Canadian resident Unitholder will generally be reduced by the non-taxable portion of distributions made to the Unitholder other than the non-taxable portion of certain capital gains. A Unitholder will generally realize a capital gain to the extent that the Unitholder's tax cost of his or her Units would otherwise be a negative amount. Unitholders should seek advice from their respective tax advisors with respect to any specific tax matters.

11.2 Cash Distributions

For the months January 2013 – May 2013, CAPREIT's annualized distribution was \$1.12 per Unit payable monthly. For the months June 2013 – May 2014, the annualized distribution was increased to \$1.15 per Unit payable monthly. For June 2014 – April 2015, the annualized distribution was \$1.18 per Unit payable monthly. For the months May 2015 – December 2015, the annualized distribution was \$1.22 per Unit payable monthly. In determining the amount of monthly cash distributions, the Board of Trustees relies upon cash flow information, including NFFO, and management forecasts and budgets.

11.3 Distribution Reinvestment Plan

CAPREIT has established a DRIP. Under the DRIP, a participant may purchase additional Units with the cash distributions paid on the eligible Units which are registered in the name of the participant or held in a participant's account maintained pursuant to the DRIP. Each participant will also receive a right to receive an additional amount equal to 5% of their monthly distributions reinvested pursuant to the DRIP, which amount shall 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 of the trading price for Units of CAPREIT on the TSX for the five trading days immediately preceding the relevant Distribution Date. No commissions, service charges or brokerage fees are payable by participants in connection with the DRIP. Full investment of participants' funds is possible under the DRIP because the DRIP permits fractions of Units as well as whole Units to be purchased and held for participants. Distributions in respect of whole Units and fractions of Units acquired under the DRIP will be held by the agent for the DRIP for the participants' account and automatically

invested under the DRIP in additional Units. For the year ended December 31, 2015, the average participation rate in the DRIP was approximately 32.4% of Units outstanding compared to 33.6% for the year ended December 31, 2014.

12 - MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis of results of operations and financial position of CAPREIT for the year ended December 31, 2015 is incorporated herein by reference.

13 - MARKET FOR SECURITIES

Trading Price and Volume

Units of CAPREIT are listed and posted for trading on the TSX under the symbol "CAR.UN". As at December 31, 2015, there were 128,746,606 Units (excluding 248,076 Deferred Units and 586,313 RURs) issued and outstanding. The following table indicates the high and low trading price and the volume of the Units traded on the TSX on a monthly basis for the year ended December 31, 2015:

Date	High	Low	Volume Traded
January	\$29.30	\$25.09	114,831,693
February	\$28.93	\$26.37	122,442,794
March	\$29.20	\$27.45	156,319,632
April	\$30.25	\$28.95	128,234,977
May	\$29.35	\$27.00	86,610,639
June	\$28.97	\$26.60	141,241,314
July	\$29.08	\$27.09	84,281,367
August	\$29.67	\$26.29	106,812,589
September	\$29.77	\$27.52	116,749,495
October	\$28.50	\$26.76	142,730,268
November	\$27.55	\$24.90	150,357,051
December	\$27.52	\$25.21	169,054,419

Normal Course Issuer Bids

On July 23, 2015, CAPREIT announced that the TSX had approved its notice of intention to make a normal course issuer bid (the "2015 NCIB") for its Units as appropriate opportunities arise from time to time. Pursuant to the notice, CAPREIT is permitted to acquire (for cancellation) over the 12-month period from July 28, 2015 to July 27, 2016 up to 11,493,069 Units (representing 10% of the public float) at market prices through the facilities of the TSX. For the year ended December 31, 2015, CAPREIT did not acquire any Units under the 2015 NCIB.

On July 4, 2014, CAPREIT announced that the TSX had approved its notice of intention to make a normal course issuer bid (the "2014 NCIB") for its Units as appropriate opportunities arise from time to time. Pursuant to the notice, CAPREIT was permitted to acquire (for cancellation) over the 12-month period from July 8, 2014 to July 7, 2015 up to 10,659,524 Units (representing 10% of the public float) at market prices through the facilities of the TSX. For the year ended December 31, 2015, CAPREIT did not acquire any Units under the 2014 NCIB.

14 - MANAGEMENT OF CAPREIT, TRUSTEES AND EXECUTIVE OFFICERS

14.1 General

The investment policies and operations of CAPREIT are subject to the control and direction of the trustees, a majority of whom must be independent trustees (as defined in NI 58-101). All of the Trustees of CAPREIT, other than Mr. Schwartz who is the President and Chief Executive Officer of CAPREIT, are independent. Trustees hold office for a term ending following the annual meeting subsequent to the annual meeting at which they were elected by Unitholders and Special Unitholders.

14.2 Trustees and Executive Officers

The name, province of residence, office held with CAPREIT, principal occupations held during the preceding 5 years and the period during which each trustee or executive officer has served are as follows:

Name and Place of Residence	Office	Principal Occupations during preceding five years	Year first became a Trustee or Executive Officer	Number of Units, Deferred Units and RURs beneficially owned, controlled or directed, directly or indirectly as at December 31, 2015 ⁽¹⁾
Thomas Schwartz Toronto, Ontario, Canada	President and Chief Executive Officer and a Trustee	President and Chief Executive Officer of CAPREIT	1997	2,612,909 Units 233,913 RURs
Michael Stein Toronto, Ontario, Canada	Chairman and a Trustee	Chairman and Chief Executive Officer of MPI Group Inc. (a real estate investment and development company)	1997	554,905 Units 50,132 Deferred Units
Harold Burke ⁽⁵⁾ Toronto, Ontario, Canada	Trustee	Senior Vice President of Taxation, Dream Asset Management Corporation (Formerly Dundee Realty Corporation, an integrated real estate asset manager and developer)	2010	0 Units 23,987 Deferred Units
David Ehrlich ^{(2) (3) (4)} Toronto, Ontario, Canada	Trustee	Chief Executive Officer and Director of Irish Residential Properties REIT plc, Corporate Director and former partner at Stikeman Elliott LLP (a law firm)	2013	4,760 Units 17,522 Deferred Units

Name and Place of Residence	Office	Principal Occupations during preceding five years	Year first became a Trustee or Executive Officer	Number of Units, Deferred Units and RURs beneficially owned, controlled or directed, directly or indirectly as at December 31, 2015 ⁽¹⁾
Paul Harris ⁽⁵⁾ Montréal, Québec, Canada	Trustee	Partner, Davies, Ward, Phillips & Vineberg LLP (a law firm)	1998	55,000 Units 47,236 Deferred Units
Edwin F. Hawken ^{(5) (4)} Toronto, Ontario, Canada	Trustee	Corporate Director	2004	59,783 Units 36,610 Deferred Units
David Sloan ⁽⁵⁾ Toronto, Ontario, Canada	Trustee	Consultant and Corporate Director, and former executive at TD Bank Group.	2014	4,800 Units 6,492 Deferred Units
Stanley Swartzman ^{(2) (3) (4) (6)} Toronto, Ontario, Canada	Lead Trustee	Corporate Director, and Former Vice President, Real Estate and Store Planning, Sears Canada (a national retailer)	1997	104,021 Units 50,132 Deferred Units
Elaine Todres ^{(2) (3)} Toronto, Ontario, Canada	Trustee	Chief Executive Officer of Todres Leadership Counsel (a consultancy company)	2013	3,000 Units 15,964 Deferred Units
Mark Kenney Newmarket, Ontario, Canada	Chief Operating Officer	Chief Operating Officer of CAPREIT	2002	199,406 Units 114,080 RURs
Scott Cryer Toronto, Ontario, Canada	Chief Financial Officer	Chief Financial Officer of CAPREIT and former Vice President, Financial Reporting of CAPREIT	2011	4,768 Units 34,037 RURs

Notes:

- (1) Individual trustees and executive officers have furnished information as to Units beneficially owned, or controlled or directed, directly or indirectly, by them. The number of Units includes, among other things, LTIP and SELTIP units, as applicable. In addition, as at December 31, 2015, Mr. Schwartz held 1,334,432 options, which are not included in the total number of Units.
- (2) Member of Human Resources and Compensation Committee.
- (3) Member of the Governance and Nominating Committee.
- (4) Member of Investment Committee.
- (5) Member of Audit Committee.
- (6) Mr. Swartzman currently acts as the Lead Trustee of the Board of Trustees.

Based on information provided by such persons, as of December 31, 2015, the trustees and executive officers of CAPREIT, as a group, beneficially owned, or controlled or directed, directly or indirectly, an aggregate of 4,223,032 Units of CAPREIT, representing approximately 2.8% of CAPREIT's issued and outstanding Units.

The nature and extent of the experience of the trustees and executive officers of CAPREIT in the real estate industry and their principal occupations during the last five years and their current public board memberships are as follows.

Thomas Schwartz graduated as a Chartered Accountant in 1975 and went on to pursue a career in real estate development. Mr. Schwartz, along with a partner, founded Intraurban Projects in 1976 to specialize in the development of new housing projects in mature communities. Intraurban has built and developed over 2,500 housing units serving all market segments from luxury to affordable. Mr. Schwartz, through York Heritage Properties and Intraurban Projects, has participated in the development, construction, and management of over 600,000 sq. ft. of office, commercial and retail space. Mr. Schwartz is active in industry and government affairs. He has served on the Board of Directors of the Greater Toronto Home Builders Association, the City of Toronto's Housing Action Committee, as Director of Kehilla Residential Consultants, on the Board of Directors of the Ontario New Home Warranty Program, as Chairman of the Board of Directors of the Federation of Rental-housing Providers of Ontario, and on the Board of Directors of the Real Property Association of Canada. Mr. Schwartz is currently on the board of Chartwell Retirement Residences' companies, the Board of Directors of IRES and each of CAPREIT's subsidiaries, including IRES Fund Management Limited and the Board of Directors of the Mount Sinai Hospital Foundation. He is also a member of the Schulich School of Business Advisory Council - Program in Real Estate and Infrastructure.

Michael Stein has been Chairman and Chief Executive Officer of MPI Group Inc., a company engaged in real estate investment and development, since 1994. Mr. Stein also held the position of Chairman and Chief Executive Officer of MICC Properties Inc., a company engaged in real estate investment and development from 1987 to 2000. Mr. Stein is a director of FirstService Corporation (TSX/NASDAQ), a director of McEwan Mining Inc. (TSX/NYSE) and Chairman of the board of directors of Cliffside Capital Ltd. (TSX-V). In 2012, Mr. Stein was appointed to the Board of Directors of City Financial Investment Company Limited, a United Kingdom FSA-regulated asset management company that is also registered as an Investment Adviser firm with the SEC. Between 2000 and 2006, Mr. Stein was a member of the Board of Directors of Goldcorp Inc., a public natural resource company the shares of which are listed on the TSX and New York Stock Exchange. Between 1978 and 1987, Mr. Stein held progressively senior positions, ultimately holding the position of Executive Vice President responsible for operations, with The Mortgage Insurance Co. of Canada. Mr. Stein is a graduate engineer and holds a master of business administration in finance and international business from Columbia University in New York.

Harold Burke is a Senior Vice President of Taxation of Dream Asset Management Corporation, a real estate asset manager and developer, (formerly Dundee Realty Corporation), which he joined in July 2008. Mr. Burke has more than 30 years of professional practice in the tax area, at PricewaterhouseCoopers LLP, its predecessor, Coopers & Lybrand LLP, and another

major Canadian accounting firm. Mr. Burke is recognized as a specialist in the area of real estate-related financial services as well as in domestic and international taxation issues. While a senior partner at PricewaterhouseCoopers, Mr. Burke advised a diverse domestic and foreign clientele many of which were public, private and institutional, on a variety of matters including mergers and acquisitions, capital markets financing and investment structuring. He is a Chartered Professional Accountant and holds the Institute of Corporate Directors, Institute-Certified Director Designation, ICD.D.

David Ehrlich has been the Chief Executive Officer of IRES since April 2014. Prior to that, Mr. Ehrlich was a Corporate Director and a senior partner in the Toronto office of the law firm Stikeman Elliott LLP where he was a member of both the corporate and real estate groups. During his 25 year career in law, his practice was focused on real estate and structured finance, including public real estate securities. Mr. Ehrlich has been actively involved with real estate investment trusts since their inception in Canada, acting for both issuers and underwriters in numerous transactions. He has also been involved with some of Canada's largest REIT merger and acquisition transactions.

Paul Harris has been a partner in the law firm of Davies Ward Phillips & Vineberg LLP since 1984. Mr. Harris' current directorships include The Montréal Alouettes Football Club.

Edwin F. Hawken is a Corporate Director. On March 21, 2016 Danier Leather Inc. ("Danier"), a company of which Mr. Hawken had been a director since 1998, made a voluntary assignment in bankruptcy pursuant to the provisions of the *Bankruptcy and Insolvency Act* (Canada) (the "BIA"). Mr. Hawken resigned as a director effective at the time of the assignment in bankruptcy. Mr. Hawken was Chief Executive Officer and a Director of Comcorp Financial Services Inc. from 1991 to 1997. From 1987 to 1991, Mr. Hawken was a Senior Vice President of CIBC and President of CIBC Leasing Inc.

David Sloan is a consultant and corporate director. Mr. Sloan retired from TD Bank Group in October 2014 after a 34 year career which included, among other roles, service as Senior Vice President and Ombudsman, Chief Financial Officer of TD Canada Trust, Chief Auditor, Senior Vice President Risk Management, and Senior Vice President, Commercial Banking. Mr. Sloan is a past Chair of the Board and of the Audit and Compliance Committee of Centennial College in Toronto, where he also served as an Executive Advisor to the School of Business. Mr. Sloan holds a Bachelor of Arts, Honours in Economics from McGill University, and a Masters of Philosophy in Economics from the University of St. Andrews in Scotland.

Stanley Swartzman is a Corporate Director. Previously, Mr. Swartzman was Vice President, Real Estate and Store Planning, of Sears Canada, a national retailer, which he joined in July, 2011 until December, 2012. Prior to that, Mr. Swartzman was Executive Vice President of Loblaw Properties Limited, the company responsible for all Canadian real estate and development matters for Loblaw Companies Limited, from 1997 to 1999. From 1983 to 1996, Mr. Swartzman was President of IPCF Properties Inc., the company which was previously responsible for real estate and development matters for Loblaw Companies Limited in Ontario and Eastern Canada. Since July 2008, Mr. Swartzman has served as a director of GT Canada Capital Corporation and is the Chairman of its investment committee. Mr. Swartzman was formerly a director of Centre Fund Corporation and served on its audit committee.

Elaine Todres has had a distinguished career in government, the not for profit sector and the volunteer community. After having completed a doctorate in Political Science at the University of Pittsburgh, Ms. Todres joined the civil service of Ontario where she ultimately served as a Deputy Minister for ten years. Her portfolios ranged from human resources and the Civil Service Commission, culture and cultural industries, telecommunications, tourism, solicitor general, the corrections system and emergency response. In 1997, Ms. Todres became the President of the Baycrest Centre Foundation where she stayed for three years, completing a capital campaign for the new Apotex Centre - Jewish Home for the Aged. Ms. Todres is the Chief Executive Officer of Todres Leadership Counsel, a boutique consultancy practice specializing in strategy, leadership, organizational transformation, and governance. Ms. Todres has served on many community and hospital boards, including as chair of Women's College Hospital Foundation. She served as director of The Northern Trust Company, Canada from August 2005 to February 2014.

Mark Kenney joined CAPREIT in 1998 and is the Chief Operating Officer. Prior to this appointment, Mr. Kenney held the position of Vice President, Operations of CAPREIT. Mr. Kenney has over 24 years of experience in the multi-family sector, having worked previously at Realstar Management Partnership as District Manager of Western Canada and Northern Ontario (1995 to 1998) and Greenwin Property Management as Senior Property Manager prior to 1995. Mr. Kenney is also a director of the Federation of Rental Providers of Ontario since 2009 and was a director of the Greater Toronto Apartment Association from 1998 to 2009. Mr. Kenney maintains active membership in the Halifax, Montreal, Calgary, and Vancouver Apartment Associations, and holds a Bachelor of Economics degree from Carleton University.

Scott Cryer joined CAPREIT in September 2009 and is the Chief Financial Officer. Mr. Cryer most recently held the position of Vice President, Financial Reporting. Prior to joining CAPREIT, Mr. Cryer had an eleven year career of increasing responsibility in the Real Estate Assurance and Advisory practice of Deloitte & Touche LLP. He received his Chartered Accountant designation in 2000 and holds a Bachelor of Economics degree from the University of Western Ontario.

14.3 Trustees

The Declaration of Trust provides that the assets and operations of CAPREIT will be subject to the control and authority of a minimum of seven and a maximum of eleven trustees. The number of trustees within such minimum and maximum numbers may be changed by the Unitholders and Special Unitholders or, if authorized by the Unitholders and Special Unitholders, by the Board of Trustees, provided that the Board of Trustees may not, between meetings of Unitholders and Special Unitholders, appoint an additional trustee if, after such appointment, the total number of trustees would be greater than one and one-third times the number of trustees in office immediately following the last annual meeting of Unitholders and Special Unitholders. At the 1998 annual and special meeting of Unitholders, Unitholders approved a resolution authorizing the Board of Trustees to increase or decrease, from time to time, the number of trustees. The number of trustees is currently fixed at nine (9). A majority of the trustees are required to be independent of the management of CAPREIT. A vacancy occurring among the trustees may be filled by resolution of the remaining trustees or by the Unitholders and Special Unitholders at a meeting of the Unitholders and Special Unitholders.

A trustee elected or appointed to fill a vacancy shall hold office for the remaining term of the trustee he or she is succeeding.

All of the trustees are elected annually by resolution passed by a majority of the votes cast at a meeting of the Unitholders and Special Unitholders.

The Declaration of Trust provides for the appointment by the Board of Trustees of an Audit Committee, Human Resources and Compensation Committee, Governance and Nominating Committee and an investment committee (the "**Investment Committee**"). The approval of the independent trustees is required prior to CAPREIT making any acquisition or disposition of real property, and for the assumption or granting of any mortgage. A trustee may be removed with or without cause by two-thirds of the votes cast at a meeting of Unitholders and Special Unitholders or by the written consent of Unitholders and Special Unitholders holding in the aggregate not less than two-thirds of the outstanding Units and Special Voting Units entitled to vote thereon or with cause by the resolution passed by an affirmative vote of not less than two-thirds of the remaining trustees.

The standard of care and duties of the trustees provided in the Declaration of Trust are similar to those imposed on a director of a corporation governed by the *Canada Business Corporations Act*. Accordingly, each trustee is required to exercise the powers and discharge the duties of his or her office honestly, in good faith and in the best interests of CAPREIT and the Unitholders and Special Unitholders and, in connection therewith, to exercise that degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

14.4 Cease Trade Orders, Bankruptcies, Penalties and Sanctions

Corporate Cease Trade Orders or Bankruptcies

Except as set out below, no trustee or executive officer of CAPREIT, nor any personal holding company of any such person, is, as at the date of this AIF or within the 10 years before the date of this AIF has been, a director, trustee, chief executive officer or chief financial officer of any company (including CAPREIT) that, (i) while that person was acting in that capacity was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days; or (ii) after that person ceased to act in that capacity was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days, and which resulted from an event that occurred while the person was acting in that capacity.

Except as set out below, no trustee or executive officer of CAPREIT or, to the knowledge of CAPREIT, a Unitholder holding a sufficient number of Units of CAPREIT to affect materially the control of CAPREIT, nor any personal holding company of any such person, (i) is as of the date of this AIF or has been within 10 years before the date of this AIF, a director, trustee or executive officer of a company (including CAPREIT) that while that person was acting in such capacity or within a year of that person ceasing to act in that capacity became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or

instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (ii) has within the 10 years before the date of this AIF become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or has been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of such director, trustee or officer.

Mr. Edwin F. Hawken was a director of Danier Leather Inc. ("**Danier**") from May 1998 to March 21, 2016. On February 4, 2016, Danier commenced insolvency proceedings by filing a notice of intention to make a proposal to its creditors under the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**"). Subsequently, securities commissions in the Provinces of Ontario, Manitoba and Quebec issued cease trade orders that ceased all trading in securities of Danier for failure to file certain continuous disclosure materials. On March 21, 2016, Danier announced that it had voluntarily made an assignment in bankruptcy pursuant to the provisions of the BIA. Danier also obtained an order of the Ontario Superior Court of Justice appointing a receiver over all of its property, assets and undertaking.

Penalties or Sanctions

No trustee or executive officer of CAPREIT or, to the knowledge of CAPREIT, a Unitholder holding a sufficient number of Units to affect materially the control of CAPREIT, nor any personal holding company of any such person, has (i) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or entered into a settlement agreement with a Canadian securities regulatory authority; or (ii) been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

14.5 Conflict of Interest Restrictions and Provisions

The Declaration of Trust contains "conflict of interest" provisions that serve to protect Unitholders without creating undue limitations on CAPREIT. Given that the trustees are engaged in a wide range of real estate and other activities, the Declaration of Trust contains provisions, similar to those contained in the *Canada Business Corporations Act*, that require each trustee to disclose to CAPREIT any interest in a material contract or transaction or proposed material contract or transaction with CAPREIT (including a contract or transaction involving the making or disposition of any investment in real property or a joint venture arrangement) or the fact that such person is a director or officer of or otherwise has a material interest in any person who is a party to a material contract or transaction or proposed material contract or transaction with CAPREIT. Such disclosure is required to be made at the first meeting at which a proposed contract or transaction is considered. In the event that a material contract or transaction or proposed material contract or transaction is one that in the ordinary course would not require approval by the trustees, a trustee is required to disclose in writing to CAPREIT or request to have entered into the minutes of meetings of the Board of Trustees the nature and extent of his interest forthwith after the trustee becomes aware of the contract or transaction or proposed contract or transaction. In any case, a trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or

transaction unless the contract or transaction is one relating primarily to his or her remuneration as a trustee, officer, employee or agent of CAPREIT or one for indemnity under the provisions of the Declaration of Trust or the purchase of liability insurance.

CAPREIT has also adopted a Code of Business Ethics and Conduct, which provides a framework of guidelines and principles to govern and encourage ethical and professional behaviour in conducting its business. The Code of Business Ethics and Conduct applies to all trustees, officers and employees of CAPREIT and provides guidelines for identifying and reporting conflicts of interest or potential conflicts of interest.

14.6 Independent Trustee Matters

The following matters require the approval of at least a majority of the independent trustees to become effective:

- the entering into of an arrangement in which a non-independent trustee or an officer of CAPREIT has a material interest;
- the enforcement of any agreement entered into by CAPREIT with a non-independent trustee or an officer of CAPREIT, or an affiliate or associate of such party;
- the grant of options under CAPREIT's Unit Option Plan or any rights to participate in any other long term incentive plans adopted by CAPREIT;
- the demolition of all or substantially all of a property owned by CAPREIT;
- to increase the number of trustees by no more than one-third in accordance with Section 2.1 of the Declaration of Trust and to appoint trustees to fill the vacancies so created; and
- to recommend to Unitholders or Special Unitholders that the number of trustees be increased, where a vote of Unitholders or Special Unitholders thereon is required, and to nominate individuals as trustees to fill the vacancies so created.

14.7 Audit Committee

The Audit Committee must consist of at least three trustees, all of whom must be independent and financially literate, as those terms are defined NI 52-110, subject to any applicable exceptions in NI 52-110. The Audit Committee assists the trustees in fulfilling their oversight responsibilities in respect of CAPREIT's accounting and reporting practices.

Pursuant to its charter, a copy of which is attached hereto as Appendix "A", the Audit Committee is responsible for the review of the consolidated financial statements, accounting policies and reporting procedures of CAPREIT. In addition, the Audit Committee is responsible for reviewing, on an annual basis, the principal risks that CAPREIT is faced with, and considering whether adequate systems are in place to manage such risks and that such systems appear effective.

The Audit Committee reviews CAPREIT's quarterly and annual consolidated financial statements and other required financial documents or documents that contain financial disclosure (such as press releases), reviews with management and the external auditors the state of internal controls, and makes appropriate reports thereon to the Board of Trustees. The Audit Committee has unrestricted access to the senior management of CAPREIT and to CAPREIT's external auditor, who regularly attends the Audit Committee meetings.

As at the date of this Annual Information Form, the Audit Committee consists of the following members: Harold Burke, Paul Harris, Edwin F. Hawken and David Sloan. Harold Burke serves as Chairman of the Audit Committee. All members of the Audit Committee are independent and financially literate, as those terms are defined in NI 52-110. The following is a brief summary of the education or experience of each member of the Audit Committee that is relevant to the performance of his or her responsibilities as a member of the Audit Committee, including any education or experience that has provided the member with an understanding of the accounting principles used by CAPREIT to prepare its annual and quarterly consolidated financial statements.

Name of Audit Committee Member	Relevant Education and Experience
Harold Burke	<ul style="list-style-type: none"> • Senior Vice President of Taxation, Dream Asset Management Corporation, an integrated real estate asset manager and developer (formerly Dundee Realty Corporation) • More than 30 years professional practice in the tax area at PricewaterhouseCoopers LLP, its predecessor, Coopers & Lybrand LLP and another major Canadian accounting firm • Chartered Professional Accountant • Holds the Institute of Corporate Directors, Institute-Certified Designation, ICD.D
David Sloan	<ul style="list-style-type: none"> • Former Senior Vice President and Ombudsman, TD Bank Group • Former Chief Financial Officer, TD Canada Trust • Former Chief Auditor, TD Bank Group • Former Senior Vice President, Risk Management, TD Bank Group • Former Senior Vice President, TD Commercial Banking, • Former Chair of the Board and of the Audit and Compliance Committee, Centennial College, Toronto • BA in Economics from McGill University and M. Phil in Economics from the University of St. Andrews in Scotland
Edwin F. Hawken	<ul style="list-style-type: none"> • Former Chair of Audit Committee, Danier Leather Inc. • Director and Chair of Audit Committee, Medcan Health Services Inc. • Former Chair of Audit Committee, The Anglican Diocese of Toronto • Former member of Audit Committee for several Not For Profit organizations • Former Director and Chief Executive Officer of Comcorp Financial Services Inc. • Former Senior Vice President of CIBC • Former President of CIBC Leasing Inc.

Paul Harris

- Partner, Davies Ward Phillips & Vineberg LLP
- More than 38 years of professional practice in corporate, real estate and securities law
- Former interim president of a professional sports organization with full responsibility for all operations and financial performance
- Member of the Board of Governors and until November 2014 member of the Executive Committee of the Canadian Football League
- Former member of the Board of Directors of Primetech Electronics Inc., a publicly-listed company (TSX), prior to being acquired by Celestica Inc.
- B.Comm, B.C.L. and LL.B. degrees from McGill University

Further to CAPREIT's Audit Committee Charter, the Audit Committee has adopted specific policies and procedures for the engagement of non-audit services provided by its external auditor. The Audit Committee must pre-approve all engagements (and fees related thereto) for non-audit services. In connection with this requirement, the Audit Committee has adopted an internal policy allowing management to engage external non-audit services, subject to the following approval process:

<u>Limit</u>	<u>Required Approval</u>
Up to \$50,000	Chief Executive Officer or Chief Financial Officer
\$50,000 to \$100,000	Chair of the Audit Committee
Over \$100,000	Audit Committee

In addition to compliance with the above process, management must notify the Audit Committee of any assignments to the external auditor for non-audit services prior to the next scheduled Audit Committee meeting.

The Audit Committee is responsible for monitoring CAPREIT's external auditor and ensuring that the external auditor is and remains independent of management. For a description of the external auditor service fees see section 18 below.

14.8 Human Resources and Compensation Committee

The Declaration of Trust requires the creation of a Human Resources and Compensation Committee, consisting of at least three trustees, to review matters relating to human resources, including compensation of trustees and officers of CAPREIT. All of the members of the Human Resources and Compensation Committee must at all times be "independent", as this term is defined in NI 58-101.

As at the date of this Annual Information Form, the members of the Human Resources and Compensation Committee are as follows: David Ehrlich; Stanley Swartzman and Elaine Todres. Elaine Todres serves as Chairperson of the Human Resources and Compensation Committee.

14.9 Governance and Nominating Committee

The Declaration of Trust requires the creation of a Governance and Nominating Committee, consisting of at least three trustees, to review matters relating to the governance of CAPREIT including the nomination of trustees. All of the members of the Governance and

Nominating Committee must at all times be “independent”, as this term is defined in NI 58-101.

As at the date of this Annual Information Form, the members of the Governance and Nominating Committee are as follows: David Ehrlich; Stanley Swartzman and Elaine Todres. Stanley Swartzman serves as Chairman of the Governance and Nominating Committee.

14.10 Investment Committee

The Declaration of Trust provides that the trustees shall appoint from among their number an Investment Committee consisting of at least three trustees. A majority of the members of the Investment Committee must have had at least five years of substantial experience in the real estate industry. In addition, a majority of the members of the Investment Committee must be “independent”, as this term is defined in NI 58-101. The duties of the Investment Committee are to, unless delegated by the Board of Trustees to officers of CAPREIT: (i) review all investment and financing proposals for CAPREIT; (ii) where the approval of the Board of Trustees is required, recommend to the Board of Trustees approval or rejection of proposed transactions by CAPREIT (including acquisitions and dispositions of investments by CAPREIT); (iii) where the approval of the Investment Committee is required, approve or reject proposed transactions by CAPREIT (including acquisitions and dispositions of investments by CAPREIT); and (iv) approve all proposed borrowings and the assumption or granting of any mortgage or other security interest in real property.

As at the date of this Annual Information Form, the members of the Investment Committee are as follows: David Ehrlich; Edwin F. Hawken and Stanley Swartzman. Stanley Swartzman serves as Chairman of the Investment Committee.

14.11 Remuneration of Trustees and Officers

A person who is employed by and receives salary from CAPREIT will not receive any remuneration from CAPREIT for serving as a trustee. Trustees who were not so employed during fiscal 2015 received a flat annual retainer from CAPREIT in the amount of \$75,000, other than the Chairman of the Audit Committee, who received an additional \$17,500 for serving as Chair in 2015, and the Chair of each of the Investment Committee, the Human Resources and Compensation Committee and the Governance and Nominating Committee, who each received an additional \$10,000 for 2015 for serving as Chair of such committee, the lead trustee, who received an additional \$15,000 for serving as lead trustee, and the Chairman of the Board of Trustees who received an additional \$30,000. Pursuant to the terms of the Deferred Unit Plan, in 2015, each non-executive trustee was entitled to elect to receive up to 100% of his board compensation (being \$75,000), in the form of Deferred Units, in lieu of cash, which amount was matched by CAPREIT. As a result, for non-executive trustees who elected to receive 100% of their board compensation in the form of Deferred Units, such trustee’s annual compensation for 2015 (including the impact of Deferred Units issued and matched by CAPREIT, but excluding additional Chair or lead trustee fees described above), amounted to \$150,000.

The position of lead trustee was created in 2006 and the lead trustee’s responsibilities are to act as the effective leader of the Board of Trustees where it is inappropriate for the Chairman to act in that role and for ensuring that the Board of Trustees’ agenda will enable it to successfully carry out its duties.

In fiscal 2015, no additional meeting or written resolutions fees were paid to the trustees. The officers of CAPREIT are entitled to participate in the Unit Option Plan described under the heading "Unit Option Plan" (however, except with respect to options which are required to be awarded to the President and Chief Executive Officer in accordance with the terms of his employment contract, the Board of Trustees current policy is not to award any further options under the Unit Option Plan) and certain officers are entitled to participate in the Employee Unit Purchase Plan described under the heading "Employee Unit Purchase Plan". Non-executive trustees are entitled to participate in the Deferred Unit Plan described under the heading "Deferred Unit Plan".

15 - LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Management of CAPREIT is not aware of any litigation outstanding, threatened or pending as of the date hereof by or against it or relating to its business which would be material to CAPREIT's financial condition or results of operations.

During the year ended December 31, 2015, no penalties or sanctions were imposed against CAPREIT by a court relating to securities legislation or by a securities regulatory authority, no other penalties or sanctions were imposed by a court or regulatory body against CAPREIT that would likely be considered important to a reasonable investor in making an investment decision, and CAPREIT entered into no settlement agreements before court relating to securities legislation or with a securities regulatory authority.

16 - INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

CAPREIT has a lease for office space with a company in which Mr. Thomas Schwartz has an 18% beneficial interest. The rent paid for the office space for the years ended December 31, 2015, 2014 and 2013 was \$942,000, \$876,000 and \$868,000 respectively, excluding property operating costs. The lease expires on October 31, 2017. Minimum annual rental payments for the next two years, 2016 and 2017 are \$502,000 and \$419,000.

17 - TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Units is Computershare Trust Company of Canada at its principal offices in Toronto, Ontario.

18 - MATERIAL CONTRACTS

See "General Development of the Business - Amendments to the Declaration of Trust"; "Description of Capital Structure and Governance Policies" generally in relation to the Declaration of Trust; "Description of Capital Structure and Governance Policies - Unitholders' Rights Plan"; "Description of Capital Structure and Governance Policies - Deferred Unit Plan"; "Description of Capital Structure and Governance Policies - Restricted Unit Rights Plan" and "Description of Capital Structure and Governance Policies - Employee Unit Purchase Plan".

19 - INTEREST OF EXPERTS

CAPREIT's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditors' report dated February 16, 2015 in respect of CAPREIT's consolidated annual financial statements with accompanying notes as at and for the years ended December 31, 2015 and 2014. PricewaterhouseCoopers LLP has advised that they are independent with respect to CAPREIT within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

20 - EXTERNAL AUDITOR FEES

The following chart summarizes the fees for services provided by the auditors to CAPREIT for the fiscal years 2015 and 2014.

Summary of External Audit Fees

Nature of Fees	2015	2014
Audit fees ⁽¹⁾	\$590,228	\$549,553
Audit-related fees ⁽²⁾	\$321,285	30,367
Tax fees ⁽³⁾	\$202,650	240,035
All other fees ⁽⁴⁾	\$-	263,914
Total	\$1,114,163	\$1,083,869

Notes:

- (1) "Audit fees" include fees billed for audit and review services in respect of the annual and quarterly consolidated financial statements and other regulatory filings.
- (2) "Audit-related fees" include fees billed for services related to consultations regarding financial reporting and accounting standards and prospectuses filed during the respective years not included under "Audit fees".
- (3) "Tax fees" include fees billed for tax compliance and tax advisory services, including the review of tax returns and other structuring matters.
- (4) "All other fees" include fees billed for all other services other than those presented in the categories of audit fees, audit-related fees and tax fees, including advisory services for business transformation and other corporate matters.

The Audit Committee considered and agreed that the above fees are compatible with maintaining the independence of CAPREIT's auditors. Further, the Audit Committee determined that, in order to ensure the continued independence of the auditors, only limited non-audit related services will be provided to CAPREIT by CAPREIT's external auditors and in such case, only with the prior approval of the Audit Committee.

21 - ADDITIONAL INFORMATION

Additional information, including trustee and officer remuneration and indebtedness, principal holders of CAPREIT's securities and securities authorized for issuance under equity compensation plans is contained in CAPREIT's information circular for its most recent annual and special meeting of Unitholders and Special Unitholders which involved the election of trustees. Additional information, including CAPREIT's consolidated audited annual financial statements and management's discussion and analysis for the year ended December 31, 2015, may be found on SEDAR at www.sedar.com under CAPREIT's profile. CAPREIT will provide any person, upon request to the Chief Financial Officer of CAPREIT, any of the following documents:

- (a) one copy of the Annual Information Form of CAPREIT, together with one copy of any document, or the pertinent pages of any document, incorporated by reference in the Annual Information Form;
- (b) one copy of the consolidated audited financial statements of CAPREIT for its most recently completed financial year together with the accompanying report of the auditor and one copy of any quarterly consolidated financial statements of CAPREIT subsequent to the consolidated annual audited financial statements for its most recently completed financial year; and
- (c) one copy of the information circular of CAPREIT in respect of its most recent annual meeting of Unitholders and Special Unitholders that involved the election of trustees or one copy of any annual filing prepared in lieu of that information circular, as appropriate.

When the securities of CAPREIT are in the course of a distribution pursuant to a short form prospectus or a preliminary short form prospectus that has been filed by CAPREIT in respect of a distribution of securities, the foregoing documents, in addition to any other documents that are incorporated by reference into the short form prospectus or preliminary short form prospectus, will be provided free of charge. At other times, CAPREIT may require the payment of a reasonable charge if the request is made by a person who is not a securityholder of CAPREIT.

APPENDIX "A"

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF TRUSTEES

SECTION 1 PURPOSE

The Audit Committee (the "**Committee**") is a committee of the Trustees (the "**Trustees**") of Canadian Apartment Real Estate Investment Trust, (the "**Trust**"). The Committee and its Chair are appointed by the Trustees for the purpose of assisting the Trustees in fulfilling their oversight responsibilities. The Committee will primarily fulfill this role by carrying out the activities enumerated in this Charter. The Committee is, however, independent of the Trustees and the Trust, and in carrying out its role of assisting the Trustees in fulfilling their oversight responsibilities the Committee shall have the ability to determine its own agenda and any additional activities that the Committee shall carry out.

SECTION 2 COMPOSITION

The Committee is comprised of not less than three trustees, each of whom is and must at all times be independent and financially literate within the meaning of applicable Canadian securities laws. The members of the Committee, and its Chair, shall be appointed by the Trustees on an annual basis or until their successors are duly appointed. A majority of the members of the Committee must be resident Canadians.

SECTION 3 LIMITATIONS ON COMMITTEE'S DUTIES

In contributing to the Committee's discharge of its duties under this Charter, each member of the Committee shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended or may be construed as imposing on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which the Trustees are subject.

It is not the duty of the Committee to prepare financial statements or ensure their accuracy or absence of errors and omissions, to plan or conduct audits, to determine that the financial statements are complete and accurate and in accordance with Canadian generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations or the Trust's internal policies, procedures and controls, as these are the responsibility of management and in certain cases the external auditor.

Members of the Committee are entitled to rely, absent actual knowledge to the contrary, on (i) the integrity of the persons and organizations from whom they receive information, (ii) the accuracy and completeness of the information provided, (iii) representations made by management as to the non-audit services provided to the Trust by the external auditor, (iv) financial statements of the Trust represented to them by a member of management or in a written report of the external auditors to present fairly the financial position of the Trust in accordance with generally accepted accounting principles, and (v) any report of a lawyer,

accountant, auditor, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

SECTION 4 FUNCTION

The primary function of the Audit Committee is to assist the Board of Trustees in fulfilling their roles as Trustees of the Trust by:

- (a) recommending to the Board the appointment and compensation of the Trust's external auditor;
- (b) overseeing the work of the external auditor, including the resolution of disagreements between the external auditor and management;
- (c) establishing pre-approval processes for all non-audit services (or delegating such pre-approval if and to the extent permitted by law) to be provided to the Trust by the Trust's external auditor;
- (d) reviewing and approving the annual and interim financial statements, related management discussion and analysis ("**MD&A**"), and annual and interim earnings press releases before such information is publicly disclosed to determine whether they are complete and consistent with the information known to the Committee members about the Trust and its operations;
- (e) satisfying themselves that adequate procedures are in place for the review of the Trust's public disclosure of financial information, including any information extracted or derived from its financial statements, and including periodically assessing the adequacy of such procedures;
- (f) establishing procedures for the receipt, retention and treatment of complaints received by the Trust regarding accounting, internal controls or auditing matters, and for the confidential, anonymous submission by employees of the Trust of concerns regarding questionable accounting or auditing matters and including the establishment and review of a whistle blower policy;
- (g) reviewing and approving any proposed hiring of a current or former partner or employee of the current and former external auditor of the Trust;
- (h) reviewing and approving any proposed hiring of, and the annual compensation paid to, the Trust's internal auditor (the "**Internal Auditor**"), as may be recommended to the Audit Committee by management; and
- (i) overseeing the work of the Internal Auditor.

The Audit Committee should primarily fulfill these responsibilities by carrying out the activities enumerated in this Charter. However, it is not the duty of the Committee to prepare

financial statements, or to plan or conduct audits, as these are the responsibility of management and in certain cases the external auditor, as the case may be.

SECTION 5 COMPOSITION OF THE COMMITTEE AND MEETINGS

- (1) The Audit Committee must be constituted as required under National Instrument 52-110 Audit Committees, as it may be amended from time to time (“NI 52-110”).
- (2) All members of the Committee must (except to the extent permitted by NI 52-110) be free from any direct or indirect relationship with the Trust that, in the opinion of the Board, would reasonably interfere with the exercise of his or her independent judgment as a member of the Committee.
- (3) All members of the Committee must (except to the extent permitted by NI 52-110) be financially literate (which is defined as the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Trust’s financial statements).
- (4) The members of the Committee shall be elected by the Board on an annual basis or until their successors shall be duly appointed. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.
- (5) Any member of the Audit Committee may be removed or replaced at any time by the Board of Trustees and shall cease to be a member of the Audit Committee on ceasing to be a Trustee. The Board of Trustees may fill vacancies on the Audit Committee by election from among the Board of Trustees. If and whenever a vacancy shall exist on the Audit Committee, the remaining members may exercise all of its powers so long as a quorum remains.
- (6) The Committee shall meet at least four times annually, or more frequently as circumstances require.
- (7) The Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their duties, members of the Committee shall have full access to all corporate information and any other information deemed appropriate by them, and shall be permitted to discuss such information and any other matters relating to the financial position of the Trust with senior employees, officers and the external auditor of the Trust, and others as they consider appropriate.
- (8) In order to foster open communication, the Committee or its Chair shall meet at least annually with management and the external auditor in separate sessions to discuss any matters that the Committee or each of these groups believes should be discussed

privately. In addition, the Committee or its Chair should meet with management quarterly in connection with the Trust's interim financial statements.

- (9) Quorum for the transaction of business at any meeting of the Committee shall be a majority of the number of members of the Committee or such greater number as the Committee shall determine by resolution.
- (10) Meetings of the Audit Committee shall be held from time to time and at such place as any member of the Committee shall determine upon reasonable notice to each of its members, which shall not be less than 48 hours. The notice period may be waived by all members of the Committee. Each of the Chairman of the Board and the external auditor, and the Chief Executive Officer, the Chief Financial Officer or the Secretary of the Trust, shall be entitled to request that any member of the Committee to call a meeting.
- (11) The Committee shall determine any desired agenda items.

SECTION 6 ACTIVITIES

The Audit Committee shall, in addition to the matters described in Section 1:

- (1) Review and recommend to the Board changes to this Charter as considered appropriate from time to time.
- (2) Regularly update the Board about Committee activities and make appropriate recommendations.
- (3) Review the public disclosure regarding the Audit Committee required by NI 52-110.
- (4) Review and discuss, on an annual basis, with the external auditor all significant relationships they have with the Trust to assess their independence.
- (5) Review the performance of the external auditor and any proposed discharge of the external auditor when circumstances warrant.
- (6) Periodically consult with the external auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the financial statements, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.
- (7) Review, with the Trust's counsel, any legal matters that could have a significant impact on the Trust's financial statements.
- (8) Periodically obtain updates from management, general counsel, others as appropriate regarding compliance.

- (9) Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
- (10) Review correspondence and findings of any examinations by regulatory agencies.
- (11) Arrange for the external auditor to be available to the Committee and the Board of Trustees as needed.
- (12) Review the integrity of the financial reporting processes, both internal and external, in consultation with the external auditor.
- (13) Consider the external auditor's judgments about the quality, transparency and appropriateness, not just the acceptability, of the Trust's accounting principles and financial disclosure practices, as applied in its financial reporting, including the degree of aggressiveness or conservatism of its accounting principles and underlying estimates, and whether those principles are common practices or are minority practices.
- (14) Review all material balance sheet issues paying particular attention to judgemental areas and complex and/or unusual transactions, material contingent obligations (including those associated with material acquisitions or dispositions) and material related party transactions.
- (15) Consider proposed major changes to the Trust's accounting principles and practices.
- (16) Review with management and the external auditor the Trust's accounting policies and any changes that are proposed to be made thereto, including all critical accounting policies and practices used, any alternative treatments of financial information that have been discussed with management, the ramification of their use and the external auditor's preferred treatment and any other material communications with management with respect thereto. Review the disclosure and impact of contingencies and the reasonableness of the provisions, reserves and estimates that may have a material impact on financing reporting.
- (17) If considered appropriate, establish separate systems of reporting to the Committee by each of management and the external auditor.
- (18) Review the scope and plans of the external auditor's audit and reviews. The Committee may authorize the external auditor to perform supplemental reviews or audits as the Committee may deem desirable.
- (19) Following completion of the annual audit and, if applicable, quarterly reviews, review separately with each of management and the external auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews.

- (20) Where there are significant unsettled issues between management and the external auditor that do not affect the audited financial statements, the Committee shall seek to ensure that there is an agreed course of action leading to the resolution of such matters.
- (21) Review the system in place to seek to ensure that the financial statements, MD&A and other financial information disseminated to governmental organizations and the public satisfy applicable requirements.
- (22) Review with the external auditor and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.
- (23) Review activities, organizational structure and qualifications of the Chief Financial Officer and the staff in the financial reporting area and see to it that matters related to succession planning are raised for consideration by the Board of Trustees.
- (24) Review management's program of risk assessment and steps taken to address significant risks or exposures of all types, including insurance coverage and tax compliance.
- (25) Review and approve the Internal Audit Charter.
- (26) Review and approve the annual work plan of the Internal Auditor.
- (27) Receive and review reports from the Internal Auditor regarding the status of the work plan and any control issues, which may arise. At a minimum, quarterly reports shall be provided.
- (28) Arrange for the Internal Auditor to be available to the Committee and the Board of Trustees as needed.
- (29) Evaluate the performance of the Internal Auditor.

SECTION 7 GENERAL MATTERS

- (1) The Committee is authorized to retain independent counsel, accountants, consultants and any other professionals ("Advisors") it deems necessary to carry out its duties, and the Committee shall have the authority to determine the compensation of and to cause the Trust to pay any such Advisors.
- (2) The Committee is authorized to communicate directly with the external (and, if applicable, internal) auditors as it sees fit.
- (3) If considered appropriated by it, the Committee is authorized to conduct or authorize investigations into any matters within the Committee's scope of responsibilities, and to

perform any other activities as the Committee or the Board deems necessary or appropriate.

- (4) Review the public disclosure regarding the Committee required from time to time by applicable Canadian securities laws, including:
 - (i) the Charter of the Committee;
 - (ii) the composition of the Committee;
 - (iii) the relevant education and experience of each member of the Committee;
 - (iv) the external auditor services and fees; and
 - (v) such other matters as the Trust is required to disclose concerning the Committee.
- (5) Review in advance, and approve, the hiring and appointment of the Trust's senior financial executives.
- (6) Perform any other activities as the Committee or the Trustees deems necessary or appropriate.
- (7) Notwithstanding the foregoing and subject to applicable law, the Committee shall not be responsible for preparing financial statements, for planning or conducting internal or external audits or for determining that the Trust's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, as these are the responsibility of management and in certain cases the external auditor, as the case may be. Nothing contained in this Charter is intended to make the Committee liable for any non-compliance by the Trust with applicable laws or regulations.
- (8) The Committee is a committee of the Board of Trustees and is not and shall not be deemed to be an agent of the Trust's unitholders for any purpose whatsoever. The Board of Trustees may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively, and no provision contained herein is intended to give rise to civil liability to securityholders of the Trust or to any other liability whatsoever.
