CAPREIT

FINANCIAL REVIEW
FOR THE THREE MONTHS ENDED
MARCH 31, 2020

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

May 15, 2020

Report to Unitholders

Our first quarter 2020 results were solid and included approximately one month of operations under the COVID-19 pandemic. For the three months ended March 31, 2020 total operating revenues increased 18.8% compared to the same period last year, driven by the contribution from acquisitions completed over the last twelve months combined with stable occupancies and average monthly rents. Occupancies for total portfolio remained very strong at 98.2%, while average monthly rents rose 1.1%. Our NOI margin for the total portfolio increased to 63.9% from 62.6% last year due to the acquisition of higher-margin properties and lower repair and maintenance and utilities costs on stabilized properties. Stabilized property NOI increased by 5.7% for the three months ended March 31, 2020, another period of strong and sustainable organic growth. Overall NOI rose 21.3% compared to the same period last year.

Normalized Funds from Operations (NFFO), the key measure of our performance, increased by 23.9% in the first quarter of 2020 due primarily to the contribution from acquisitions, continuing high stable occupancies and average monthly rents, and our focus on operational efficiency. Our growth was also accretive as basic NFFO per Unit rose 10.7% for the three months ended March 31, 2020 despite the 11.8% increase in the weighted average number of Units outstanding compared to last year. Our NFFO payout ratio improved to a very strong 63.3% in the quarter from 68.5% last year, underpinning the strength and stability of our monthly cash distributions.

Our balance sheet and financial position remained strong and flexible at March 31, 2020 with debt service ratios well within our guidelines and conservative coverage ratios. Our weighted average mortgage interest rate stood at a low 2.74%, and we continue to focus on extending our debt maturities in the current low interest rate environment. Importantly, we have investment properties with a fair value of $968 million that are not encumbered by mortgages, providing further financial flexibility and liquidity should it be needed.

In early March it became apparent that the COVID-19 pandemic would begin to affect Canadians across the country, including our residents and our business. We immediately formed a Crisis Management Team that meets regularly to assess steps we should be taking to meet the challenges created by the pandemic. Our main objectives at this time are to protect the health and safety of our people, our residents, and the communities in which we operate, to mitigate risk to our business caused by the pandemic, to preserve capital, and to operate as best we can during these challenging times.

We are communicating regularly with our residents to ensure they are safe and to update them on various recommendations on dealing with the virus. We are working with them to collect our monthly rents, discussing with them any issues they may have in meeting their obligations. We have had a rent deferral program in place for many years and we are discussing on a case-by-case basis, solutions for those experiencing financial hardship, including making them aware of recently announced government assistance programs. To date our rent deferral program remained at reasonable levels at less than 0.5% of total residents. As of April 30, 2020 we had collected approximately 98% of April rents.

From a liquidity perspective we have taken a number of steps to preserve our strong and flexible financial position. As of April 1, 2020, we have deferred our acquisition, property development, major repair and maintenance and discretionary capital investment programs due to the physical distancing limitations brought upon by the COVID-19 pandemic. Our teams engaged in these activities are now supporting our resident communication and rent collection activities. We are investigating deferring certain overhead costs and maintaining close communication with our lender base.

While we remain uncertain as to how the COVID-19 pandemic will evolve going forward, we believe we have taken the necessary steps to mitigate the current impact of the pandemic on our people, our residents and our business. Looking ahead, we strongly believe our business, and the multi-family real estate sector in general, remains a highly defensive and counter-cyclical asset class that can bear the broad market swings we are experiencing. With the strongest balance sheet and financial position in our twenty-two-year history, we have the resources to weather this storm.

Most importantly, I want to thank our residents for their support and everyone at CAPREIT for their hard work and dedication over the past weeks. These are unprecedented times, and it is the experience and commitment of our people that will guide us through these issues. By working together, we will get through these challenges and emerge stronger than ever before.

Mark Kenney
President and Chief Executive Officer

CAPREIT

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

FOR THE THREE MONTHS ENDED MARCH 31, 2020

MAY 15, 2020

TABLE OF CONTENTS

SECTION I: OVERVIEW AND DISCLAIMER

BASIS OF PRESENTATION

The following Management's Discussion and Analysis ("MD&A") of Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") results of operations and financial condition for the three months ended March 31, 2020, and 2019 is dated May 15, 2020, should be read in conjunction with CAPREIT's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2020 and audited consolidated annual financial statements for the year ended December 31, 2019 contained in CAPREIT's 2019 Annual Report.

FORWARD-LOOKING DISCLAIMER

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, occupancy rates, rental rates, productivity, projected costs, capital investments, development and development opportunities, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to acquisition and capital investment strategies and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including: that the Canadian, Irish, Dutch, German and Belgian economies will generally experience growth, which, however, may be adversely impacted by the global economy and the ongoing health crisis related to the novel coronavirus (COVID-19) pandemic and its direct or indirect impacts on the business of CAPREIT, including the ability to enforce leases, perform capital expenditure work, increase rents and apply for the above guideline increases, and obtain mortgage financings; 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 on renewals will grow at levels similar to the rate of inflation; that rental rates on turnovers will grow; that the difference between in-place and market-based rents will be reduced upon such turnovers and renewals; that CAPREIT will effectively manage price pressures relating to its energy usage; and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions, management believes they are reasonable as of the date hereof; however, there can be no assurance actual results will be consistent with these forward-looking statements, and they may prove to be incorrect. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond CAPREIT's control, that may cause CAPREIT's 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: public health crises, disease outbreaks, reporting investment properties at fair value, real property ownership, investment restrictions, operating risk, energy costs, environmental matters, catastrophic events, insurance, capital investments, indebtedness, taxation-related risks, government regulations, controls over financial reporting, other legal and regulatory risks, the nature of units of CAPREIT ("Trust Units"), unitholder liability, liquidity and price fluctuation of Trust 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, risks related to acquisitions, cyber security risk and foreign operation and currency risks. There can be no assurance that the expectations of CAPREIT's management will prove to be correct. Given the ongoing uncertainty, CAPREIT has suspended the previously disclosed estimates on annual capital expenditures for the year ending December 31, 2020. For a detailed discussion of risk factors, refer to CAPREIT's MD&A contained in CAPREIT's 2019 Annual Report in the Risks and Uncertainties section in Section VI of this MD&A. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

NON-IFRS FINANCIAL MEASURES

CAPREIT prepares and releases unaudited condensed consolidated interim financial statements and audited consolidated annual financial statements in accordance with International Financial Reporting Standards (“IFRS”). In this MD&A, earnings releases and investor conference calls, CAPREIT discloses financial measures not recognized under IFRS which do not have standard meanings prescribed by IFRS. These include stabilized net rental income (“Stabilized NOI”), Funds From Operations (“FFO”), Normalized Funds From Operations (“NFFO”), Adjusted Cash Flow from Operations (“ACFO”), FFO and NFFO per Unit amounts and FFO, NFFO and ACFO payout ratios, and Adjusted Cash Generated from Operating Activities (collectively, the “Non-IFRS Measures”). Since these measures are not recognized under IFRS, they may not be comparable to similar measures reported by other issuers. CAPREIT presents Non-IFRS measures because management believes Non-IFRS measures are relevant measures of the ability of CAPREIT to earn revenue and to evaluate its performance and cash flows. A reconciliation of these Non-IFRS measures to the comparable IFRS measures, along with further definitions and discussion, is provided in Section IV under Non-IFRS Financial Measures. The Non-IFRS measures should not be construed as alternatives to net income or cash flows from operating activities determined in accordance with IFRS as indicators of CAPREIT’s performance or the sustainability of our distributions.

OVERVIEW

CAPREIT is one of Canada’s largest real estate investment trusts. CAPREIT owns approximately 56,800 suites and sites, including townhomes and manufactured housing sites, in Canada and, indirectly through its investment in ERES, approximately 5,600 suites in the Netherlands. CAPREIT manages approximately 60,900 of its owned suites in Canada and the Netherlands, and additionally 3,700 suites in Ireland as at March 31, 2020.

CAPREIT’s concentration on the residential real estate market is aimed at solid year-over-year income growth in a portfolio with stable occupancy. In addition, CAPREIT mitigates risk through demographic diversification by operating properties across the affordable, mid-tier and luxury sectors as well as through geographic diversification.

CAPREIT was established under the laws of the Province of Ontario by a declaration of trust (the "DOT") dated February 3, 1997, as most recently amended and restated on April 1, 2020. As at March 31, 2020, CAPREIT had 1,031 employees (1,026 employees as at December 31, 2019).

OBJECTIVES AND BUSINESS STRATEGY

CAPREIT’s objectives are to:

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

To meet its objectives, CAPREIT has established business strategies focused on: customer service, cost management, capital investments, portfolio growth, and financial management.

For a comprehensive description of CAPREIT's business strategies, refer to CAPREIT's MD&A for the year ended December 31, 2019 contained in CAPREIT's 2019 Annual Report.

ACQUISITIONS, DISPOSITIONS AND BUSINESS COMBINATIONS

Acquisitions and Dispositions

The tables below summarize property acquisitions and dispositions for the three months ended March 31, 2020 and the property acquisitions for the year ended 2019. The below tables do not include $19.0 million (year ended December 31, 2019 - $14.7 million) of CAPREIT's operating lease buyouts.

Acquisitions Completed During the Three Months Ended March 31, 2020

($ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate (1)	Term to Maturity (Years) (2)
February 10, 2020	1,503	Halifax, NS	$ 394,734	$ 108,744	$ —	1.94%	1.14
March 4, 2020	112	Montreal, QC	44,331	— (3)	— (3)	— (3)	— (3)
March 16, 2020	109	Edmonton, Alberta	28,392	— (3)	— (3)	— (3)	— (3)
Total	1,724		$ 467,457	$ 108,744	$ —		
Acquisition financing					$ 69,694 (4)	1.97% (4)	7.17 (4)

(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 cash and cash equivalents invested in short-term investments (see Liquidity and Financial Condition section).

(4) Subsequent acquisition financing of $69.7 million with a weighted average interest rate of 1.97% and a weighted average term to maturity of 7.2 years relates to a property acquired in 2019.

Acquisitions Completed During the Year Ended December 31, 2019

($ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate [1]	Term to Maturity (Years) [2]
February 26, 2019	511	The Netherlands	$ 153,424	$ —	$ 89,586	0.97	4.00
March 14, 2019	1,104	Various [4]	66,866	— [3]	—	— [3]	— [3]
April 15, 2019	191	Langley, BC	70,000	—	44,222	2.90	15.00
May 27, 2019	181	Various [5]	11,317	— [3]	—	— [3]	— [3]
May 28, 2019	3,898	Various [6]	204,955	74,345	—	3.38	2.39
June 7, 2019	72	Victoria, BC	26,558	—	18,368	2.44	10.00
June 20, 2019	98	Langley, BC	39,045	—	22,839	2.92	15.00
July 31, 2019 [7]	506	Toronto, Ontario	63,790	— [3]	—	— [3]	— [3]
August 1, 2019	942	The Netherlands	246,602	—	143,367	1.28	7.00
August 30, 2019	553	London, Ontario	70,301	— [3]	—	— [3]	— [3]
August 30, 2019	42	Charlottetown, PEI	7,430	— [3]	—	— [3]	— [3]
September 30, 2019	315	The Netherlands	95,076	—	77,639	1.45	7.00
October 15, 2019	64	Summerside, PEI	11,844	— [3]	—	— [3]	— [3]
October 31, 2019	294	The Netherlands	98,295	—	58,220	1.55	7.00
November 21, 2019	121	Montreal, QC	33,990	— [3]	—	— [3]	— [3]
December 12, 2019	79	Calgary, AB	19,578	— [3]	—	— [3]	— [3]
December 16, 2019	222	The Netherlands	152,362	— [8]	—	— [8]	— [8]
December 19, 2019	48	New Westminster, BC	13,475	— [3]	—	— [3]	— [3]
Total	9,241		$1,384,908	$ 74,345	$ 454,241		
Acquisition financing					$ 73,719 [9]	3.00% [9]	10.00 [9]

[1] Weighted average stated interest rate on mortgage funding.
[2] Weighted average term to maturity on mortgage funding.
[3] The acquisition was funded from CAPREIT's Acquisition and Operating Facility (see Liquidity and Financial Condition section).
[4] The acquisition comprised 13 properties consisting of 407 sites in Ontario, 615 sites in Alberta, and 82 sites in British Columbia.
[5] The acquisition comprised 3 properties consisting of 56 sites in Ontario and 125 sites in British Columbia.
[6] The acquisition comprised 24 properties consisting of 800 sites in Ontario, 1,050 sites in Alberta, 1,211 sites in New Brunswick, 128 sites in Nova Scotia, 280 sites in Prince Edward Island, and 429 sites in Quebec. The balance of the purchase was funded from CAPREIT's Acquisition and Operating Facility.
[7] In 2015 CAPREIT entered into an agreement to acquire one-third undivided interest in the residential component of a property upon completion. On July 31, 2019, CAPREIT acquired a 19.8% interest in the property, with an additional 5.3% interest acquired on each August 31, 2019 and September 30, 2019, and a final interest of 3% acquired on October 31, 2019. As at December 31, 2019, CAPREIT's interest stood at 33.3%.
[8] The acquisition was primarily funded from the ERES Credit Facility with the balance funded from CAPREIT's Acquisition and Operating Facility.
[9] Subsequent acquisition financing of $73.7 million with a weighted average interest rate of 3.00% and a weighted average term to maturity of 10.0 years relates to a properties acquired in 2018.

Dispositions Completed During the Three Months Ended March 31, 2020

($ Thousands)	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
January 31, 2020 [1]	—	Germany	$ 25,585	$ 15,419	$ 10,166
March 30, 2020	6	Charlottetown, PEI	675	675	—
Total	6		$ 26,260	$ 16,094	$ 10,166

[1] This is a commercial property held by ERES consisting of 58,513 square feet.

Business Combination

The ERES Acquisition

On March 29, 2019, CAPREIT NL Holding B.V. ("Holding BV") completed the reverse acquisition (the "Acquisition") of European Commercial Real Estate Investment Trust ("ECREIT"), and the ongoing entity adopted the name European Residential Real Estate Investment Trust ("ERES"), creating Canada's first Europe-focused multi-residential real estate investment trust ("REIT"). Pursuant to the Acquisition, CAPREIT, the sole shareholder of Holding BV, exchanged all its shares of Holding BV for Class B Limited Partnership units ("Class B LP Units") of ERES Limited Partnership ("ERES LP"). The purchase price for the initial properties of approximately $633.5 million was satisfied with $326.5 million through the issuance of 81.6 million Class B LP Units of ERES LP, a subsidiary of ERES, plus approximately $307.0 million in assumed mortgages. CAPREIT determined that ECREIT meets the definition of a business and the Acquisition has been accounted for as a business combination.

Pipeline Transactions

Pursuant to the terms of the pipeline agreement dated March 29, 2019 (the "Pipeline Agreement"), on May 31, 2019, wholly-owned subsidiaries of CAPREIT sold to ERES 26 properties representing an aggregate of 1,257 residential suites, ancillary commercial space and parking facilities, located in 24 cities and towns across the Netherlands. The sale price of the portfolio was at the original acquisition cost of $350.3 million adjusted for working capital, satisfied through the transfer of $146.5 million in mortgages plus $203.8 million satisfied through the receipt of 50.6 million Class B LP Units of ERES LP.

On June 28, 2019, wholly-owned subsidiaries of CAPREIT sold to ERES 21 properties representing an aggregate of 511 residential suites located in 6 locations across the Netherlands at the original acquisition cost of $145.9 million adjusted for working capital, and earned an underwriting fee of $1.6 million. ERES paid $123.7 million in cash and $23.8 million through the issuance of 8.3 million Class B LP Units of ERES LP.

On September 30, 2019, wholly-owned subsidiaries of CAPREIT sold to ERES 18 properties representing an aggregate of 942 residential suites located in 7 locations across the Netherlands at the original acquisition cost of $246.2 million, and earned an underwriting fee of $2.4 million. ERES paid $243.6 million in cash and $5.0 million through the issuance of 1.1 million Class B LP Units of ERES LP.

As at March 31, 2020, all of the Netherlands properties are held through ERES and their results are consolidated with CAPREIT's results.

Ownership

The Class B LP Units are exchangeable for ERES units on a one-to-one basis. Upon exchange and together with CAPREIT's holding of ERES units, as at March 31, 2020, CAPREIT will own approximately 66.0% (December 31, 2019 - 66.0%) of the issued and outstanding ERES units, with the remaining 34.0% (December 31, 2019 - 34.0%) held by non-controlling unitholders ("ERES units held by non-controlling unitholders").

SECTION II: KEY HIGHLIGHTS

SUMMARY OF Q1 - 2020 RESULTS OF OPERATIONS

Key Transactions

- During the three months ended March 31, 2020, CAPREIT acquired a total of 1,724 suites for a total acquisition costs of $467.5 million. This includes a portfolio of 1,503 suites located in Halifax, Nova Scotia expanding CAPREIT's Halifax portfolio to over 3,100 suites
- In January 2020, CAPREIT completed the buyout of an operating leases for a purchase price of $19.0 million. The operating lease buyout marks the conversion of the third of CAPREIT's operating leases to traditional fee simple ownership interests
- Total dispositions for the three months ended March 31, 2020 included a German commercial property held by ERES and 6 suites for a total of $26.3 million

Strong Operating Results

- Growth in revenue and net operating income ("NOI") from stabilized properties driven by higher monthly rents compared to last year
- On turnovers, monthly residential rents for the three months ended March 31, 2020 increased by 13.5% on 3.3% of the Canadian portfolio, compared to an increase of 14.1% on 3.5% of the Canadian portfolio for the three months ended March 31, 2019
- On renewals, monthly residential rents for the three months ended March 31, 2020 increased by 2.2% on 17.6% of the Canadian portfolio, compared to an increase of 2.4% on 17.3% of the Canadian portfolio for the three months ended March 31, 2019
- Net Average Monthly Rent ("Net AMR") for the stabilized portfolio as at March 31, 2020 increased by 4.9% compared to March 31, 2019, while occupancies remained stable at 98.6%
- Net AMR increased due to the strong rents on turnovers in Ontario, Nova Scotia, British Columbia and the Netherlands and above guideline increases in Ontario
- Year-over-year NOI increased by 5.7% for the stabilized portfolio for the three months ended March 31, 2020, compared to a year-over-year NOI increase of 6.3% for the stabilized portfolio for the three months ended March 31, 2019
- NOI for the total portfolio increased by 21.3% for the three months ended March 31, 2020 compared to last year, primarily due to contributions from acquisitions and increased same property monthly rents
- NOI margin for the total portfolio increased to 63.9% for the three months ended March 31, 2020 from 62.6% for the three months ended March 31, 2019 due to acquisitions of high margin properties and decreases in R&M and utilities expenses

Delivering Unitholder Value

- NFFO was up 23.9% for the three months ended March 31, 2020 compared to March 31, 2019
- NFFO per Unit was up 10.7% for the three months ended March 31, 2020 despite an increase of 11.8% weighted average number of Units outstanding

Strong and Flexible Balance Sheet

- CAPREIT's financial position remains strong, with $182.3 million of cash and cash equivalents and $99.2 million of available liquidity on CAPREIT's Credit Facilities
- Management expects to raise between $580 million and $630 million in total mortgage renewals and refinancings for 2020 including operating leases purchased to date and excluding financings on acquisitions
- Debt to gross book value ("GBV") increased to 36.14% as at March 31, 2020 from 34.99% as at December 31, 2019, due to acquisitions and debt refinancings
- Debt Service Coverage ("DSC") ratio improved to 1.97 as at March 31, 2020 compared to 1.87 as at December 31, 2019

- For the three months ended March 31, 2020, the fair value of investment properties increased by $612.5 million, primarily as a result of (i) new acquisitions and (ii) foreign exchange gains on the Dutch properties
- Closed mortgage refinancing of $57.9 million for the three months ended March 31, 2020, with top-up of $34.2 million, a weighted average term to maturity of 10.0 years and a weighted average interest rate of 2.23%
- CAPREIT's mortgage weighted average term to maturity and the weighted average interest rate as at March 31, 2020 are 4.9 years and 2.74%, respectively. CAPREIT continues to fix long-term mortgages to defend against the risk of rising interest rates

KEY PERFORMANCE INDICATORS

To assist management and investors in monitoring and evaluating CAPREIT's achievement of its objectives, CAPREIT has defined a number of key operating and performance indicators ("KPIs") to measure the success of its operating and financial strategies, subject to risks discussed in "The COVID-19 pandemic" section:

Occupancy – Through a focused, hands-on approach, CAPREIT strives to achieve occupancies at or greater than market conditions in each of the geographic regions where it operates. Management believes annual occupancies can be maintained between 97% to 99% over the long term, and same property Net AMR will continue to gradually increase; thus, providing the basis for sustainable year-over-year increases in revenue.

Net AMR (previously defined as "AMR") – Through its active property management strategies, lease administration system and proactive capital investment programs, CAPREIT strives to achieve the highest possible Net AMR in accordance with local market conditions.

Net Operating Income ("NOI") – NOI is a widely used operating performance indicator in the real estate industry, and is presented in the consolidated statements of income and comprehensive income as net rental income. Management has chosen to refer to net rental income as NOI in all instances in its MD&A. As a measure of its operating performance, CAPREIT currently expects to achieve an annual NOI margin in the range of 62% to 66% of operating revenues over the long term.

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

Payout Ratio – CAPREIT anticipates a long-term annual NFFO payout ratio of between 65% and 75%. This ratio is not meant to be a measure of the sustainability of CAPREIT's distributions. Although CAPREIT intends to continue to sustain and grow distributions, the actual amount of distributions in respect of the CAPREIT Units will depend upon numerous factors including, but not limited to, the amount of debt refinancings, tenant inducements, capital expenditures and other factors that may be beyond the control of CAPREIT.

Portfolio Growth – Management's objective is to pursue acquisitions and development opportunities to accretively increase NFFO and continue to further diversify the portfolio by geography and demographic sector. In addition, management investigates opportunities to add new suites and sites and to enter into joint venture relationships, which could potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT.

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

THE COVID-19 PANDEMIC

The COVID-19 pandemic has given rise to uncertainty throughout the global economy, which may have various direct or indirect impacts on the global real estate market. CAPREIT continues to monitor this evolving situation with a focus on protecting the health and safety of its employees and its tenants and implementing appropriate cautionary measures to address potential risks to its business. CAPREIT has implemented a number of support measures to help ease the burden on its various tenants impacted by the pandemic, including generally a moratorium on evictions and freeze on rental increases. CAPREIT is also reviewing and implementing flexible temporary payment plans on a case-by-case basis.

The long-term impacts of the COVID-19 pandemic on financial forecasts including the KPIs discussed above are subject to a degree of uncertainty and remain subject to further review and consideration given the uncertainty associated with the full impact of the COVID-19 pandemic.

CAPREIT's financial position and liquidity remain strong, providing it with the financial resources and flexibility to manage its way through these challenging times. CAPREIT did not see the impact of the COVID-19 pandemic on its operational results for the three months ended March 31, 2020, however, this quarter may not be an indicator of CAPREIT's future performances.

Rent Collection

The April 2020 rent collections were 98% for the combined residential portfolio and the MHC portfolio, which were generally in line with the March 2020 rent collections. CAPREIT is closely monitoring its tenant receivables, and residents approved for the rent deferral program are well below 0.5% of total residents.

Update on Rental Revenue

As a result of the COVID-19 pandemic, CAPREIT has temporarily suspended the issuance of any further rental increases during this period of crisis, commencing with the April 2020 rental payments.

Due to the current economic uncertainty, there is a greater risk that CAPREIT's estimated net rental revenue run-rate may vary from actual rental revenue, and that such variation may be significant.

There is expected to be delays in the settlement of above guideline increases ("AGI") applications, and when settled, these increases also will be suspended during this period of crisis.

The real estate market has been affected by various measures that the federal and provincial governments have taken with regard to the prevention of further spread of the COVID-19 virus and to help individuals and businesses affected by the crisis. Some of the legislative initiatives announced include:

- Alberta and British Columbia both announced rent increase freezes during the state of emergency.
- In each of the Canadian provinces where CAPREIT holds properties, an eviction freeze order is in place, which limits new evictions and suspends existing evictions.
- Tribunal hearings are rescheduled, suspended or stopped in most provinces while the health emergency continues.
- British Columbia and Prince Edward Island announced they are providing temporary rental assistance to tenants, ranging from $250-$500 per month.
- The federal government, in partnership with provincial governments, has announced the Canada Emergency Commercial Rent Assistance (CECRA) program to provide relief for small businesses impacted by the COVID-19 pandemic.

The above list is not exhaustive and reflects only certain legislation enacted by government. As the situation continues to evolve, the legislation enacted by government may be subject to change.

Valuation

Due to the COVID-19 pandemic and the ongoing impact on the economy, and specifically its unknown future impact on the real estate market, there is a heightened uncertainty surrounding the valuation of the investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie CAPREIT's valuation methodologies. In addition, less weight can be ascribed to previous market evidence, for comparative purposes, to inform opinions of value. Given this impact on the availability of reliable market metrics, greater caution must therefore be attached to the valuations than would normally be the case, as the fair values are subject to change and such changes may be significant.

There was no change in fair value for the Canadian portfolio resulting from changes on cap rates and normalized NOI recorded in the first quarter of 2020, except for Alberta. No changes to capitalization rates were made, given the lack of reliable market data. Prior to the onset of the COVID-19 pandemic, management estimated an increase in normalized NOI resulting from turnovers and renewals. However, an increase in NOI is tempered by risk of reduction in rental growth and higher expected credit losses. As such, management did not adjust its normalized NOI.

Management performed a series of scenario analyses to assess the impact of the COVID-19 pandemic on the fair value of investment properties. Specifically, in these scenarios, management considered the prolonged pandemic-related economic risks which would negatively impact property cash flows in the short term, and in turn their valuations. A discounted cash flow model was considered the most appropriate methodology to be used in these scenarios to forecast lower cash flows in the short term versus the long term. The key cash flow assumptions for these scenarios include a reduction in revenues due to no rental increases applied on renewals and turnovers and a significant increase in vacancy and expected credit loss over the shorter term. CAPREIT noted that even in more stressed scenarios the impact on the fair values of the investment properties on a total portfolio basis was not significant.

Capital expenditures

Capital investments may be impacted by factors such as a lack access to tenant suites and physical distancing restrictions. CAPREIT expects the impact to be short-term and will normalize over the long-term. As at March 31, 2020, CAPREIT has limited capital investments to those required on an emergency basis or to protect the safety of the residents.

The COVID-19 pandemic may result in delays in the development application processing by the municipalities. Given the evolving situation, we will continue to assess and revise, if necessary, the number of applications to be submitted this year.

Liquidity

Management has determined that CAPREIT is in a strong financial position despite the changes in the market and the heightened risk environment. CAPREIT’s liquidity position as at March 31, 2020 remains strong at $99.2 million available on the Acquisition and Operating Facility, and has $182.3 million of cash and cash equivalents. As at March 31, 2020, CAPREIT has investment properties with a fair value of approximately $967.6 million that are not encumbered by mortgages. Management expects to raise between $580 million and $630 million in total mortgage renewals and refinancings for 2020 including operating leases purchased to date, excluding financings on acquisitions. CAPREIT's mortgage program has remained stable since the COVID-19 pandemic with refinancings proceeding as scheduled with favorable interest rates for a 10 year term. The actual refinancings amounts may vary from the forecast due to the evolving situation.

PERFORMANCE MEASURES

The following table presents an overview of certain IFRS and non-IFRS financial measures of CAPREIT for the periods ended March 31, 2020 and 2019. Management believes these measures are useful in assessing CAPREIT's performance in relation to its objectives and business strategy.

For the Three Months Ended March 31,		2020		2019[4]
Portfolio Performance				
Overall portfolio occupancy [1]		**98.2%**		98.7%
Overall portfolio net Average Monthly Rents [1]	**$**	**1,105**	$	1,093
Operating revenues (000s)	**$**	**216,060**	$	181,896
NOI (000s)	**$**	**138,058**	$	113,835
NOI margin		**63.9%**		62.6%
Financial Performance				
FFO per Unit – basic [2]	**$**	**0.544**	$	0.485
NFFO per Unit – basic [2]	**$**	**0.547**	$	0.494
Cash distributions per Unit	**$**	**0.345**	$	0.337
FFO payout ratio [2]		**63.7%**		69.8%
NFFO payout ratio [2]		**63.3%**		68.5%
Liquidity and Leverage				
Total debt to gross book value [1]		**36.14%**		37.67%
Total debt to gross historical cost [1]		**49.22%**		51.63%
Weighted average mortgage interest rate [1]		**2.74%**		3.02%
Weighted average mortgage term (years) [1]		**4.92**		4.97
Debt service coverage (times) [3]		**1.97**		1.75
Interest coverage (times) [3]		**3.86**		3.46
Available liquidity – Acquisition and Operating Facility (000s) [1]	**$**	**99,192**	$	141,619
Available cash and cash equivalents (000s) [1]	**$**	**182,256**	$	44,397

[1] As at March 31.
[2] These measures are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see Section I - Non-IFRS Financial Measures). For a reconciliation to IFRS, see Section IV - Non-IFRS Financial Measures.
[3] Based on the trailing four quarters.
[4] 2019 comparative balances have been adjusted to conform with current period presentation.

For the Three Months Ended March 31,		2020		2019
Other Measures				
Weighted average number of Units - basic (000s)		**170,206**		152,212
Number of residential suites and sites acquired		**1,724**		1,615
Number of suites disposed		**6**		—
Closing price of Trust Units [1]	**$**	**42.59**	$	51.37
Market capitalization (millions) [1]	**$**	**7,258**	$	7,874

[1] As at March 31.

SECTION III: OPERATIONAL AND FINANCIAL RESULTS

NET AND OCCUPIED AVERAGE MONTHLY RENTS AND OCCUPANCY

Net AMR is defined as actual residential rents, excluding vacant units, divided by the total number of suites or sites in the property, and does not include revenues from parking, laundry or other sources. Occupied AMR is defined as actual residential rents, excluding vacant units, divided by the total number of occupied suites or sites in the property, and does not include revenues from parking, laundry or other sources. Stabilized AMR includes all properties held as at March 31, 2019 and are not disposed of.

Total Portfolio: Net AMR, Occupied AMR and Occupancy by Geography

	Net AMR			Occupied AMR			Occupancy %	
As at March 31,	**2020 AMR ($)**	**2019 AMR ($)**	**% Change AMR**	**2020 AMR ($)**	**2019 AMR ($)**	**% Change AMR**	**2020**	**2019**
Residential Suites								
Ontario								
Greater Toronto Area	**1,465**	1,395	5.0	**1,480**	1,403	5.5	**99.0**	99.4
Ottawa	**1,343**	1,271	5.7	**1,344**	1,273	5.6	**99.9**	99.9
London / Kitchener / Waterloo	**1,033**	1,009	2.4	**1,047**	1,022	2.4	**98.7**	98.7
Other Ontario	**1,367**	1,302	5.0	**1,375**	1,308	5.1	**99.4**	99.5
	1,389	1,334	4.1	**1,403**	1,342	4.5	**99.0**	99.4
Québec								
Greater Montréal Region	**996**	946	5.3	**1,003**	953	5.2	**99.3**	99.3
Québec City	**1,080**	1,056	2.3	**1,094**	1,068	2.4	**98.7**	98.8
	1,017	974	4.4	**1,025**	982	4.4	**99.2**	99.2
British Columbia								
Greater Vancouver Region	**1,452**	1,355	7.2	**1,469**	1,372	7.1	**98.9**	98.8
Victoria	**1,316**	1,230	7.0	**1,325**	1,235	7.3	**99.4**	99.5
	1,411	1,316	7.2	**1,425**	1,329	7.2	**99.0**	99.0
Alberta								
Edmonton	**1,152**	1,154	(0.2)	**1,274**	1,189	7.1	**90.4**	97.0
Calgary	**1,091**	1,080	1.0	**1,130**	1,099	2.8	**96.5**	98.3
	1,104	1,094	0.9	**1,160**	1,115	4.0	**95.2**	98.1
Nova Scotia								
Halifax	**1,196**	1,132	5.7	**1,217**	1,150	5.8	**98.3**	98.4
Saskatchewan								
Regina	**1,007**	1,013	(0.6)	**1,057**	1,073	(1.5)	**95.3**	94.4
Prince Edward Island								
Charlottetown	**1,083**	1,044	3.7	**1,100**	1,050	4.8	**98.4**	99.4
Europe								
The Netherlands [(1), (2)]	**1,335**	1,205	10.8	**1,358**	1,231	10.3	**98.4**	97.9
Total Residential Suites	**1,275**	1,214	5.0	**1,292**	1,226	5.4	**98.7**	99.1
MHC Sites								
Ontario	**491**	513	(4.3)	**492**	514	(4.3)	**99.9**	99.9
Québec	**261**	—	100.0	**261**	—	100.0	**100.0**	—
British Columbia	**479**	462	3.7	**481**	463	3.9	**99.6**	99.7
Alberta	**454**	426	6.6	**495**	479	3.3	**91.6**	89.0
Nova Scotia	**252**	—	100.0	**254**	—	100.0	**99.2**	—
Saskatchewan	**435**	410	6.1	**436**	411	6.1	**99.7**	99.7
Prince Edward Island	**166**	151	9.9	**166**	152	9.2	**100.0**	99.8
New Brunswick	**276**	271	1.8	**303**	290	4.5	**91.2**	93.6
Total MHC sites	**386**	397	(2.8)	**403**	412	(2.2)	**95.8**	96.5
Total suites and sites	**1,105**	1,093	1.1	**1,125**	1,108	1.5	**98.2**	98.7

(1) Includes foreign exchange impact and service charge income. The amounts in Euros for the total portfolio for Net AMR are €857 and €803 as at March 31, 2020 and March 31, 2019, respectively, and for Occupied AMR are €871 and €821 as at March 31, 2020 and March 31, 2019, respectively.

(2) Includes all residential properties owned by ERES.

Stabilized Portfolio: Net AMR, Occupied AMR and Occupancy by Geography

	Net AMR			**Occupied AMR**			**Occupancy %**	
As at March 31,	**2020 AMR ($)**	**2019 [1] AMR ($)**	**% Change AMR**	**2020 AMR ($)**	**2019 [1] AMR ($)**	**% Change AMR**	**2020**	**2019**
Residential Suites								
Ontario								
Greater Toronto Area	**1,466**	1,395	5.1	**1,474**	1,403	5.1	**99.5**	99.4
Ottawa	**1,343**	1,271	5.7	**1,344**	1,273	5.6	**99.9**	99.9
London / Kitchener / Waterloo	**1,062**	1,009	5.3	**1,077**	1,022	5.4	**98.6**	98.7
Other Ontario	**1,367**	1,302	5.0	**1,375**	1,308	5.1	**99.4**	99.5
	1,402	1,334	5.1	**1,410**	1,342	5.1	**99.4**	99.4
Québec								
Greater Montréal Region	**981**	946	3.7	**987**	953	3.6	**99.4**	99.3
Québec City	**1,080**	1,056	2.3	**1,094**	1,068	2.4	**98.7**	98.8
	1,006	974	3.3	**1,013**	982	3.2	**99.3**	99.2
British Columbia								
Greater Vancouver Region	**1,421**	1,355	4.9	**1,436**	1,372	4.7	**98.9**	98.8
Victoria	**1,294**	1,230	5.2	**1,303**	1,235	5.5	**99.3**	99.5
	1,381	1,316	4.9	**1,394**	1,329	4.9	**99.1**	99.0
Alberta								
Edmonton	**1,171**	1,154	1.5	**1,215**	1,189	2.2	**96.3**	97.0
Calgary	**1,080**	1,080	0.0	**1,120**	1,099	1.9	**96.4**	98.3
	1,097	1,094	0.3	**1,138**	1,115	2.1	**96.4**	98.1
Nova Scotia								
Halifax	**1,196**	1,132	5.7	**1,218**	1,150	5.9	**98.2**	98.4
Saskatchewan								
Regina	**1,007**	1,013	(0.6)	**1,057**	1,073	(1.5)	**95.3**	94.4
Prince Edward Island								
Charlottetown	**1,061**	1,047	1.3	**1,067**	1,053	1.3	**99.4**	99.4
Europe								
The Netherlands [2], [3]	**1,315**	1,205	9.1	**1,333**	1,231	8.3	**98.4**	97.9
Total Residential Suites	**1,273**	1,214	4.9	**1,285**	1,226	4.8	**99.1**	99.1
MHC Sites								
Ontario	**526**	513	2.5	**527**	514	2.5	**99.9**	99.9
British Columbia	**474**	462	2.6	**477**	463	3.0	**99.5**	99.7
Alberta	**430**	426	0.9	**492**	479	2.7	**87.3**	89.0
Saskatchewan	**435**	410	6.1	**436**	411	6.1	**99.7**	99.7
Prince Edward Island	**157**	151	4.0	**157**	152	3.3	**100.0**	99.8
New Brunswick	**286**	271	5.5	**310**	290	6.9	**92.4**	93.6
Total MHC sites	**412**	397	3.8	**429**	412	4.1	**95.9**	96.5
Total suites and sites	**1,147**	1,093	4.9	**1,163**	1,108	5.0	**98.6**	98.7

(1) Prior year comparable Net and Occupied AMR and occupancy has been restated for properties disposed of since March 31, 2019.

(2) Includes foreign exchange impact and service charge income. The amounts in Euros for the stabilized portfolio for Net AMR are €844 and €803 as at March 31, 2020 and March 31, 2019, respectively, resulting in a Net AMR change of 5.1%. The Occupied AMR for the stabilized portfolio is €855 and €821 as at March 31, 2020 and March 31, 2019, respectively, resulting in an Occupied AMR change of 4.1%.

(3) Includes all residential properties owned by ERES.

Overall Net AMR for the stabilized residential suite portfolio as at March 31, 2020 increased by approximately 4.9% (including the Netherlands) and 4.4% (excluding the Netherlands) compared to the same period last year, while occupancies remained consistent at 99.1%.

The rate of growth in stabilized Net AMR has been primarily due to (i) significant rental increases on turnover in the strong rental markets of Ontario, Nova Scotia, British Columbia and the Netherlands and strong contributions from certain regions and (ii) increases due to AGI achieved in Ontario.

Annual Rental Guidelines as per Rental Board

The chart below presents the annual rental guideline increases in provinces under rent control legislation which impacts lease renewals.

	2020	2019
Ontario	**2.2%**	**1.8%**
British Columbia [(1)]	**2.6%**	**2.5%**

[(1)] On March 25, 2020, British Columbia announced a freeze on rent increases, as further discussed in Section II under COVID-19 Pandemic.

Suite Turnovers and Lease Renewals - Total Portfolio

The tables below summarize the changes in the monthly rent due to suite turnovers and lease renewals compared to the prior year.

Canadian Portfolio

For the Three Months Ended March 31,	2020			2019		
	Change in monthly rent		Turnovers and Renewals [(1)]	Change in monthly rent		Turnovers and Renewals [(1)]
	$	%	%	$	%	%
Suite turnovers	**177.3**	**13.5**	**3.3**	171.9	14.1	3.5
Lease renewals	**28.0**	**2.2**	**17.6**	26.1	2.4	17.3
Weighted average of turnovers and renewals	**51.6**	**4.0**		50.4	4.4	

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

The Netherlands Portfolio [(1)]

For the Three Months Ended March 31,	2020			2019		
	Change in monthly rent		Turnovers and Renewals [(2)]	Change in monthly rent		Turnovers and Renewals [(2)]
	€	%	%	€	%	%
Suite turnovers	**65.4**	**7.5**	**4.1**	67.6	8.3	2.6
Lease renewals	**—**	**—**	**—**	—	—	—
Weighted average of turnovers and renewals	**65.4**	**7.5**		67.6	8.3	

(1) Includes all residential properties owned by ERES.

(2) Percentage of suites turned over or renewed during the period based on the total weighted number of Dutch residential suites held during the period.

Overall, suite turnovers in the Canadian residential suite portfolio (excluding co-ownerships) during the three months ended March 31, 2020 resulted in monthly rent increasing by approximately $177 or 13.5% compared to an increase of approximately $172 or 14.1% for for the same period last year, primarily due to the strong rental markets of Ontario, Nova Scotia and British Columbia.

Monthly rents on lease renewals on the Canadian residential portfolio (excluding co-ownerships) for the three months ended March 31, 2020 resulted in monthly rent increasing by approximately $28 or 2.2% compared to an increase of approximately $26 or 2.4% for for the same period last year.

For the Netherlands portfolio, suite turnovers in the residential suite portfolio during the three months ended March 31, 2020 resulted in monthly rent increasing by approximately €65 or 7.5% compared to an increase of approximately €68 or 8.3% for the same period last year. As the Netherlands lease renewals occur once a year in July, there were no renewal increases for the three months ended March 31, 2020 and 2019. The tenant notices for rent renewal increases beginning on July 1, 2020 have been served to 95% of the Dutch residential suites with a weighted average rental increase of 2.4%.

Above Guideline Increases

Management continues to pursue applications in Ontario for AGIs where it believes increases above the annual guideline are supported by market conditions to raise monthly rents on lease renewals. The maximum allowable annual increase is up to 3% above the annual rental guideline, with the exception of applications based on an increase in the cost of municipal taxes and charges.

The following table summarizes the status of cumulative AGI applications settled and outstanding:

	January 1, 2020 - March 31, 2020	January 1, 2019 - December 31, 2019
Applications Settled:		
Number of suites and sites	**256**	1,565
Weighted average total increase approved [(1), (2)]	**2.62%**	1.70%
Weighted average total increase applied for [(1), (3)]	**2.96%**	2.27%
Applications Outstanding:		
Number of suites and sites	**6,657**	4,409
Term weighted average total increase applied for [(1), (4)]	**1.79%**	1.89%

(1) Weighted by number of impacted suites and sites filed.

(2) For applications settled during the three months ended March 31, 2020, the weighted average total increase approved is to apply over a weighted average of 2.91 years (2.10 years for the year ended December 31, 2019).

(3) For applications settled during the three months ended March 31, 2020, the weighted average total increase applied for was to apply over a weighted average of 2.91 years (1.78 years for the year ended December 31, 2019).

(4) For applications outstanding as at March 31, 2020, the weighted average total increase applied for was to apply over a weighted average of 1.26 years (1.28 years as at the year ended December 31, 2019).

Tenant Inducements, Vacancy Loss and Expected Credit Loss Expense

The table below shows the new tenant inducements incurred during the period ended March 31, 2020 and 2019 as well as the amortization of tenant inducements and loss from vacancies included in net rental revenue for the same years and additional expected credit loss/bad debt ("ECL") allowance included in other operating expenses.

($ Thousands)

For the Three Months Ended March 31,		**2020**	% [1]		**2019**	% [1]
New tenant inducements incurred - residential	**$**	**168**		$	161	
New tenant inducements incurred - commercial		**—**			—	
Total new tenant inducements incurred	**$**	**168**		$	161	
Tenant inducements amortized	**$**	**370**	**0.2**	$	408	0.2
Vacancy loss incurred		**4,398**	**2.0**		2,827	1.6
Total amortization and loss	**$**	**4,768**	**2.2**	$	3,235	1.8
Additional ECL allowance recognized as an expense	**$**	**696**	**0.3**	$	385	0.2

[1] As a percentage of total operating revenues.

RESULTS OF OPERATIONS

Total Operating Revenues by Geography

For the Three Months Ended March 31,		2020			2019[3]	
($ Thousands)			Revenue (%)			Revenue (%)
Residential Suites						
Ontario						
Greater Toronto Area	**$**	**72,372**	**33.5**	$	68,454	37.6
Ottawa		**6,775**	**3.1**		6,404	3.5
London / Kitchener / Waterloo		**9,461**	**4.4**		7,536	4.2
Other Ontario		**7,702**	**3.6**		7,252	4.0
	$	**96,310**	**44.6**	$	89,646	49.3
Québec						
Greater Montréal Region	**$**	**26,040**	**12.0**	$	24,183	13.3
Québec City		**9,077**	**4.2**		8,803	4.8
	$	**35,117**	**16.2**	$	32,986	18.1
British Columbia						
Greater Vancouver Region	**$**	**16,615**	**7.7**	$	14,152	7.8
Victoria		**6,616**	**3.0**		5,896	3.2
	$	**23,231**	**10.7**	$	20,048	11.0
Alberta						
Edmonton	**$**	**1,841**	**0.9**	$	1,765	1.0
Calgary		**7,673**	**3.5**		7,253	4.0
	$	**9,514**	**4.4**	$	9,018	5.0
Nova Scotia						
Halifax	**$**	**9,623**	**4.5**	$	5,954	3.3
Saskatchewan						
Regina	**$**	**723**	**0.3**		723	0.4
Prince Edward Island						
Charlottetown	**$**	**2,107**	**1.0**	$	1,692	0.9
Europe						
The Netherlands [1]	**$**	**22,371**	**10.4**	$	13,331	7.3
Other Europe [2]		**3,048**	**1.4**		—	—
	$	**25,419**	**11.8**	$	13,331	7.3
Total residential suites	**$**	**202,044**	**93.5**	$	173,398	95.3
MHC Sites						
Ontario	**$**	**5,913**	**2.8**	$	4,516	2.5
Québec		**336**	**0.2**		—	—
British Columbia		**819**	**0.4**		490	0.3
Alberta		**2,894**	**1.3**		744	0.4
Nova Scotia		**96**	**—**		—	—
Saskatchewan		**492**	**0.2**		468	0.3
Prince Edward Island		**385**	**0.2**		229	0.1
New Brunswick		**3,081**	**1.4**		2,051	1.1
Total MHC sites	**$**	**14,016**	**6.5**	$	8,498	4.7
Total residential suites and MHC sites	**$**	**216,060**	**100.0**	$	181,896	100.0

(1) In € thousands, €15,001 and €8,815 for three months ended March 31, 2020 and March 31, 2019, respectively.

(2) Comprised of ERES's revenues for two commercial properties located in Germany and one in Belgium. In € thousands, €2,059 for the three months ended March 31, 2020.

(3) 2019 comparative balances have been adjusted to conform with current period presentation.

Estimated Net Rental Revenue Run-Rate

The table below shows the estimated net rental revenue run-rate (net of average historical vacancy loss, tenant inducements and bad debt) based on Net AMRs in place for CAPREIT's share of residential suites and sites and commercial leases as at March 31, 2020 and 2019.

($ Thousands) As at March 31,	2020	2019[(3)]
Residential rent roll [(1), (2)]	806,382	$ 680,131
Commercial rent roll [(1), (2)]	43,378	33,089
Annualized net rental revenue run-rate	849,760	$ 713,220

[(1)] Based on rent roll as at March 31, net of vacancy loss, tenant inducements and bad debt for the 12 months ended on such date.
[(2)] Includes rent roll for all properties owned as at March 31.
[(3)] 2019 comparative balances have been adjusted to conform with current period presentation.

The estimated annualized net rental revenue run-rate improved by 19.1% to $849.8 million compared to $713.2 million primarily as a result of the extensive MHC portfolio growth and acquisitions in the Netherlands and Halifax. Net rental revenue net of dispositions for the 12 months ended March 31, 2020 was $779.2 million (2019 - $660.4 million).

NOI

Stabilized properties for the three months ended March 31, 2020 are defined as all properties owned by CAPREIT continuously since December 31, 2018, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2020 and 2019. As at March 31, 2020, stabilized suites and sites represented 80.6% of CAPREIT's total portfolio excluding co-ownerships.

($ Thousands)	Total NOI			Stabilized NOI		
For the Three Months Ended March 31,	**2020**	**2019[(4)]**	**% [(1)]**	**2020**	**2019[(4)]**	**% [(1)]**
Operating Revenues						
Net rental revenues	$ 204,615	$ 172,141	18.9	$ 178,443	$ 171,162	4.3
Other [(2)]	11,445	9,755	17.3	10,200	9,742	4.7
Total operating revenues	$ 216,060	$ 181,896	18.8	$ 188,643	$ 180,904	4.3
Operating Expenses						
Realty taxes	(19,868)	(17,901)	11.0	(18,105)	(17,859)	1.4
Utilities	(18,743)	(18,024)	4.0	(16,965)	(17,997)	(5.7)
Other [(3)]	(39,391)	(32,136)	22.6	(34,103)	(32,071)	6.3
Total operating expenses	$ (78,002)	$ (68,061)	14.6	$ (69,173)	$ (67,927)	1.8
NOI	$ 138,058	$ 113,835	21.3	$ 119,470	$ 112,977	5.7
NOI margin	63.9%	62.6%		63.3%	62.5%	

[(1)] Represents the year-over-year percentage change.
[(2)] Comprises ancillary income such as parking, laundry and antenna revenue.
[(3)] Comprises R&M, wages, general and administrative, insurance, advertising and legal costs.
[(4)] 2019 comparative balances have been adjusted to conform with current period presentation.

Operating Revenues

For the three months ended March 31, 2020, total operating revenues for the total and stabilized portfolio increased compared to the same period last year, due to increases in monthly rents and continuing high occupancies. Contributions from acquisitions further contributed to higher operating revenues for the total portfolio.

Operating Expenses

Realty Taxes

For the three months ended March 31, 2020, the stabilized portfolio's realty tax increased compared to the same period last year, primarily because of increased property assessment values in Alberta, British Columbia and Ontario.

Utilities

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

($ Thousands)	Total Utilities			Stabilized Utilities		
For the Three Months Ended March 31,	**2020**	**2019**	**% [1]**	**2020**	**2019**	**% [1]**
Electricity	**$ 6,852**	$ 6,874	(0.3)	**$ 6,137**	$ 6,866	(10.6)
Natural gas	**5,887**	$ 6,220	(5.4)	**5,462**	$ 6,222	(12.2)
Water	**6,004**	4,930	21.8	**5,366**	4,909	9.3
Total	**$ 18,743**	$ 18,024	4.0	**$ 16,965**	$ 17,997	(5.7)

[1] Represents the year-over-year percentage change.

As at March 31, 2020, tenants who pay their hydro charges directly represented 71% of the total 17,681 sub-metered suites in Ontario, Alberta and Halifax. For the stabilized portfolio, natural gas costs decreased for the three months ended March 31, 2020, compared to the same period last year primarily due to reduced consumption in Ontario and Québec as a result of warmer weather, leading to less usage of electricity heated properties.

For the stabilized portfolio, natural gas costs decreased for the three months ended March 31, 2020, compared to the same period last year primarily due to reduced consumption in British Columbia and Québec as a result of warmer weather, partially offset by the carbon tax impact in British Columbia.

Water costs for the stabilized portfolio increased for the three months ended March 31, 2020 compared to the same period last year due to increased water rates in 2020.

A summary of CAPREIT's fixed natural gas contracts can be found in note 26 to CAPREIT's condensed consolidated interim financial statements for the three months ended March 31, 2020.

Other Operating Expenses

The stabilized operating expenses for the three months ended March 31, 2020 increased compared to the same period last year primarily due to higher wages, rising insurance costs driven by higher replacement cost valuations, and overall increases in insurance rates.

NOI Margin

For the three months ended March 31, 2020, the NOI margin on the total portfolio increased to 63.9% compared to 62.6% for the same period last year.

NOI BY REGION

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

The following tables show each region's NOI and NOI margin for the periods ended March 31, 2020 and 2019:

For the Three Months Ended March 31,	**2020**			**2019[4]**			**Increase (Decrease)**
($ Thousands)	**NOI**	**NOI %[1]**	**NOI Margin (%)**	**NOI**	**NOI %[1]**	**NOI Margin (%)**	**NOI Change (%)**
Residential Suites							
Ontario							
Greater Toronto Area	**$ 46,482**	**33.8**	**64.2**	$ 43,510	38.2	63.6	**6.8**
Ottawa	**4,325**	**3.1**	**63.8**	4,012	3.5	62.6	**7.8**
London / Kitchener / Waterloo	**6,094**	**4.4**	**64.4**	4,820	4.2	64.0	**26.4**
Other Ontario	**4,749**	**3.4**	**61.7**	4,462	4.0	61.5	**6.4**
	$ 61,650	**44.7**	**64.0**	$ 56,804	49.9	63.4	**8.5**
Québec							
Greater Montréal Region	**$ 14,585**	**10.6**	**56.0**	$ 13,060	11.5	54.0	**11.7**
Québec City	**5,486**	**4.0**	**60.4**	4,856	4.2	55.2	**13.0**
	$ 20,071	**14.6**	**57.2**	$ 17,916	15.7	54.3	**12.0**
British Columbia							
Greater Vancouver Region	**$ 10,890**	**7.9**	**65.5**	$ 9,658	8.5	68.2	**12.8**
Victoria	**4,749**	**3.4**	**71.8**	4,244	3.7	72.0	**11.9**
	$ 15,639	**11.3**	**67.3**	$ 13,902	12.2	69.3	**12.5**
Alberta							
Edmonton	**$ 1,145**	**0.8**	**62.2**	$ 1,135	1.0	64.3	**0.9**
Calgary	**4,326**	**3.1**	**56.4**	4,047	3.6	55.8	**6.9**
	$ 5,471	**3.9**	**57.5**	$ 5,182	4.6	57.5	**5.6**
Nova Scotia							
Halifax	**$ 5,643**	**4.1**	**58.6**	$ 3,376	3.0	56.7	**67.2**
Saskatchewan							
Regina	**$ 376**	**0.3**	**52.0**	$ 373	0.3	51.6	**0.8**
Prince Edward Island							
Charlottetown	**$ 986**	**0.7**	**46.8**	$ 720	0.6	42.6	**36.9**
Europe							
The Netherlands [2]	**$ 16,927**	**12.3**	**75.7**	$ 10,267	9.0	77.0	**64.9**
Other Europe [3]	**2,562**	**1.8**	**84.1**	—	—	—	**—**
	$ 19,489	**14.1**	**76.7**	$ 10,267	9.0	77.2	**89.8**
Total residential suites	**$ 129,325**	**93.7**	**64.0**	$ 108,540	95.3	62.6	**19.1**
MHC Sites							
Ontario	**$ 3,985**	**2.9**	**67.4**	$ 3,059	2.7	67.7	**30.3**
Québec	**196**	**0.2**	**58.3**	—	—	—	**—**
British Columbia	**585**	**0.4**	**71.4**	349	0.3	71.2	**67.6**
Alberta	**1,926**	**1.4**	**66.6**	500	0.4	67.2	**285.2**
Nova Scotia	**45**	**0.0**	**46.9**	—	—	—	**—**
Saskatchewan	**317**	**0.2**	**64.4**	304	0.3	65.0	**4.3**
Prince Edward Island	**125**	**0.1**	**32.5**	71	0.1	31.0	**76.1**
New Brunswick	**1,554**	**1.1**	**50.4**	1,012	0.9	49.3	**53.6**
Total MHC sites	**$ 8,733**	**6.3**	**62.3**	$ 5,295	4.7	62.3	**64.9**
Total suites and sites	**$ 138,058**	**100.0**	**63.9**	$ 113,835	100.0	62.6	**21.3**

(1) Represents percentage of the portfolio by NOI.
(2) In € thousands, €11,235 and €6,805 for the three months ended March 31, 2020 and March 31, 2019, respectively.
(3) Comprised of ERES' NOI for two commercial properties located in Germany and one in Belgium. In € thousands, €1,730 for the three months ended March 31, 2020.
(4) 2019 comparative balances have been adjusted to conform with current period presentation.

The significant improvement in the NOI contribution in 2020 was primarily the result of higher operating revenues due to contributions from acquisitions and increased same property monthly rents. CAPREIT remains focused on continuing to further improve NOI and NOI margin over the long-term through a combination of accretive and value-enhancing acquisitions, successful sales and marketing strategies to further improve revenues, and investments in capital programs to further reduce costs and enhance the quality and value of its portfolio. For a comprehensive analysis of stabilized NOI growth or decline compared to the same period last year by region, refer to the Stabilized NOI by Region section.

STABILIZED NOI BY REGION

For the Three Months Ended March 31,	2020		2019[12]		Increase (Decrease)			
($ Thousands)	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)	
Residential Suites								
Ontario								
Greater Toronto Area	**$ 46,430**	**64.7**	$ 43,510	63.6	**4.8**	**1.4**	**6.7**	
Ottawa	**4,325**	**63.8**	4,012	62.6	**5.8**	**2.4**	**7.8**	
London / Kitchener / Waterloo	**5,195**	**65.6**	4,820	64.0	**5.1**	**0.3**	**7.8**	
Other Ontario	**4,749**	**61.7**	4,462	61.5	**6.2**	**5.8**	**6.4**	
	$ 60,699	**64.5**	$ 56,804	63.4	**5.0**	**1.8**	**6.9**	(1)
Québec								
Greater Montréal Region	**$ 14,136**	**55.9**	$ 13,060	54.0	**4.5**	**0.2**	**8.2**	
Québec City	**5,486**	**60.4**	4,856	55.2	**3.1**	**(9.0)**	**13.0**	
	$ 19,622	**57.1**	$ 17,916	54.3	**4.2**	**(2.2)**	**9.5**	(2)
British Columbia								
Greater Vancouver Region	**$ 9,608**	**65.7**	$ 9,658	69.1	**4.6**	**16.1**	**(0.5)**	
Victoria	**4,468**	**70.1**	4,244	70.0	**5.2**	**4.9**	**5.3**	
	$ 14,076	**67.0**	$ 13,902	69.3	**4.8**	**12.8**	**1.3**	(3)
Alberta								
Edmonton	**$ 1,114**	**62.7**	$ 1,135	64.3	**0.7**	**5.4**	**(1.9)**	
Calgary	**4,095**	**55.9**	4,047	55.8	**1.1**	**1.0**	**1.2**	
	$ 5,209	**57.2**	$ 5,182	57.5	**1.0**	**1.7**	**0.5**	
Nova Scotia								
Halifax	**$ 3,614**	**57.6**	$ 3,376	56.7	**5.3**	**3.0**	**7.0**	(4)
Saskatchewan								
Regina	**$ 376**	**52.0**	$ 373	51.6	**0.0**	**(0.9)**	**0.8**	
Prince Edward Island								
Charlottetown	**$ 744**	**43.4**	$ 720	42.6	**1.4**	**0.0**	**3.3**	
Europe								
The Netherlands[11]	**$ 9,720**	**75.6**	$ 9,621	76.2	**1.8**	**4.2**	**1.0**	(5)
Total residential suites	**$ 114,060**	**63.3**	$ 107,894	62.5	**4.3**	**2.0**	**5.7**	
MHC Sites								
Ontario	**$ 3,063**	**67.6**	$ 2,985	67.4	**2.3**	**1.5**	**2.6**	
British Columbia	**422**	**82.6**	340	73.0	**9.7**	**(29.4)**	**24.1**	(6)
Alberta	**412**	**67.0**	371	62.7	**3.9**	**(8.1)**	**11.1**	(7)
Saskatchewan	**317**	**64.4**	304	65.0	**5.1**	**6.7**	**4.3**	(8)
Prince Edward Island	**79**	**33.9**	71	31.0	**1.7**	**(2.5)**	**11.3**	(9)
New Brunswick	**1,117**	**52.9**	1,012	49.3	**2.9**	**(4.3)**	**10.4**	(10)
Total MHC sites	**$ 5,410**	**63.7**	$ 5,083	61.7	**3.1**	**(2.3)**	**6.4**	
Total suites and sites	**$ 119,470**	**63.3**	$ 112,977	62.5	**4.6**	**2.7**	**5.7**	
Stabilized suites and sites	**50,306**		50,306					

(1) Higher expenses: higher realty taxes, wages and insurance costs , partially offset by lower R&M costs.

(2) Lower expenses: lower realty taxes, utilities costs and R&M costs, partially offset by higher wages, insurance costs and legal costs.

(3) Higher expenses: higher realty taxes and wages, partially offset by lower utilities costs.

(4) Higher expenses: higher insurance costs and R&M costs, partially offset by lower utilities costs.

(5) Higher expenses: higher R&M costs and insurance costs, partially offset by lower legal costs.

(6) Higher revenues: include home sales. Excluding home sale increases of $20 thousand, revenues increased by $33 thousand and 7.2%. Lower expenses: lower on-site costs R&M costs, and wages, partially offset by higher utilities costs.

(7) Lower expenses: lower utilities costs and legal costs, partially offset by higher realty taxes.

(8) Higher expenses: higher utilities costs and on-site costs, partially offset by lower R&M costs and wages.

(9) Lower expenses: lower R&M costs and legal costs and utilities costs, partially offset by higher wages.

(10) Lower expenses: lower R&M costs and on-site costs, partially offset by higher realty taxes and wages.

(11) In € thousands, €6,540 and €6,395 for the three months ended March 31, 2020 and March 31, 2019, respectively. NOI increased by €145 thousand and 2.3%.

(12) 2019 comparative balances have been adjusted to conform with current period presentation.

For the three months ended March 31, 2020, stabilized NOI increased by 5.7% compared to the same period last year. Furthermore, the NOI margin for the three months ended March 31, 2020 increased to 63.3% from 62.5% for the same period last year.

The following table reconciles stabilized NOI and NOI from net acquisitions to total NOI for the periods ended March 31, 2020 and March 31, 2019:

($ Thousands)

For the Three Months Ended March 31,	2020	NOI Margin (%)	2019[2]	NOI Margin (%)
Stabilized NOI	**$ 119,470**	**63.3**	$ 112,977	62.5
Net acquisitions NOI [1]	**18,588**	**69.5**	858	85.2
Total NOI	**$ 138,058**	**63.9**	$ 113,835	62.6

(1) Represents the NOI of acquisitions and dispositions completed during 2020 and 2019.
(2) 2019 comparative balances have been adjusted to conform with current period presentation.

NET INCOME AND OTHER COMPREHENSIVE INCOME

($ Thousands) For the Three Months Ended March 31,	2020	2019
NOI	$ 138,058	$ 113,835
(Less) plus:		
Trust expenses	(11,364)	(10,346)
Transaction costs	—	(8,527)
Unit-based compensation recovery (expenses)	5,252	(7,552)
Fair value adjustments of investment properties	(31,919)	123,316
Realized loss on disposition of investment properties	(753)	—
Amortization of property, plant and equipment	(1,771)	(1,415)
Gain on non-controlling interest	69,679	—
Fair value adjustments of investments	(6,870)	7,522
Gain on derivative financial instruments	6,489	6,438
Interest on mortgages payable and other financing costs	(31,969)	(29,767)
Interest on bank indebtedness and other financing costs	(2,310)	(1,412)
Interest on leases	(517)	(452)
(Loss) gain on foreign currency translation	(53,808)	12,266
Other income	6,943	4,406
Net income before income taxes	$ 85,140	$ 208,312
Current and deferred income tax expense	(5,507)	(2,802)
Net income	$ 79,633	$ 205,510
Other comprehensive income (loss), including items that may be reclassified subsequently to net income		
Amortization of losses from AOCL to interest and other financing costs	634	640
Gain (loss) on foreign currency translation	85,402	(28,914)
Other comprehensive income (loss)	86,036	(28,274)
Comprehensive income	$ 165,669	$ 177,236

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and advisory services, trustees' and officers' insurance premiums, providing third-party property and asset management services, and other general and administrative expenses, net of amounts allocated to property operating expenses for properties owned by CAPREIT. Trust expenses increased for the three months ended March 31, 2020 to $11.4 million from $10.3 million for the same period last year, primarily due to higher salaries and consulting fees.

Transaction Costs

Transaction costs are related to the one-time business combination fees associated with the Acquisition, consisting of legal, audit, tax, consulting and financial advisory fees.

Unit-based Compensation Recovery (Expenses)

Unit-based compensation benefits are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and to provide additional incentives by increasing the participants' interest, as owners, in CAPREIT. Unit-based compensation expenses include costs attributable to these incentive plans, namely the Restricted Unit Rights Plan ("RUR Plan"), Deferred Unit Plan ("DUP") and the ERES unit options ("ERES UOP") (see notes 13 and 14 of the condensed consolidated interim financial statements).

The Unit-based compensation expenses have been separated into two components: (i) the amortization of the fair value at grant date of the award over its vesting period, and (ii) the remeasurement of awards outstanding at period end at fair value.

($ Thousands)

For the Three Months Ended March 31,		**2020**		**2019**
Remeasurement of Unit-based compensation liabilities	**$**	**(6,939)**	$	5,503
Amortization of fair value on grant date of Unit-based compensation		**1,687**		2,049
Total	**$**	**(5,252)**	$	7,552

CAPREIT's remeasurement of Unit-based compensation liabilities for the three months ended March 31, 2020 decreased to a recovery of $(6.9) million compared to a remeasurement expense of $5.5 million in the prior year, primarily due to the decrease in unit price as a result of the economic impact of the COVID-19 pandemic on stock markets. CAPREIT's amortization of fair value on grant date of Unit-based compensation expense for the three months ended March 31, 2020 decreased to $1.7 million compared to $2.0 million in the prior year, primarily due to accelerated RUR amortization expense relating to the former President and CEO in the first quarter of the prior year.

Fair Value Adjustments of Investment Properties

CAPREIT recognizes its investment properties at fair value at each reporting period, with any unrealized gain or loss upon remeasurement recognized in the consolidated statements of income for the period. A description of the key components of the change in the fair value of investment properties is included in the Investment Properties in Section V.

Amortization

These costs represent the amortization of right-of-use assets as per IFRS 16 and head office property, plant and equipment on a straight-line basis over their estimated useful lives, ranging primarily between three and five years.

Gain on Non-Controlling Interest

For the three months ended March 31, 2020, CAPREIT recorded a gain on non-controlling interest on the ERES units of $69.7 million, which includes a mark-to-market gain of $72.7 million offset by distributions to ERES units held by non-controlling unitholders of $3.0 million. The mark-to-market gain arises from a decrease in ERES's unit price from $4.65 at December 31, 2019 to $3.72 at March 31, 2020, owing to the market volatility resulting from the COVID-19 pandemic.

Interest on Mortgages Payable and Other Financing Costs

Information on the interest on mortgages payable and other financing costs is included in note 22 to the accompanying audited condensed consolidated interim financial statements and included in Liquidity and Financial Condition in Section V of this report.

Interest on Bank Indebtedness

Interest on bank indebtedness relates to borrowings under the Credit Facilities (see Liquidity and Financial Condition discussion in Section V).

Gain (Loss) on Foreign Currency Translation

CAPREIT is exposed to gain/loss in foreign exchange due to its holdings of assets and liabilities through its investment in IRES and its ERES subsidiary. The following table summarizes the gain or loss recorded in other comprehensive income and net income on this exposure and its associated hedged instruments.

As of March 31, ($ Thousands)							
	2020						
				Other Comprehensive Gain (Loss)		**Net Income Gain (Loss)**	**Total Foreign Exchange Exposure Gain (Loss)**
		Balance		**Three Months Ended**		**Three Months Ended**	**Three Months Ended**
Total Foreign Assets [1]	€	1,540,894	$	151,129	$	320	$ 151,449
Total Foreign Liabilities [2]		670,143		(65,727)		(54,128)	(119,855)
Net Equity [3]		870,751		85,402		(53,808)	31,594
Cross-Currency Swap		442,358		—		5,777	5,777
Net FX Gain (Loss) exposure	**€**	**428,393**	**$**	**85,402**	**$**	**(48,031)**	**$ 37,371**
Net FX exposure - excluding non-controlling interest [3]	**€**	**188,315**					

	2019						
				Other Comprehensive Gain (Loss)		**Net Income Gain**	**Total Foreign Exchange Exposure Gain (Loss)**
		Balance		**Three Months Ended**		**Three Months Ended**	**Three Months Ended**
Total Foreign Assets [1]	€	1,019,372	$	(59,651)	$	—	$ (59,651)
Total Foreign Liabilities [2]		461,910		30,737		12,266	43,003
Net Equity [3]		557,462		(28,914)		12,266	(16,648)
Cross-Currency Swap		163,540		—		4,971	4,971
Net FX gain (loss) exposure	**€**	**393,922**	**$**	**(28,914)**	**$**	**17,237**	**$ (11,677)**
Net FX exposure - excluding non-controlling interest [3]	**€**	**347,231**					

[1] Foreign assets are comprised of CAPREIT's Euro cash, ERES's assets, and investment in IRES. Foreign exchange gains or losses related to CAPREIT's Euro cash are recorded in foreign currency translation under Net Income. Foreign exchange gain or losses related to ERES's assets and investment in IRES are recorded in foreign currency translation under OCI.

[2] Foreign liabilities are comprised of ERES's liabilities and Euro LIBOR borrowings: (a) FX gains or losses related to loans secured by ERES are recorded in foreign currency translation under OCI; (b) gain or losses on Euro LIBOR borrowings are recorded in foreign currency translation under Net Income.

[3] Net equity includes €706,113 (2019 - €271,462) relating to ERES which CAPREIT has 66% (2019 - 82.8%) interest in. Taking into consideration the non-controlling interest of ERES, net FX exposure is €188,315 (2019 - €347,231).

Other Income

Other income primarily consists of income received from investments (see note 7 of the accompanying unaudited condensed consolidated interim financial statements), income from investment in associate, and asset management and property management fees.

($ Thousands)

For the Three Months Ended March 31,		2020		2019
Investment income	**$**	**832**	$	367
Net profit from equity-accounted investment [(1)]		**2,749**		1,984
Asset and property management fees [(2)]		**2,347**		1,956
Other [(3)]		**1,015**		99
Total	**$**	**6,943**	$	4,406

(1) CAPREIT's share of IRES' investment property fair value change, earnings and foreign exchange effects thereon. For the three months ended March 31, 2020 and 2019, CAPREIT's share of IRES' investment property fair value gain is nil.

(2) Other income includes asset and property management fees from IRES, which CAPREIT has a 18.3% ownership in and excludes asset and property management fees and service fees from ERES, which CAPREIT has a 66.0% ownership in.

($ Thousands)

For the Three Months Ended March 31,		2020		2019
Total fee income generated	**$**	**4,939**	$	2,324
Asset and property management fees and service fees from ERES eliminated on consolidation		**2,592**		368
Asset and property management fee from IRES recognized in other income	**$**	**2,347**	$	1,956

(3) The non-recurring increase is mainly due to the interest earned on cash and cash equivalents held.

Income Taxes

CAPREIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. During the three months ended March 31, 2020, income tax expenses increased to $5.5 million from $2.8 million. The increase in income tax expense is primarily due to an increase in taxable income from acquisitions in the Netherlands. As a result of the Acquisition, during the three months ended March 31, 2019, capital gains were triggered on the reorganization of the legal structure of the Netherlands subsidiaries. Therefore, $18.1 million previously included in deferred tax liability was reclassified to current tax liability.

($ Thousands)

For the Three Months Ended March 31,		2020		2019
Current income tax expense triggered on Acquisition	**$**	**—**	$	18,050
Current income tax expense (recovery) not related to the Acquisition		**1,581**		1
Current Income tax expense (net)	**$**	**1,581**	$	18,051

($ Thousands)

For the Three Months Ended March 31,		2020		2019
Deferred income tax recovery triggered on Acquisition	**$**	**—**	$	(18,050)
Deferred income tax expense not related to the Acquisition		**3,926**		2,801
Deferred income tax expense (net)	**$**	**3,926**	$	(15,249)

SECTION IV: UNIT CALCULATIONS, NON-IFRS FINANCIAL MEASURES

PER UNIT CALCULATIONS

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

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

(Thousands)	*Weighted Average Number of Units*		*Outstanding Number of Units*
For the Three Months Ended March 31,	**2020**	**2019**	**2020**
Trust Units	**170,055**	151,925	**170,262**
Units under the DUP	**151**	287	**157**
Basic number of Units	**170,206**	152,212	**170,419**
Plus:			
Unit rights under the RUR Plan [(1)]	**574**	566	**612**
Diluted number of Units	**170,780**	152,778	**171,031**

(1) See notes 11 and 12 to the audited consolidated annual financial statements for the year ended December 31, 2019 contained in CAPREIT's 2019 Annual Report for details of CAPREIT's Unit-based compensation plans.

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

(Thousands)		
For the Three Months Ended March 31,	**2020**	**2019**
Distributions declared on Trust Units	**$ 58,693**	$ 51,263
Distributions declared on awards outstanding under Unit-based compensation plans [(1)]	**249**	279
Total distributions declared	**58,942**	51,542
Less:		
Distributions on Trust Units reinvested	**(18,794)**	(16,009)
Distributions on Unit awards reinvested [(1)]	**(249)**	(279)
Net distributions paid	**$ 39,899**	$ 35,254
Percentage of distributions reinvested	**32.3%**	31.6%

(1) Comprises non-cash distributions related to the DUP and the RUR Plan (see notes 11 and 12 to CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2019 contained in CAPREIT's 2019 Annual Report for a discussion of these plans).

Under CAPREIT's DRIP, a participant may purchase additional Units with the cash distributions paid on the eligible Units, registered in the participant's name or held in a participant's account maintained pursuant to the DRIP. Each participant has the right to receive an additional amount equal to 5% of their monthly distributions reinvested pursuant to the DRIP, which will automatically be paid on each distribution date in the form of additional Units. The price at which Units will be purchased with cash distributions will be the weighted average trading price for CAPREIT's Trust Units on the Toronto Stock Exchange ("TSX") for the five trading days immediately preceding the relevant distribution date. Reinvestments pursuant to the DRIP will increase the total number of Units outstanding over time, which may result in upward pressure on the total amount of net distributions paid if those participants do not elect to join the DRIP or choose cash distributions.

The average participation rate in the DRIP and other plans under which distributions are reinvested increased for the three months ended March 31, 2020 to 32.3% from 31.6% for the same period last year. The DRIP participation rate is subject to factors beyond management's control and varies among investors.

NON-IFRS FINANCIAL MEASURES

Funds From Operations

FFO is a measure of operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO as presented is in accordance with the recommendations of the Real Property Association of Canada ("REALpac"), with the exception of (i) the adjustment for unrealized gains or losses on fair value through profit or loss ("FVTPL") marketable securities in its calculation of FFO, (ii) the adjustment for amortization of certain other assets consistent with prior years and (iii) the deduction of the impact attributable to the non-controlling interest of ERES. It may not, however, be comparable to similar measures presented by other real estate investment trusts or companies in similar or different industries. Management considers FFO to be an important measure of CAPREIT's operating performance.

A reconciliation of net income to FFO is as follows:

($ Thousands, except per Unit amounts)

For the Three Months Ended March 31,	2020	2019
Net income	**$ 79,633**	$ 205,510
Adjustments:		
Unrealized loss (gain) on remeasurement of investment properties	**31,919**	(123,316)
Realized loss on disposition of investment properties	**753**	—
Remeasurement of investments	**6,870**	(7,522)
Remeasurement of unit-based compensation liabilities	**(6,939)**	5,503
Deferred income taxes (1)	**5,081**	2,801
Loss (gain) on foreign currency translation	**53,808**	(12,266)
Gain on derivative financial instruments	**(6,489)**	(6,438)
Fair value mark-to-market gain on ERES units held by non-controlling unitholders	**(72,693)**	—
Distributions on ERES units held by non-controlling unitholders	**3,014**	—
Net FFO impact attributable to ERES units held by non-controlling unitholders (2)	**(4,099)**	(201)
Amortization of property, plant and equipment	**1,771**	1,415
Lease principal repayment	**(116)**	(199)
Transaction costs (3)	**—**	8,527
FFO	**$ 92,513**	$ 73,814
FFO per unit – basic	**$ 0.544**	$ 0.485
FFO per unit – diluted	**$ 0.542**	$ 0.483
Total distributions declared	**$ 58,942**	$ 51,542
FFO payout ratio	**63.7%**	69.8%
Net distributions paid	**$ 39,899**	$ 35,254
Excess FFO over net distributions paid	**$ 52,614**	$ 38,560
FFO effective payout ratio	**43.1%**	47.8%

(1) Represents $3.9 million of deferred income tax expenses as well as $1.2 million of current income taxes on the disposition of a German investment property, for the three months ended March 31, 2020. Represents $18.1 million of current income taxes on the deemed disposition of investment properties associated with the reorganization of the legal structure of the Netherlands subsidiaries, offset by $15.3 million of deferred income tax recovery for the three months ended March 31, 2019.

(2) This calculation is based on the weighted-average ownership held by ERES non-controlling interest unitholders.

(3) Costs include legal, audit, tax, consulting, and financial advisory fees related to the Acquisition.

Normalized Funds From Operations

Management considers NFFO to be the key measure of CAPREIT's operating performance. NFFO is calculated by excluding from FFO the effects of certain non-recurring items, including amortization of losses on certain hedging instruments previously settled and paid, mortgage prepayment penalties, offset by write-off of fair value adjustment on assumed mortgages that were refinanced early, accelerated vesting of previously granted RUR Units, and large acquisition research costs relating to transactions that were not completed. As it is an operating performance metric, no adjustment is made to NFFO for capital expenditures. NFFO facilitates better comparability than FFO to prior year's performance and provides a better indicator of CAPREIT's long-term operating performance. For further information on CAPREIT's total property capital investments, please refer to the Property Capital Investments in Section V. See discussions under the Net Income and Other Comprehensive Income in Section III for additional information on hedging instruments currently in place. NFFO is not a measure of sustainability of distributions.

A reconciliation of FFO to NFFO is as follows:

($ Thousands, except per Unit amounts)

For the Three Months Ended March 31,		**2020**		**2019**
FFO	**$**	**92,513**	$	73,814
Adjustments:				
Amortization of losses from AOCL to interest and other financing costs		**634**		640
Other employee costs [(1)]		**—**		751
NFFO	**$**	**93,147**	$	75,205
NFFO per Unit – basic	**$**	**0.547**	$	0.494
NFFO per Unit – diluted	**$**	**0.545**	$	0.492
Total distributions declared	**$**	**58,942**	$	51,542
NFFO payout ratio		**63.3%**		68.5%
Net distributions paid	**$**	**39,899**	$	35,254
Excess NFFO over net distributions paid	**$**	**53,248**	$	39,951
Effective NFFO payout ratio		**42.8%**		46.9%

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

NFFO for the three months ended March 31, 2020 increased by 23.9% compared to the same period last year, primarily due to the contribution from acquisitions and higher NOI for properties owned prior to December 31, 2018. Asset management fees and property management fees received from ERES increased FFO and consequently NFFO by $0.9 million for the three months ended March 31, 2020 compared to $nil for the same period last year. These fees represent the amount of fees attributed to the ERES units held by non-controlling unitholders based on the weighted average ownership throughout the period.

For the three months ended March 31, 2020, basic NFFO per Unit increased by 10.7% compared to the same period last year, despite an approximate 11.8% increase in the weighted average number of Units outstanding resulting from the January, April and December 2019 equity offerings (see Liquidity and Financial Condition in Section V). Management expects per Unit FFO and NFFO and related payout ratios to strengthen further in the medium term as a result of NOI contributions from recent acquisitions.

Comparing total distributions declared to NFFO, the NFFO payout ratio for the three months ended March 31, 2020 improved to 63.3% compared to 68.5% for the same period last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the three months ended March 31, 2020 to 42.8% from 46.9% for the same period last year.

Adjusted Cash Flows From Operations and Distributions Declared

As a measure of economic cash flows, CAPREIT calculates ACFO using guidelines from the white paper published by REALpac, "White Paper on Adjusted Cashflow From Operations (ACFO) for IFRS", dated February 2017 and updated as of February 2019.

There may be periods when actual distributions declared exceed ACFO due to weaker performance in certain periods from seasonal fluctuations, regional market volatility, or from year to year based on the timing of property capital investments and the impact of acquisitions. Excess distributions (shortfalls) are funded by the Acquisition and Operating Facility.

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

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

($ Thousands, except per Unit amounts)			Annual
For the Three Months Ended March 31,	**2020**	2019	**2019**
Cash generated from operating activities	**$ 103,471**	$ 83,689	$ 454,629
Adjustments:			
Working capital adjustment [1]	**—**	—	8,485
Interest expense included in cash flow (used by) from financing activities	**(33,213)**	(28,596)	(119,609)
Forecasted non-discretionary property capital investments [2]	**(18,143)**	(17,659)	(65,532)
Capitalized leasing costs [3]	**(209)**	139	(1,518)
Amortization of other financing costs [4]	**(2,218)**	(1,853)	(8,601)
Transactions costs [5]	**—**	8,527	8,527
Investment income	**6,220**	4,000	10,039
Net ACFO impact attributed to ERES units held by non-controlling unitholders [6]	**(3,888)**	—	(4,179)
Lease principal and interest repayments	**(806)**	(651)	(3,402)
Tax on disposition [7]	**1,155**	—	—
ACFO	**$ 52,369**	$ 47,596	$ 278,839
Total distributions declared	**$ 58,942**	$ 51,542	$ 219,206
(Deficit) Excess ACFO over distributions declared	**$ (6,573)**	$ (3,946)	$ 59,633
ACFO payout ratio	**112.6%**	108.3%	78.6%

[1] On a quarterly basis, a review of working capital is performed to determine whether changes in prepaids, receivables, deposits, accounts payable and other liabilities, security deposits and other non-cash operating assets and liabilities were attributed to items which were not indicative of sustainable cash flows available for distribution in line with the ACFO guidance provided by REALpac. As a result, the one-time special distribution to the pre-existing unitholders of ECREIT was added back for annual 2019.

[2] Non-discretionary property capital investments for the three months ended March 31, 2020 and 2019 has been calculated as follows: Non-Discretionary Property Capital Investments per suite and site are based on the annual 2020 and 2019 forecasts respectively, divided by four for the quarter, and multiplied by the weighted average number of residential suites and sites during the period. The forecasted Non-Discretionary Property Capital Investments per suite and site for 2020 and 2019 on an annual basis is $1,220 and $1,391 respectively. The weighted average number of residential suites and sites for the three months ended March 31, 2020 and 2019 is 60,110 and 50,769, respectively. For a reconciliation of actual non-discretionary property capital investments incurred during the period to forecast, see the table on the next page.

[3] Comprises tenant inducements and direct leasing costs.

[4] Includes amortization of deferred financing costs, CMHC premiums, deferred loan costs and fair value adjustments.

[5] Relates to expensed transaction costs associated with The Acquisition.

[6] This calculation is based on the weighted-average ownership held by ERES non-controlling interest unitholders.

[7] Represents $1.2 million of income tax expenses on the disposition of a German investment property for the three months ended March 31, 2020.

For the three months ended March 31, 2020, CAPREIT's ACFO was in deficit of distributions declared by $6.6 million. The excess distributions in the current quarter corresponds with the seasonality of CAPREIT's business and working capital deficiencies resulting from seasonality of normal course of operations. CAPREIT's first quarter typically has a higher payout ratio due to lower operating margins attributable to higher heating costs in the winter months. Any distributions in excess of the ACFO are funded through DRIP and the Acquisition and Operating facility. As per OSC Staff Notice 51-724, if distributions are in excess of ACFO, then it represents a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated from CAPREIT's continuing operations during the period.

The table below reconciles actual non-discretionary capital investments incurred to the forecasted amount:

Non-Discretionary Property Capital Actuals to Forecast Reconciliation

($ Thousands) **For the Three Months Ended March 31,**		**2020**		**2019**
Actual	**$**	**5,641**	$	8,755
Forecast		**18,143**		17,659
Difference	**$**	**(12,502)**	$	(8,904)

For the three months ended March 31, 2020, CAPREIT's actual non-discretionary property capital investments of $5.6 million were lower than the forecast by approximately $12.5 million, mainly related to the deferral of structural work into fall 2020.

CAPREIT's capital investments programs are affected by seasonal cycles, and professional judgment is used by management to determine timing of property capital investments. Therefore, actual and forecasted capital investments may differ during the applicable periods. Management continues to monitor the rollout of the capital expenditure plan in an effort to continuously improve the accuracy if its capital expenditure budgets.

Significant non-discretionary property capital investment programs are usually completed within three to five years. Actual completion of such projects may differ from the forecasted timelines as they are longer term in nature and professional judgment is applied to forecast completion dates.

Discretionary and Non-Discretionary Property Capital Investments

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

Non-Discretionary Property Capital Investments are those investments management believes are essential for the safety of residents and to ensure the structural integrity of the properties. These investments may enhance the property's operating effectiveness, including its profitability, through increases in revenues or reductions in costs over the long term. Included in non-discretionary capital expenditures are items such as building improvements, which include items such as roof, structural, balcony, sidewalks, windows, brick, electrical, MHC infrastructure investments, and life and safety. Management uses its professional judgment to include other capital expenditure categories that could impact the safety of residents. These Non-Discretionary Property Capital Investments are in addition to regular R&M costs, which have been in the range of $750 to $1,100 per residential suite annually over the last five years and are expensed to NOI.

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

The following table presents the forecasted 2020, and actual 2019 and 2018 Non-Discretionary Property Capital Investments per suite and site:

($ Thousands)		2020 Forecast		2019 Actual		2018 Actual
Non-discretionary property capital investments	**$**	**73,330**	$	65,532	$	51,252
Weighted average number of suites and sites		**60,110**		55,175		49,595
Non-discretionary property capital investments per suite and site	**$**	**1,220**	$	1,188	$	1,033

ADJUSTED CASH GENERATED FROM OPERATING ACTIVITIES

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

($ Thousands, except per Unit amounts) **For the Three Months Ended March 31,**		**2020**		**2019**
Cash generated from operating activities	**$**	**103,471**	$	83,689
Adjustments:				
Interest expense included in cash flow (used by) from financing activities		**(33,213)**		(28,596)
Adjusted Cash Generated from Operating Activities	**$**	**70,258**	$	55,093
Total distributions declared	**$**	**58,942**	$	51,542
Excess	**$**	**11,316**	$	3,551

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

($ Thousands, except per Unit amounts) **For the Three Months Ended March 31,**		**2020**		**2019**
Net income	**$**	**79,633**	$	205,510
Adjusted Cash Generated from Operating Activities	**$**	**70,258**	$	55,093
Total distributions declared	**$**	**58,942**	$	51,542
Net distributions paid	**$**	**39,899**	$	35,254
Excess of net income over total distributions declared	**$**	**20,691**	$	153,968
Excess of net income over net distributions paid	**$**	**39,734**	$	170,256
Excess of Adjusted Cash Generated from Operating Activities over total distributions declared	**$**	**11,316**	$	3,551
Excess of Adjusted Cash Generated from Operating Activities over net distributions declared	**$**	**30,359**	$	19,839

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

For the three months ended March 31, 2020, CAPREIT's Adjusted Cash Generated from Operating Activities exceeded distributions declared by $11.3 million. As per OSC Staff Notice 51-724, if distributions are in excess of Adjusted Cash Generated from Operating Activities, then it represents a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated from CAPREIT's continuing operations during the period. Management believes, should it occur, there is adequate overall liquidity to fund excess distributions over Adjusted Cash Generated from Operating Activities on an annual basis through: (i) mortgage debt secured by its investment properties; and (ii) the Acquisition and Operating Facility.

SECTION V: CAPITAL INVESTMENT, INVESTMENT PROPERTY, CAPITAL STRUCTURE, FINANCIAL CONDITION

PROPERTY CAPITAL INVESTMENTS

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

An important component of CAPREIT's property capital investment strategy is to acquire properties significantly below current replacement costs and improve its operating performance by investing annually. This ensures sustainable growth to maximize the portfolio's future rental income-generating potential.

For the three months ended March 31, 2020, CAPREIT made property capital investments (excluding head office assets and development) of $42.7 million compared to $38.4 million for the same period last year. Energy-saving initiatives and suite and common area improvement costs generally tend to increase NOI more quickly compared to other capital investment categories. A breakdown of property capital investments (excluding head office assets and development) is summarized by category below.

CAPREIT is reviewing its property capital investment forecast for 2020 in response to the COVID-19 pandemic.

Property Capital Investments by Category

Three Months Ended March 31, 2020 ($ Thousands)		**Actual Total Portfolio**	**% of Actual**
Non-discretionary property capital investments:			
Building improvements	**$**	**5,220**	**12.2**
MHC infrastructural		**170**	**0.4**
Life and safety		**251**	**0.6**
		5,641	**13.2**
Discretionary property capital investments:			
Suite improvements		**15,723**	**36.9**
Common area		**9,766**	**22.8**
Energy-saving initiatives		**7,232**	**16.9**
Equipment		**2,881**	**6.7**
Elevators and risers		**1,389**	**3.2**
Others		**65**	**0.2**
MHC common area		**50**	**0.1**
		37,106	**86.8**
Total	**$**	**42,747**	**100.0**

Three Months Ended March 31, 2019 ($ Thousands)		**Actual Total Portfolio**	**% of Actual**
Non-discretionary property capital investments:			
Building improvements	$	8,542	22.2
MHC infrastructural		67	0.2
Life and safety		146	0.4
		8,755	22.8
Discretionary property capital investments:			
Suite improvements		13,263	34.5
Common area		8,366	21.8
Energy-saving initiatives		2,396	6.2
Equipment		2,317	6.0
Elevators and risers		2,932	7.6
Others		373	1.0
MHC common area		35	0.1
		29,682	77.2
Total	$	38,437	100.0

CAPREIT's capital investments programs are affected by seasonal cycles, and professional judgment used by management to determine the timing of property capital investments. Therefore actual and forecasted capital investments may differ during the applicable periods.

Set out in the next table is management's current estimate, established through consultation with an independent engineering firm, of CAPREIT's investments in building improvements, including investments in MHC sites, for 2020 through 2023 for properties owned as of March 31, 2020.

Future Investments in Building Improvements

($ Thousands)	**Building Improvements Estimated Range**
2020	$57,000 - $70,000
2021	$27,000 - $33,000
2022	$15,000 - $19,000
2023	$9,000 - $12,000

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

INVESTMENT PROPERTIES

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

The fair value of investment properties is established by qualified, independent appraisers annually. Each quarter, CAPREIT utilizes internal market assumptions for rent changes and capitalization and discount rates provided by the independent appraisers to determine the fair value of the investment properties for interim reporting purposes. Capitalization rates employed by the appraisers are based on recently closed transactions, generally within the last three months, and other current market indicators for similar properties. To the extent that the externally provided capitalization rates or results of operations change from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly. Additional analyzes were performed by management on potential impact of the COVID-19 pandemic, as discussed below.

For a discussion of risk factors associated with the valuation of investment properties, refer to Risks and Uncertainties in Section VI. For a detailed description of valuation methods and key assumptions used for investment properties, see note 6 to the accompanying audited consolidated annual financial statements for the year ended December 31, 2019 contained in CAPREIT's 2019 Annual Report.

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

($ Thousands)

For the Three Months Ended March 31,	2020	2019
Balance, beginning of the year	**13,096,426**	**10,503,387**
Add:		
Properties acquired through business combinations (1)	**—**	135,533
Acquisitions	**467,457**	220,290
Property capital investments (2)	**43,244**	41,919
Foreign currency translation	**134,571**	(41,403)
Fair value adjustments	**(31,919)**	123,316
Capitalized leasing costs (3)	**(39)**	(139)
Operating lease buyout	**19,045**	—
Less:		
Dispositions	**(26,260)**	—
Investment Properties at fair value, end of the period	**$ 13,702,525**	$ 10,982,903

(1) Represents the fair value of the properties acquired as part of the business combination. For details, please refer to note 4 to the accompanying condensed consolidated interim financial statements.

(2) See Section V - Property Capital Investments, Conversions, Infill, and Redevelopment included within the Development Summary.

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

During the three months ended March 31, 2020, CAPREIT completed an early buyout of an existing operating lease at a net purchase price of $19.0 million. The operating lease buyout resulted in the conversion from an operating leasehold interest with option to purchase to a traditional fee simple property interest, resulting in a fair value gain of $4.1 million. As at March 31, 2020, CAPREIT is engaged in discussions with respect to the early buyout of an additional eight operating leases. These operating lease buyouts coincides with CAPREIT's strategic initiative of simplifying the company's ownership structure, increasing net asset value, and strengthening overall liquidity and flexibility.

A summary of the fair values of CAPREIT's investment properties and changes, along with key market assumptions, is presented below. For the period ended March 31, 2020, there was no change in fair value recorded for the Canadian portfolio, with the exception of Alberta. No changes to capitalization rates were made, given the lack of reliable market data subsequent to the onset of the COVID-19 pandemic. Prior to the onset of the COVID-19 pandemic, management estimated an increase in normalized NOI resulting from turnovers and renewals. However, an increase in NOI is tempered by risk of reduction in rental growth and higher expected credit losses. As such, management did not adjust its normalized NOI.

Investment Properties by Geography

As at ($ Millions)	Dec 2019 Fair Value	Change Due to Change in: Cap Rates [1], [3]	Normalized NOI [2], [3]	Forex Translation	Net Acquisitions	Mar 2020 Fair Value	Mar 2020 Cap Rates [1][5]	Dec 2019 Cap Rates [1]
Greater Toronto Area	$ 4,808	$ —	$ —	$ —	$ 24	$ 4,832	3.62%	3.63%
Other Ontario	1,351	—	—	—	—	$ 1,351	4.27%	4.27%
Québec	1,843	—	—	—	44	$ 1,887	4.44%	4.45%
British Columbia	1,576	—	—	—	—	$ 1,576	3.83%	3.83%
Alberta	469	—	(7)	—	30	$ 492	4.49%	4.47%
Nova Scotia	328	—	—	—	380	$ 708	4.32%	4.71%
Saskatchewan	32	—	—	—	—	$ 32	5.53%	5.53%
Prince Edward Island	90	—	—	—	(1)	$ 89	5.65%	5.65%
Subtotal	10,497	—	(7)	—	477	$ 10,967	4.01%	4.01%
MHC sites	600	—	—	—	—	$ 600	6.30%	6.30%
Europe [6]	1,962	32	(5)	135	(25)	$ 2,099	3.91%	3.89%
Total [4]	$ 13,059	$ 32	$ (12)	$ 135	$ 452	$ 13,666	4.10%	4.11%

[1] Weighted average capitalization rates excluding implied capitalization rates on Operating and Land Leasehold Interests. See note 6 to the accompanying condensed consolidated interim financial statements for further valuation assumption details, including discount rates as at March 31, 2020 for Operating and Land Leasehold Interests. Capitalization rates for Europe represent the implied capitalization rates for these properties.
[2] Represents normalized net operating income for valuation purposes.
[3] Fair value changes due to changes in rates and normalized NOI exclude properties acquired and disposed of during the three months ended March 31, 2020.
[4] Excludes right-of-use assets and land and air rights lease principal repayments.
[5] Changes in cap rates in the first quarter of 2020 are a result of acquisitions during the three months ended March 31, 2020. There have been limited market transactions since the declaration of the COVID-19 pandemic to support any changes to cap rates.
[6] Increase in fair value of Europe properties is due to compression of implied capitalization rates supported by market transactions during the period.

As at March 31, 2020, CAPREIT's fair value of investment properties was $13,703 million with a weighted average capitalization rate of 4.10%. The below table summarizes the sensitivity impact of changes in both the capitalization rate and normalized NOI on CAPREIT's fair value of investment properties. It should be noted that the below sensitivity utilizes the direct capitalization method, where the impact of any short-term changes in NOI on fair value will be overstated. Currently, Management believes that any impact to NOI resulting from the COVID-19 pandemic would be short-term in nature. Using a discounted cash flow model, the impact would be much smaller than that shown below.

As at March 31, 2020 ($ Millions)		Change in NOI: (2.0)%	(1.0)%	—%	1.0%	2.0%
Change in Capitalization Rate [1]	(0.50)%	1,563	1,714	1,866	2,017	2,168
	(0.25)%	587	728	869	1,010	1,151
	0.00%	(265)	(133)	—	132	265
	+0.25%	(1,015)	(890)	(765)	(640)	(515)
	+0.50%	(1,680)	(1,562)	(1,444)	(1,326)	(1,208)

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

DEVELOPMENT

Development is a component in CAPREIT's growth and value creation strategy. CAPREIT categorizes the projects within its development program as follows:

Conversion - Projects within existing income producing properties ("IPP") which typically involve increasing the density and/or rentable square footage of the property through means of retrofit resulting in increase in NOI.

Infill - Projects on underutilized, often vacant owned land that are being constructed or developed from the ground-up for future use as IPPs where an existing NOI and asset is to remain resulting in increase in NOI.

Redevelopment - Existing IPPs, or components thereof, that are being repositioned through partial and/or full redevelopment, which typically increases NOI and unit count by adding to the rentable area of the properties.

Development Progress

The development program remains a component of CAPREIT's growth strategy by unlocking value within the portfolio's existing assets through intensification and redevelopment to deliver strong net asset value growth to its Unitholders. CAPREIT's development strategy encompasses a combination of three different approaches to add new units to the portfolio: (i) forward purchase of newly constructed properties, (ii) intensification through means of conversion and infill of existing IPPs and (iii) full or partial redevelopment.

Development Pipeline

Shown below are the number of sites and proposed net new units by major market targeted for planning approval submission:

Major Market	Pre-Application (# of sites)	Active Application (# of sites)	Construction (# of sites)	Completed (# of sites)	Potential Growth (Estimated # of net new units)
British Columbia	5 (1)	—	—	—	1,000
Alberta	1 (1)	—	—	—	300
Greater Toronto Area (GTA)	5 (1)	2 (2)	—	—	6,000 (3)
Québec	2	—	—	—	432 (3)
Prince Edward Island	1	—	—	—	58
Total	14 (1)	2 (2)	—	—	7,790 (3)

(1) The Q1 reported number of anticipated application submissions for 2020 have been revised downwards given the COVID-19 pandemic.

(2) 100 Wellesley - Toronto City Council accepted a settlement offer from CAPREIT in December of 2019, for a revised development scheme to include 128 units in a 10-storey infill building; and 141 Davisville continues to be under review, which includes 146 new units in a proposed 16-storey infill building.

(3) CAPREIT continuously assesses the highest and best use of all its assets where the value may be realized through development or sale of a property.

The table below presents the actual and forecasted conversion, infill and redevelopment costs estimated for 2020, which include costs related to planning, rezoning, architectural surveys, application fees and building permits. The following forecasted conversion, infill and redevelopment costs may vary from actuals as expectations of processing time for development applications become better defined. The regulatory and application processing is subject to factors beyond management's control and varies between projects.

Development Summary

Three Months Ended March 31, 2020 ($ Thousands)	**Actual Total Portfolio**	**2020 Annual Forecast Total Portfolio**
Conversion (1)	**$ 497**	**$ 16,021**
Infill (2)	**617**	**12,428**
Redevelopment (2)	**336**	**17,591**
Total for development	**$ 1,450**	**$ 46,040**

Three Months Ended March 31, 2019 ($ Thousands)	**Actual Total Portfolio**	**2019 Annual Forecast Total Portfolio**
Conversion (1)	$ 3,482	$ 20,381
Infill (2)	196	—
Redevelopment (2)	130	12,060
Total for development	$ 3,808	$ 32,441

(1) Includes costs from 2525 Cavendish.

(2) Infill and Redevelopment costs relate primarily to pre-approval costs such as application, consultant fees, and levies.

CAPITAL STRUCTURE

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

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

In addition, CAPREIT must comply with all investment and debt restrictions and financial covenants under the agreement with CMHC. Refer to Liquidity and Financial Condition in Section V of this report for further details.

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

As at March 31, 2020 CAPREIT is in compliance with all the investment and debt restrictions and financial covenants contained in the DOT, the LBA and the Credit Facilities. The total capital managed by CAPREIT and the results of compliance with the key covenants and liquidity metrics are summarized below:

($ Thousands)

As at		**March 31, 2020**	**December 31, 2019**
Mortgages payable		**$ 4,536,999**	$ 4,308,572
Bank indebtedness		**673,464**	623,893
Unitholders' equity		**8,531,457**	8,403,895
Total capital		**$ 13,741,920**	$ 13,336,360
	Threshold		
Total debt to gross book value [1]	Maximum 70.00%	**36.14%**	34.99%
Mortgage debt to gross book value		**31.47%**	30.56%
Total debt to gross historical cost [2]		**49.22%**	48.24%
Total debt to total capitalization [3]		**41.70%**	35.30%
Tangible net worth [1]	Minimum $2,400,000	**$ 8,542,016**	$ 8,421,096
For the four quarters ended		**March 31, 2020**	**December 31, 2019**
Debt service coverage ratio (times) [1]	Minimum 1.20	**1.97**	1.87
Interest coverage ratio (times) [1]	Minimum 1.50	**3.86**	3.69

[1] See note 19 to the accompanying condensed consolidated interim financial statements for details.

[2] Based on the historical cost of investment properties, calculated as CAPREIT's assets, as disclosed under IFRS, plus accumulated amortization on property, plant and equipment, CMHC fees and deferred loan costs, minus fair value adjustment on investment properties.

[3] Based on market capitalization as defined in the Performance Measures table of Section II of the MD&A, plus total debt.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

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

i) CAPREIT's business continues to be stable and is expected to generate sufficient ACFO on annual basis to fund the current level of distributions.
ii) CAPREIT's liquidity position as at March 31, 2020 remains strong at $99.2 million available on the Acquisition and Operating Facility, and has $182.3 million of cash and cash equivalents.

CAPREIT's Acquisition and Operating Facility bears an interest rate of 1.07%, after factoring the cross-currency swaps as discussed in note 18 of the condensed consolidated interim financial statements, and has $143.0 million of cash and cash equivalents invested in short-term investments generating interest revenue at a weighted average interest rate of 1.40% per annum.

($ Thousands) **As at March 31, 2020**		**Acquisition and Operating Facility**	
Facility	$	740,000	(1)
Less: USD LIBOR borrowings		(633,585)	(2), (4)
Euro LIBOR borrowings		—	(3)
Letters of credit		(7,223)	
Available borrowing capacity	$	99,192	
Weighted average interest rate including interest rate swaps		1.07%	

(1) In addition there is a $77,920 (€50,000) ERES Credit Facility and a $77,920 (€50,000) ERES Bridge Facility. There was $39,879 drawn under the ERES Credit Facility and no amounts drawn on this ERES Bridge Facility as of March 31, 2020.
(2) CAPREIT has net USD LIBOR borrowings of USD $446,596 (2019 - USD $446,428) that bears interest at the USD LIBOR rate plus a margin of 1.65% per annum.
(3) CAPREIT has net Euro LIBOR borrowings of €0 (2019 - €4,694) that bears interest at the Euro LIBOR rate plus a margin of 1.65% per annum, subject to a floor of 0%.
(4) CAPREIT entered into a number of cross-currency swaps to (i) hedge the USD-based loan into Euro, and (ii) convert the variable interest rate on the USD-based loan of USD LIBOR plus 1.65% into a weighted average fixed interest rate of 1.07% and remaining weighted average term of 1.11 years.

The Acquisition and Operating Facility matures on June 30, 2022 and the margins are renegotiated annually.

Investment properties with a fair value of $12.7 billion have been pledged as security as at March 31, 2020. In addition, CAPREIT has investment properties with a fair value of approximately $967.6 million, as at March 31, 2020, that are not encumbered by mortgages. $800.4 million of these investment properties are located in Canada and secure only the Acquisition and Operating Facility, while the remaining properties are located in Europe. CAPREIT intends to maintain unencumbered investment properties with an aggregate fair value in the range of $500 million to $550 million over the medium term. This range mainly represents a pool of MHC sites.

The working capital deficiency, as presented on CAPREIT's consolidated balance sheet as at March 31, 2020, is paid through DRIP and the Credit Facilities. Management does a liquidity forecast on a monthly basis which includes refinancings, property capital investments, potential acquisitions and potential dispositions to monitor the available capacity.

Mortgages Payable

CAPREIT takes a conservative approach and actively manages its mortgage portfolio to reduce interest costs while ensuring it is not overly exposed to interest rate volatility risk. Management takes a portfolio approach to its mortgage debt, proactively staggering maturities to reduce risk while taking advantage of the current low interest rate environment.
CAPREIT primarily focuses on multi-unit residential real estate in Canada, which is eligible for government-backed insurance for mortgages administered by CMHC, which benefits CAPREIT in two ways:

- CAPREIT obtains lower interest rate spreads for mortgage financing; and
- CAPREIT's overall renewal risk for mortgage refinancings is reduced as the mortgage insurance coverage is transferable between approved lenders and is effective for the full initial amortization period of the underlying mortgage ranging between 25 and 40 years.

In order to maintain and enhance its CMHC-insured financing program, and consistent with CMHC's risk management practices involving large borrowers, CAPREIT has entered into the LBA. Other than improving the efficiency and consistency of such processes such as underwriting, the LBA has not materially affected the manner in which CAPREIT conducts its business or its approach to mortgage financing.

As at March 31,	**2020**	**2019**
Percentage of CMHC-insured mortgages (1)	**98.4%**	97.6%
Percentage of fixed-rate mortgages (2)	**99.2%**	98.8%
Weighted average mortgage interest rate (3)	**2.74%**	3.02%
Weighted average mortgage term to maturity (years)	**4.92**	4.97

(1) Excludes the mortgages on the MHC sites and European financings.
(2) Taking into consideration interest rate swaps where hedge accounting is not being applied, 100% of mortgages are subject to fixed rates.
(3) Weighted average mortgage interest rate includes deferred financing costs and fair value adjustments on an effective interest rate basis. Including the amortization of the realized component of the loss on settlement of $32.5 million included in AOCL, the effective portfolio weighted average interest rate as at March 31, 2020 would be 2.80% (March 31, 2019 - 3.11%).

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

($ Thousands)

As at March 31,	**2020**	**2019**
Balance, beginning of the period	**$ 4,308,572**	$ 3,728,333
Add:		
New borrowings on acquisitions	**69,694**	73,719
Mortgages assumed (1)	**108,744**	73,469
Refinanced	**57,896**	11,071
Gain on foreign currency translation	**59,423**	(18,381)
Less:		
Mortgage principal amortization	**(32,904)**	(30,537)
Mortgages matured	**(23,708)**	(5,955)
Mortgages repaid on dispositions of investment properties	**(10,166)**	—
Change in deferred financing costs, fair value adjustments, net	**(552)**	117
Balance, end of the period	**$ 4,536,999**	**$ 3,831,836**

(1) Includes the mortgages on the properties assumed as part of the business combination. For details, please refer to note 4 of the condensed consolidated interim financial statements.

The following table presents refinancings, weighted average interest rates obtained, and mortgage top-ups closed or committed up to May 15, 2020, as well as those expected for the remainder of 2020.

($ Thousands)		Original Mortgage Amount	Original Stated Interest Rate		New Mortgage Amount	New [1] Stated [2] Interest Rate	Weighted Average Term on New Mortgages (Yrs)		Top-Up Financing Amount
The Canadian Portfolio									
First Quarter	$	23,708	4.80%	$	57,896	2.23%	10.0	$	34,187
Total and Weighted Average	$	23,708	4.80%	$	57,896	2.23%	10.0	$	34,187
Acquisitions		—	—		69,694	1.97%	7.2		69,694
Total and Weighted Average with Acquisitions	$	23,708	4.80%	$	127,590	2.09%	8.5	$	103,881
Subsequent to March 31, 2020									
Committed or completed (Canadian)	$	98,324	2.2%	$	165,396	1.89%	9.0	$	67,072
Acquisitions		—	—		33,427	2.06%	10.0		33,427
Expected for the remainder of 2020 [3]		192,602	2.24%		296,081	—	—		103,479
Subtotal and weighted average	$	314,634	2.38%	$	622,494	1.98%	8.9	$	307,859
The ERES Portfolio									
First Quarter	$	10,166	0.95%	$	—	—	—	$	(10,166)
Total and Weighted Average	$	10,166	0.95%	$	0	0.00%	0.0	$	(10,166)
Total and Weighted Average with Acquisitions	$	10,166	0.95%	$	0	0.00%	0.0	$	(10,166)
Subsequent to March 31, 2020									
Committed or completed (ERES)	$	—	—	$	97,808	1.58%	6.1	$	97,808
Subtotal and weighted average	$	10,166	0.95%	$	97,808	1.58%	6.1	$	87,642
Grand Total and weighted average	**$**	**324,800**	**2.38%**	**$**	**720,300**	**1.93%**	**8.5**	**$**	**395,501**

(1) Weighted average.
(2) Excludes CMHC, other financing costs and impact of hedging.
(3) Net of mortgage discharges of $27.3 million.

Management expects to raise between $580 million and $630 million in total mortgage renewals and refinancings for 2020 including operating lease purchased to date, excluding financings on acquisitions.

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

As at March 31, 2020
($ Thousands)

Year of Maturity	Mortgage Maturities [1]	Mortgages on the Same Properties Maturing in Other Years [1]	Total Mortgages	NOI of Properties with Maturing Mortgage(s)[2], [3]
2020	$ 301,645	$ 92,375	$ 394,020	$ 49,421
2021	444,232	62,814	507,046	76,788
2022	423,890	15,603	439,493	68,815
2023	483,898	13,913	497,811	79,785
2024	268,345	(33,774)	234,571	43,769
2025 onward	1,931,332	(150,931)	1,780,401	204,413
Total	**$ 3,853,342**	**$ —**	**$ 3,853,342**	**$ 522,991**

[1] Mortgage balance due upon maturity.
[2] NOI for the 12 months ended March 31, 2020.
[3] Projected NOI included for acquisitions since March 31, 2019.

The breakdown of CAPREIT's Canadian dollar denominated future principal repayments, including mortgage maturities, and effective weighted average interest rates as at March 31, 2020 is as follows:

As at March 31, 2020
($ Thousands)

Period	Principal Amortization	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) [1], [2]
2020	$ 99,150	$ 301,645	$ 400,795	11.1	2.70
2021	120,037	444,232	564,269 [3]	15.6	3.36
2022	109,673	346,104	455,777	12.6	3.09
2023	91,426	327,029	418,455	11.6	3.26
2024	76,107	244,356	320,463	8.8	3.73
2025	67,156	322,083	389,239	10.7	2.76
2026	46,229	298,212	344,441	9.5	2.74
2027	29,014	188,379	217,393	6.0	3.09
2028	22,045	121,444	143,489	4.0	3.22
2029	12,782	215,918	228,700	6.3	2.91
2030-2034	15,063	124,299	139,362	3.8	2.93
	$ 688,682	**$ 2,933,701**	**$ 3,622,383**	**100.0%**	**3.07%** [2]
Deferred financing costs, fair value adjustments, net			(7,909)		
Total			**$ 3,614,474**		

[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.
[3] Included in mortgages payable is a $65.0 million non-amortizing credit facility on two of the MHC sites.

The breakdown for ERES of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at March 31, 2020 is as follows:

As at March 31, 2020
($ Thousands)

Period	**Principal Amortization**	**Mortgage Maturities**	**Mortgage Balance ($)**	**Mortgage Balance (€)**	**% of Total Mortgage Balance**	**Interest Rate (%)** [1], [2]
2020	$ 1,212	$ —	$ 1,212	€ 778	0.1	—
2021	1,627	—	1,627	1,044	0.2	—
2022	1,639	77,786	79,425	50,966 [3]	8.6	1.43
2023	1,651	156,869	158,520	101,720 [3]	17.1	1.50
2024	994	23,989	24,983	16,031	2.7	1.88
2025	—	361,500	361,500	232,139 [3]	39.0	1.88
2026	—	299,497	299,497	192,184 [3]	32.3	1.47
	$ 7,123	**$ 919,641**	**$ 926,764**	**€ 594,862**	**100.0%**	**1.64%** [2]
Deferred financing costs, fair value adjustments, net			(4,239)			
Total			**$ 922,525**			

[1] Effective weighted average interest rates for maturing mortgages only.
[2] Effective weighted average interest rate includes deferred financing costs and fair value adjustments.
[3] included in mortgages payable are non-amortizing mortgages from ERES.

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

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

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

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

Equity offerings and over-allotments for the periods ending March 31, 2020 and year ended December 31, 2019:

($ Thousands, except per Unit amounts)

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
December 2019 (the "December 2019 Equity Offering")					
Bought-deal (December 6, 2019)	$ 53.60	$ 425,048	$ 17,612	$ 407,436	7,930,000
Over-allotment (December 6, 2019)	$ 53.60	63,757	2,641	61,116	1,189,500
Total		$ 488,805	$ 20,253	$ 468,552	9,119,500

($ Thousands, except per Unit amounts)

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
April 2019 (the "April 2019 Equity Offering")					
Bought-deal (April 23, 2019)	$ 49.00	$ 300,125	$ 13,807	$ 286,318	6,125,000
Over-allotment (April 23, 2019)	$ 49.00	45,019	950	44,069	918,750
Total		$ 345,144	$ 14,757	$ 330,387	7,043,750

($ Thousands, except per Unit amounts)

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
January 2019 (the "January 2019 Equity Offering")					
Bought-deal (January 4, 2019)	$ 45.50	$ 250,250	$ 11,512	$ 238,738	5,500,000
Over-allotment (January 11, 2019)	$ 45.50	37,538	900	36,638	825,000
Total		$ 287,788	$ 12,412	$ 275,376	6,325,000

Market capitalization and units outstanding:

As at March 31, 2020	
Market capitalization ($ thousands)	**$ 7,258,150**
Number of Units outstanding	**171,030,602**
Deferred Units	**157,329**
RUR Plan Units	**611,482**
Ownership by trustees, officers and senior managers	**0.7%**

SECTION VI: COMPLIANCE AND GOVERNANCE DISCLOSURES, RISKS AND UNCERTAINTIES

SELECTED CONSOLIDATED QUARTERLY INFORMATION

	Q1 20	Q4 19	Q3 19	Q2 19	Q1 19	Q4 18	Q3 18	Q2 18
Overall portfolio net AMR	$ 1,105	$ 1,084	$ 1,069	$ 1,050	$ 1,093	$ 1,103	$ 1,079	$ 1,065
Operating revenues (000s) [(1)]	$ 216,060	$ 206,878	$ 198,760	$ 190,735	$ 181,511	$ 177,667	$ 172,298	$ 170,601
NOI (000s) [(1), (2)]	$ 138,058	$ 135,704	$ 132,844	$ 125,767	$ 113,835	$ 112,313	$ 113,850	$ 110,868
NOI Margin [(1)]	63.9%	65.6%	66.8%	65.9%	62.7%	63.0%	66.1%	65.0%
Net Income (000s)	$ 79,633	$ 492,267	$ 330,341	$ 167,329	$ 205,510	$ 736,267	$ 119,594	$ 261,612
FFO (000s) [(1), (2)]	$ 92,513	$ 87,863	$ 88,860	$ 84,091	$ 73,814	$ 69,312	$ 77,290	$ 76,165
NFFO (000s) [(1), (2)]	$ 93,147	$ 89,341	$ 89,513	$ 85,062	$ 75,205	$ 71,414	$ 77,933	$ 76,829
Total debt to gross book value	36.14%	34.99%	36.74%	36.34%	37.67%	39.37%	40.48%	40.53%
FFO per Unit [(1)] - basic	$ 0.544	$ 0.538	$ 0.554	$ 0.531	$ 0.485	$ 0.477	$ 0.535	$ 0.530
NFFO per Unit [(1)] - basic	$ 0.547	$ 0.547	$ 0.558	$ 0.538	$ 0.484	$ 0.492	$ 0.540	$ 0.535
Weighted average number of Units (000s) - basic	170,206	163,295	160,328	158,237	152,212	145,199	144,431	143,623
Weighted average number of Units (000s) - diluted	170,780	163,840	160,895	158,806	152,778	145,784	145,831	144,982

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

CAPREIT's operations are affected by seasonal cycles, and operating performance in one quarter may not be indicative of operating performance in any other quarter of the year. The fourth and first quarters of each year typically tend to generate weaker performance due to increased energy consumption in the winter months. There may be periods where actual distributions declared may exceed cash generated from (utilized in) operating activities after interest paid, primarily due to weaker performance in certain periods from seasonal fluctuations. These seasonal or short-term fluctuations are funded, if necessary, with our Acquisition and Operating Facility. CAPREIT determines its annual distributions and the annual distribution rate by, among other considerations, its assessment of ACFO (a non-IFRS measure). As such, CAPREIT believes the cash distributions are not an economic return of capital, but a distribution of adjusted cash flow from operating activities.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS

Summary of Significant Accounting Policies

A summary of significant accounting policies can be found in note 2 to CAPREIT's condensed consolidated interim financial statements for the three months ended March 31, 2020.

Critical Accounting Estimates, Assumptions, and Judgments

A summary of accounting estimates, assumptions and judgments can be found in note 3 to CAPREIT's condensed consolidated interim financial statements for the three months ended March 31, 2020.

CONTROLS AND PROCEDURES

CAPREIT maintains appropriate information systems, procedures and controls to provide reasonable assurance that information disclosed externally is complete, reliable and timely. Pursuant to the Canadian Securities Administrators requirements under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, CAPREIT's Chief Executive Officer and the Chief Financial Officer have satisfied themselves that as at March 31, 2020, the design of disclosure controls and procedures and the design of internal controls over financial reporting continue to be appropriate.

CAPREIT did not make any significant changes to the design of internal controls over financial reporting in the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and the activities of CAPREIT. The following is a description of risks in CAPREIT's day-to-day operations. In additional to the risks described herein, reference is made to the risks and uncertainties section in CAPREIT's MD&A for the year ended December 31, 2019 in the Risks and Uncertainties section contained in CAPREIT's 2019 Annual Report and in CAPREIT's latest Annual Information Form.

COVID-19 and Public Health Crises

Public health crises, including the ongoing health crisis related to the COVID-19 pandemic, or relating to any other virus, flu, epidemic, pandemic or any other similar disease or illness (each a "Health Crisis") could adversely impact CAPREIT, including through: a general or acute decline in economic activity in the countries and regions in which CAPREIT's properties and investments are located; increased unemployment, supply shortages, mobility restrictions and other quarantine measures; increased government regulation, inability to access governmental programs or processes on a timely basis, efficacy of governmental relief efforts; and the quarantine or contamination of one or more of our properties. Contagion in a property or market in which CAPREIT operates could negatively impact its occupancy, reputation or attractiveness of that market. Furthermore, increased government regulation relating to a Health Crisis could result in legislation or regulations that may restrict CAPREIT's ability to enforce material provisions under its leases, including in respect of the collection of rent or other payment obligations, among other potential adverse impacts. All of these occurrences may have a material adverse effect on the business, cash flows, financial condition and results of operations of CAPREIT, including, but not limited to: the ability to implement rent increases; rent collection and receivables; vacancy levels; mortgage renewals and refinancings; submission and processing of various applications and approvals; deferral of certain capital expenditures and R&M expenditures; valuation of investment properties; CAPREIT's ability to meet its debt covenant restrictions; and CAPREIT's ability to raise capital.

The current public health crisis has also resulted in general economic slowdown and extreme volatility in financial markets. In addition to impacting CAPREIT's unit price, this may create difficulty in raising capital in debt and equity markets, which could in turn adversely impact CAPREIT's strategy. While various governments and central banks have announced or implemented a range of measures targeted to alleviate these impacts and encourage economic growth, the impact of these measures remains uncertain, particularly in the short term.

RELATED PARTY TRANSACTIONS

As at March 31, 2020, CAPREIT has an 18.3% share ownership in IRES and has determined it has significant influence over IRES. Additionally, CAPREIT has a controlling interest of 66.0% effective ownership in ERES. A summary of related party transactions can be found in note 25 to CAPREIT's condensed consolidated interim financial statements for the three months ended March 31, 2020.

COMMITMENTS AND CONTINGENCIES

A summary of commitments and contingencies can be found in notes 26 and 27 to CAPREIT's condensed consolidated interim financial statements for the three months ended March 31, 2020.

SUBSEQUENT EVENTS

A summary of subsequent events can be found in note 29 to CAPREIT's condensed consolidated interim financial statements for the three months ended March 31, 2020.

FUTURE OUTLOOK

CAPREIT believes the multi-unit residential rental business will continue to strengthen in the majority of the markets in which it operates over the long term. With strong market fundamentals, and through its proven property and asset management programs, CAPREIT expects to generate modest annual increases in same-property Net AMR while stabilizing average occupancies in the range of 97% to 99% on an annual basis, which may be temporarily impacted by the COVID-19 pandemic. CAPREIT also anticipates operating revenues will benefit from programs that enhance ancillary revenues, including fees for parking, commercial leases, laundry, cable, telecommunications and other income sources. In addition, numerous successful cost management initiatives are proving effective, leading to stable and growing same property NOI over the long term.

CAPREIT believes the strong defensive characteristics of its property portfolio, due to diversification by geography in Canada and the Netherlands, and by property type, including its strong presence in the Canadian MHC business, will serve to mitigate the negative impact of any future unfavourable economic conditions that certain regions may experience (please refer to "COVID-19 and Public Health Crises" above).

CAPREIT continues to evaluate opportunities to expand and diversify its property portfolio through accretive acquisitions at below replacement cost where management believes it can enhance returns on investment by increasing and stabilizing occupancy, growing Net AMRs, reducing operating costs, and enhancing property values through its capital investment and property improvement programs. CAPREIT is also targeting modernizing and reducing the average age of its property portfolio by acquiring newer, recently constructed properties. Newer properties attract higher-quality residents and require less repair and maintenance or capital improvement costs. While CAPREIT's strategy is to remain principally focused on its core Canadian markets, CAPREIT continues to consider select opportunities in other geographic markets.

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:

- CAPREIT maintains a focus on maximizing occupancy and Net AMR in accordance with local conditions in each of its markets. Since its inception in May 1997, CAPREIT's hands-on management style has focused on ensuring it maintains strong relations with its residents while its capital investment and property improvement programs are aimed at enhancing the lives of its residents and ensuring properties and amenities meet their needs.

- CAPREIT continues to invest in and adopt the latest technologies and solutions to enhance the REIT's risk management, market research and operating efficiency, while reducing costs and strengthening relationships with its residents.

- CAPREIT's building infrastructure improvement programs are designed to upgrade and reposition properties through 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 the portfolio's useful life over the long term.

From time to time, CAPREIT may identify certain non-core assets for sale that do not conform to its current portfolio composition or operating strategies, or where CAPREIT believes their value has been maximized. CAPREIT believes the realization and reinvestment of capital from such non-core property dispositions are fundamental components of its growth strategy and demonstrate the success of its investment programs.

CAPREIT will prudently investigate the opportunity to develop new multi-unit rental residential properties on land it owns, as well as add new rental suites in certain properties where the opportunity exists. Such investments are highly accretive as no land costs are incurred and serve to further modernize and reduce the average age of its portfolio. CAPREIT believes its current portfolio provides the opportunity to add new rental suites over time through its development and intensification initiatives, primarily in Vancouver and Toronto where demand remains strong and monthly rents support profitable investment.

CAPREIT continues to manage interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce borrowing costs on its credit facilities while appropriately staggering the maturity dates within its mortgage portfolio to ensure it is not exposed to refinancing risk. CAPREIT believes that, with the continuing availability of lower cost CMHC-insured financing, CAPREIT is well positioned to meet its financing and refinancing objectives at reasonable costs.

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

Through numerous ESG programs, CAPREIT ensures it remains a responsible steward of the environment, attracts and retains the best people in its business, builds strong relationships with its residents and the communities in which they live, adopts best practice programs in corporate governance, and maintains open and transparent communication with its investors.

As discussed in context in various sections of this MD&A, management continues to monitor the potential impact to CAPREIT of the COVID-19 pandemic and assess and implement, as applicable, various measures designed to help ensure the health and safety of our communities and to mitigate the potential areas of risk to our business.

SECTION VII: SUPPLEMENTAL INFORMATION

PROPERTY PORTFOLIO

Types of Property Interests

CAPREIT's investments in its property portfolio reflect different forms of property interests, including: Fee Simple Interests – Apartments and Townhomes, Operating Leasehold Interests, Land Leasehold Interests and Fee Simple Interests – MHC Sites.

For a comprehensive description of the different forms of property interests listed above, refer to CAPREIT's MD&A for the year ended December 31, 2019 contained in CAPREIT's 2019 Annual Report.

Portfolio Diversification

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

Portfolio by Geography

As at March 31,	2020	%	2019	%
Residential Suites				
Ontario				
Greater Toronto Area	**16,156**	**25.9**	15,658	29.5
Ottawa	**2,377**	**3.8**	2,377	4.5
London / Kitchener / Waterloo	**2,960**	**4.8**	2,407	4.5
Other Ontario	**1,702**	**2.7**	1,702	3.2
	23,195	**37.2**	22,144	41.7
Québec				
Greater Montréal Region	**7,767**	**12.4**	7,482	14.1
Québec City	**2,517**	**4.0**	2,517	4.7
	10,284	**16.4**	9,999	18.8
British Columbia				
Greater Vancouver Region	**3,551**	**5.7**	3,217	6.0
Victoria	**1,550**	**2.5**	1,478	2.8
	5,101	**8.2**	4,695	8.8
Alberta				
Edmonton	**544**	**0.9**	435	0.8
Calgary	**1,963**	**3.1**	1,884	3.6
	2,507	**4.0**	2,319	4.4
Nova Scotia				
Halifax	**3,162**	**5.1**	1,659	3.1
Saskatchewan				
Regina	**234**	**0.4**	234	0.4
	234	**0.4**	234	0.4
Prince Edward Island				
Charlottetown	**637**	**1.0**	537	1.0
Europe				
The Netherlands [(1)]	**5,632**	**9.0**	3,859	7.3
Total residential suites	**50,752**	**81.3**	45,446	85.5
MHC Sites				
Ontario	**3,961**	**6.4**	3,110	5.9
Québec	**429**	**0.7**	—	—
British Columbia	**490**	**0.8**	355	0.7
Alberta	**2,079**	**3.3**	1,032	1.9
Nova Scotia	**127**	**0.2**	—	—
Saskatchewan	**376**	**0.6**	380	0.7
Prince Edward Island	**772**	**1.2**	504	0.9
New Brunswick	**3,447**	**5.5**	2,316	4.4
Total MHC sites	**11,681**	**18.7**	7,697	14.5
Total suites and sites	**62,433**	**100.0**	53,143	100.0

[(1)] Includes all residential properties owned by ERES.

While maintaining a strong and strategic presence in Ontario's vibrant residential market, CAPREIT continues to focus on diversifying its geographic portfolio outside of Ontario by increasing its presence in other markets with strong fundamentals. CAPREIT continues to look for investment opportunities that meet its investment criteria and that, where possible, will further its diversification strategy. The geographic diversification of its portfolio also enables CAPREIT to mitigate the risks arising from potential downturns in any specific markets.

CAPREIT

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2020 (UNAUDITED)

TABLE OF CONTENTS

CONSOLIDATED BALANCE SHEETS

(CA$ Thousands)

As at	Note		March 31, 2020 (Unaudited)		December 31, 2019 (Audited)
Non-current assets					
Investment properties	6	$	**13,702,525**	$	13,096,426
Other non-current assets	7		**399,538**		385,435
			14,102,063		13,481,861
Current assets					
Other current assets	7		**50,031**		58,760
Cash and cash equivalents			**182,256**		477,328
			232,287		536,088
		$	**14,334,350**	$	14,017,949
Non-current liabilities					
Mortgages payable	11	$	**4,072,838**	$	3,872,125
Bank indebtedness	12		**673,464**		623,893
Unit-based compensation financial liabilities	13, 14		**12,536**		14,391
ERES units held by non-controlling unitholders	10		**292,349**		364,928
Other non-current liabilities	8		**6,766**		3,361
Deferred income tax liability	20		**38,383**		32,312
Lease liability			**37,517**		37,775
			5,133,853		4,948,785
Current liabilities					
Mortgages payable	11		**464,161**		436,447
Unit-based compensation financial liabilities	13, 14		**13,872**		18,658
Accounts payable and accrued liabilities	9		**97,649**		116,544
Other current liabilities	8		**32,212**		34,512
Security deposits			**41,566**		39,575
Distributions payable			**19,580**		19,533
			669,040		665,269
		$	**5,802,893**	$	5,614,054
Unitholders' equity					
Unit capital		$	**4,034,527**	$	4,013,941
Accumulated other comprehensive income (loss)	21		**66,526**		(19,510)
Retained earnings			**4,430,404**		4,409,464
		$	**8,531,457**	$	8,403,895
		$	**14,334,350**	$	14,017,949

See accompanying notes to the condensed consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(CA$ Thousands)

For the Three Months Ended March 31, (Unaudited)	Note	**2020**	2019
Operating revenues			
Revenue from investment properties	24	**$ 216,060**	$ 181,896
Operating expenses			
Realty taxes		**(19,868)**	(17,901)
Property operating costs		**(58,134)**	(50,160)
		(78,002)	(68,061)
Net rental income		**138,058**	113,835
Trust expenses		**(11,364)**	(10,346)
Transaction costs		**—**	(8,527)
Unit-based compensation recovery (expense)	14	**5,252**	(7,552)
Fair value adjustments of investment properties	6	**(31,919)**	123,316
Realized loss on disposition of investment properties	5	**(753)**	—
Amortization of property, plant and equipment		**(1,771)**	(1,415)
Gain on non-controlling interest	10	**69,679**	—
Fair value adjustments of investments		**(6,870)**	7,522
Gain on derivative financial instruments	18	**6,489**	6,438
Interest and other financing costs	22	**(34,796)**	(31,631)
(Loss) gain on foreign currency translation		**(53,808)**	12,266
Other income	24	**6,943**	4,406
Net income before income taxes		**85,140**	208,312
Current and deferred income tax expense	20	**(5,507)**	(2,802)
Net income		**$ 79,633**	$ 205,510
Other comprehensive income (loss), including items that may be reclassified subsequently to net income			
Amortization of losses from AOCL to interest and other financing costs	21	**$ 634**	$ 640
Gain (loss) on foreign currency translation	21	**85,402**	(28,914)
Other comprehensive income (loss)		**$ 86,036**	$ (28,274)
Comprehensive income		**$ 165,669**	$ 177,236

See accompanying notes to the condensed consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(CA$ Thousands)

(Unaudited)	Note	Unit Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Unitholders' Equity, January 1, 2020		**$ 4,013,941**	**$ 4,409,464**	**$ (19,510)**	**$ 8,403,895**
Unit capital					
Distribution Reinvestment Plan	15	**18,794**	**—**	**—**	**18,794**
RUR Plan	14,15	**1,131**	**—**	**—**	**1,131**
Employee Unit Purchase Plan	14	**661**	**—**	**—**	**661**
		20,586	**—**	**—**	**20,586**
Retained earnings and other comprehensive income					
Net income		**—**	**79,633**	**—**	**79,633**
Other comprehensive income		**—**	**—**	**86,036**	**86,036**
		—	**79,633**	**86,036**	**165,669**
Distributions on Trust Units					
Distributions declared and paid	16	**—**	**(39,113)**	**—**	**(39,113)**
Distributions payable	16	**—**	**(19,580)**	**—**	**(19,580)**
		—	**(58,693)**	**—**	**(58,693)**
Unitholders' Equity, March 31, 2020		**$ 4,034,527**	**$ 4,430,404**	**$ 66,526**	**$ 8,531,457**

(Unaudited)	Note	Unit Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Unitholders' Equity, January 1, 2019		$ 2,855,701	$ 3,432,153	$ 28,846	$ 6,316,700
Unit capital					
New Units issued	15	275,376	—	—	275,376
Distribution Reinvestment Plan	15	15,260	—	—	15,260
RUR Plan	14,15	4,721	—	—	4,721
Employee Unit Purchase Plan	14	415	—	—	415
		295,772	—	—	295,772
Retained earnings and other comprehensive loss					
Net income		—	205,510	—	205,510
Other comprehensive loss		—	—	(28,274)	(28,274)
		—	205,510	(28,274)	177,236
Distributions on Trust Units					
Distributions declared and paid	16	—	(33,735)	—	(33,735)
Distributions payable	16	—	(17,528)	—	(17,528)
		—	(51,263)	—	(51,263)
Unitholders' Equity, March 31, 2019		$ 3,151,473	$ 3,586,400	$ 572	$ 6,738,445

See accompanying notes to the condensed consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(CA$ Thousands)

For the Three Months Ended March 31, (Unaudited)		2020	2019
Cash provided by (used in):	Note		
Operating activities			
Net income		$ **79,633**	$ 205,510
Items related to operating activities not affecting cash:			
Fair value adjustments - investment properties		**31,919**	(123,316)
Fair value adjustments - investments		**6,870**	(7,522)
Mark-to-market gain on ERES units	10	**(72,693)**	—
Loss on disposition of investment properties	5	**753**	—
Gain on derivative financial instruments	18	**(6,489)**	(6,438)
Amortization	7, 21, 22	**4,625**	3,909
Unit-based compensation (recovery) expense	14	**(5,252)**	7,552
Straight-line rent adjustment		**(60)**	(11)
Deferred income tax expense	20	**3,926**	2,801
Net profit from equity accounted investments	24	**(2,749)**	(1,985)
Unrealized foreign currency loss (gain)		**53,808**	(12,266)
		94,291	68,234
Net income items related to financing and investing activities	23	**34,896**	28,582
Changes in non-cash operating assets and liabilities	23	**(25,716)**	(13,127)
Cash provided by operating activities		**103,471**	83,689
Investing activities			
Acquisition of investment properties	23	**(341,836)**	(226,919)
Capital investments	23	**(47,333)**	(46,049)
Operating lease buyout	6	**(19,045)**	—
Disposition of investment properties	23	**15,333**	—
Change in restricted cash		**(322)**	80
Investment income received		**6,220**	4,000
Cash acquired on business combination		**—**	9,069
Cash used in investing activities		**(386,983)**	(259,819)
Financing activities			
Mortgage financings	23	**127,590**	84,791
Mortgage principal repayments	23	**(32,904)**	(30,537)
Mortgages repaid on maturity	23	**(23,708)**	(5,955)
Lease payments		**(806)**	(651)
Financing costs		**(837)**	(423)
CMHC premiums on mortgages payable		**(2,967)**	(1,452)
Interest paid on mortgages and bank indebtedness	23	**(33,213)**	(28,596)
Bank indebtedness	23	**(4,584)**	(63,534)
Proceeds on issuance of Units, net of issuance costs	23	**513**	275,791
Net cash distributions to Unitholders and ERES non-controlling unitholders	23	**(43,238)**	(34,620)
Cash (used in) provided by financing activities		**(14,154)**	194,814
Changes in cash and cash equivalents during the period		**(297,666)**	20,511
Effect of exchange rate changes on cash		**2,594**	(1,827)
Cash and cash equivalents, beginning of the period		**477,328**	25,713
Cash and cash equivalents, end of the period		$ **182,256**	$ 44,397

See accompanying notes to the condensed consolidated interim financial statements.

1. Organization of the Trust

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

CAPREIT converted from a closed-end real estate investment trust to an open-ended mutual fund trust on January 8, 2008, and is governed under the laws of the Province of Ontario by a Declaration of Trust ("DOT") dated February 3, 1997, as most recently amended and restated on April 1, 2020. CAPREIT commenced active operations on February 4, 1997 when it acquired an initial portfolio of properties, and became a reporting issuer on May 21, 1997, pursuant to an initial public offering prospectus dated May 12, 1997.

CAPREIT Limited Partnership ("CAPLP") is a wholly-owned consolidated subsidiary of CAPREIT established under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated June 26, 2007, and as amended on April 1, 2008, owns directly or indirectly the beneficial interest of all its properties along with the related mortgages and all the corporate debt obligations of CAPREIT.

CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited, entered into an external investment management agreement to perform property and asset management services for Irish Residential Properties REIT plc ("IRES"), an Irish residential REIT listed on the Euronext Dublin exchange. As at March 31, 2020, CAPREIT holds 95.5 million (December 31, 2019 - 95.5 million) ordinary shares, representing 18.3% (December 31, 2019 - 18.3%) of the issued share capital of IRES. Refer to note 25 for further details.

On March 29, 2019, CAPREIT NL Holding B.V. ("Holding BV") which indirectly owned the beneficial interest in a portfolio of 2,091 residential suites in the Netherlands, completed the reverse acquisition (the "Acquisition") of European Commercial Real Estate Investment Trust ("ECREIT"), and the ongoing entity adopted the name European Residential Real Estate Investment Trust ("ERES"). Pursuant to the Acquisition, CAPREIT, the sole shareholder of Holding BV, exchanged all its shares of Holding BV for 81.6 million Class B Limited Partnership units ("Class B LP Units") of ERES Limited Partnership ("ERES LP"). Class B LP Units are exchangeable, on a one-for-one basis, for units of ERES ("ERES units") at the option of the holder, and have economic and voting rights through special voting units of ERES that are equivalent, in all material respects, to ERES units. CAPREIT determined that ECREIT meets the definition of a business and the Acquisition has been accounted for as a business combination.

Upon exchange of the ERES LP Class B LP Units and together with its holding of ERES units, as at March 31, 2020, CAPREIT holds a 66.0% (December 31, 2019 - 66.0%) ownership of ERES, with the remaining 34.0% (December 31, 2019 - 34.0%) held by non-controlling unitholders.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

These condensed consolidated interim financial statements, which have been approved by CAPREIT's Board of Trustees on May 15, 2020, have been prepared in accordance with IAS 34, Interim Financial Reporting ("IAS 34"), as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed.

The condensed consolidated interim financial statements are prepared on a going concern basis and are presented in Canadian dollars, which is also CAPREIT's functional currency. CAPREIT's results for the three months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in utility costs and other factors. CAPREIT has historically experienced higher utility expenses in the first and last quarters as a result of the winter months, which create variations in the quarterly results.

Certain prior year figures in 2019 have been restated to conform with current year presentation.

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2019. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended December 31, 2019.

Impact of Accounting Standards Effective January 1, 2020 on CAPREIT's Current Year Consolidated Financial Statements:

IFRS 3, Business Combinations ("IFRS 3")

The IASB published an amendment to the requirements of IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendment clarifies the definition of a business and provides additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020 with earlier application permitted. There was no impact on transition as the amendment is effective for business combinations for which the acquisition date is on or after the transition date. Therefore, no adjustment was required for acquisitions that were completed prior to January 1, 2020. The amendment was applied during the three months ended March 31, 2020.

Future Accounting Changes

CAPREIT has assessed the new or amended IFRS issued by the IASB for annual reporting periods beginning after December 31, 2020. None of the new or amended IFRS are expected to have a significant impact on CAPREIT.

3. Critical Accounting Estimates, Assumptions and Judgments

The preparation of condensed consolidated interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying CAPREIT's accounting policies. The critical accounting estimates and judgments have been set out in detail in note 3 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2019.

The estimates or judgments deemed to be most significant, due to subjectivity and the potential risk of causing a significant adjustment within the next financial year to the carrying amounts of assets and liabilities, are noted below:

i) Valuation of Investment Properties

ii) Valuation of Financial Instruments

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

iv) Business Combination

v) Valuation of Goodwill

In addition to the discussion of these critical accounting estimates and judgments as set out in note 3 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2019, the significant global uncertainty resulting from the novel coronavirus ("COVID-19") pandemic has the following impact:

i) Valuation of Investment Properties

The availability of reliable market metrics to inform opinions of value is reduced, and therefore a higher degree of judgment must be applied. Consequently, fair values are subject to significant change. Refer to note 6 for further information.

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

ii) Valuation of Financial Instruments

The fair value of CAPREIT's derivatives as reported may differ significantly from the amounts they are ultimately settled for due to volatility between the valuation date and settlement date. In response to the developing COVID-19 pandemic, there is increased volatility in the financial markets. CAPREIT is subject to these market fluctuations, impacting interest rates upon which the fair values of CAPREIT's interest rate swaps are derived, and expects to continue to experience significant volatility in interest rates as the situation evolves. As a result, there is uncertainty in the future expected interest rates (forward curves) upon which are based the expected variable cash receipts, thereby impacting the fair values of CAPREIT's interest rate swaps.

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

In response to the developing COVID-19 pandemic, there is increased volatility in the financial markets. IRES is subject to these market fluctuations, impacting its share price which may continue to experience significant volatility as the situation evolves. CAPREIT has determined that the deficiency of the market capitalization of IRES over the carrying amount of the investment as at March 31, 2020 is an indicator of impairment. As such, an impairment assessment was performed. The recoverable amount was determined using a value in use approach using inputs classified as Level 3 in the fair value hierarchy. Based on this analysis, an impairment of $nil was recorded for the three months ended March 31, 2020. Refer to note 7 for further information.

iv) Valuation of Goodwill

CAPREIT recognized goodwill pursuant to the Acquisition, which was tested for impairment in the fourth quarter of the year ended December 31, 2019, resulting in an impairment of $nil being recorded. As a result of the COVID-19 pandemic, there is an increased risk that goodwill may be impaired due to the economic uncertainty and financial market response. CAPREIT has determined that the decline in the market capitalization of ERES as at March 31, 2020 is an indicator of impairment. However, as the impact of the COVID-19 pandemic on the wider global economy has not impacted the fundamentals of ERES' business, an impairment of $nil has been recorded for the three months ended March 31, 2020.

4. Recent Investment Property Acquisitions

CAPREIT completed the following investment property acquisitions since January 1, 2019, which have contributed to the operating results effective from their respective acquisition dates.

The below tables do not include $19.0 million of CAPREIT's operating lease buyout completed during the three months ended March 31, 2020 (year ended December 31, 2019 - $14.7 million).

Acquisitions Completed During the Three Months Ended March 31, 2020

Acquisition Date	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate [1]	Term to Maturity (Years) [2]
February 10, 2020	1,503	Halifax, NS	$ 394,734	$ 108,744	$ —	1.94	1.14
March 4, 2020	112	Montreal, QC	44,331	— [3]	— [3]	— [3]	— [3]
March 16, 2020	109	Edmonton, Alberta	28,392	— [3]	— [3]	— [3]	— [3]
Total	**1,724**		**$ 467,457**	**$ 108,744**	**$ —**		

[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 cash and cash equivalents invested in short-term investments.

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

Acquisitions Completed During the Year Ended December 31, 2019

Acquisition Date	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate [1]	Term to Maturity (Years) [2]
February 26, 2019	511	The Netherlands	$ 153,424	$ —	$ 89,586	0.97	4.00
March 14, 2019	1,104	Various [4]	66,866	— [3]	—	— [3]	— [3]
April 15, 2019	191	Langley, BC	70,000	—	44,222	2.90	15.00
May 27, 2019	181	Various [5]	11,317	— [3]	—	— [3]	— [3]
May 28, 2019	3,898	Various [6]	204,955	74,345	—	3.38	2.39
June 7, 2019	72	Victoria, BC	26,558	—	18,368	2.44	10.00
June 20, 2019	98	Langley, BC	39,045	—	22,839	2.92	15.00
July 31, 2019 [7]	506	Toronto, Ontario	63,790	— [3]	—	— [3]	— [3]
August 1, 2019	942	The Netherlands	246,602	—	143,367	1.28	7.00
August 30, 2019	553	London, Ontario	70,301	— [3]	—	— [3]	— [3]
August 30, 2019	42	Charlottetown, PEI	7,430	— [3]	—	— [3]	— [3]
September 30, 2019	315	The Netherlands	95,076	—	77,639	1.45	7.00
October 15, 2019	64	Summerside, PEI	11,844	— [3]	—	— [3]	— [3]
October 31, 2019	294	The Netherlands	98,295	—	58,220	1.55	7.00
November 21, 2019	121	Montreal, QC	33,990	— [3]	—	— [3]	— [3]
December 12, 2019	79	Calgary, AB	19,578	— [3]	—	— [3]	— [3]
December 16, 2019	222	The Netherlands	152,362	— [8]	—	— [8]	— [8]
December 19, 2019	48	New Westminster, BC	13,475	— [3]	—	— [3]	— [3]
Total	**9,241**		**$1,384,908**	**$ 74,345**	**$ 454,241**		

[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.
[4] The acquisition comprised 13 properties consisting of 407 sites in Ontario, 615 sites in Alberta, and 82 sites in British Columbia.
[5] The acquisition comprised 3 properties consisting of 56 sites in Ontario and 125 sites in British Columbia.
[6] The acquisition comprised 24 properties consisting of 800 sites in Ontario, 1,050 sites in Alberta, 1,211 sites in New Brunswick, 128 sites in Nova Scotia, 280 sites in Prince Edward Island, and 429 sites in Quebec. The balance of the purchase was funded from CAPREIT's Acquisition and Operating Facility.
[7] In 2015 CAPREIT entered into an agreement to acquire one-third undivided interest in the residential component of a property upon completion. On July 31, 2019, CAPREIT acquired a 19.8% interest in the property, with an additional 5.3% interest acquired on each August 31, 2019 and September 30, 2019, and a final interest of 3% acquired on October 31, 2019. As at December 31, 2019, CAPREIT's interest stood at 33.3%.
[8] The acquisition was primarily funded from the ERES Credit Facility with the balance funded from CAPREIT's Acquisition and Operating Facility.

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

5. Dispositions

The table below summarizes the dispositions completed during the three months ended March 31, 2020.

Dispositions Completed During the Three Months Ended March 31, 2020

Disposition Date	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
January 31, 2020 [1]	—	Germany	$ 25,585	$ 15,419	$ 10,166
March 30, 2020	6	Charlottetown, PEI	675	675	—
Total	**6**		**$ 26,260**	**$ 16,094**	**$ 10,166**

[1] This is a commercial property held by ERES consisting of 58,513 square feet.

There were no property dispositions during the year ended December 31, 2019.

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

6. Investment Properties

Valuation Basis

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

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

Investment properties have been valued using the same valuation methods and key assumptions as those described in note 6 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2019 contained in CAPREIT's 2019 Annual Report.

In addition, due to the COVID-19 pandemic and the ongoing impact on the economy, and specifically its unknown future impact on the real estate market, there is heightened uncertainty surrounding the valuation of the investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie CAPREIT's valuation methodologies. In addition, less weight can be ascribed to previous market evidence, for comparative purposes, to inform opinions of value. Given this impact on the availability of reliable market metrics, fair values are subject to significant change. The fair values of CAPREIT's investment properties as at March 31, 2020 are therefore subject to significant change.

A summary of the market assumptions and ranges for each type of property interest, along with their fair values, are presented below as at March 31, 2020 and December 31, 2019:

As at March 31, 2020

Type of Interest	Fair Value	WA NOI / Cash Flow [1]	Rate Type	Max	Min	Weighted Average
Fee simple interests [6]	$ 12,048,928	$ 3,667	Capitalization rate	7.65%	2.15%	3.99%
MHC sites	601,820	1,872	Capitalization rate	9.57%	5.00%	6.30%
Operating leasehold interests [2], [3], [4]	853,889	4,638	Discount rate [5]	6.00%	5.50%	5.59%
Land leasehold interests [2]	160,880	3,556	Discount rate [5]	8.00%	6.50%	7.28%
Total Investment Properties excluding right-of-use assets	**$ 13,665,517**					
Add: Right-of-use assets, net of fair value change	37,008					
Total Investment Properties	**$ 13,702,525**					

As at December 31, 2019

Type of Interest	Fair Value	WA NOI / Cash Flow [1]	Rate Type	Max	Min	Weighted Average
Fee simple interests [6]	$ 11,332,684	$ 3,579	Capitalization rate	7.00%	2.15%	3.99%
MHC sites	601,820	1,872	Capitalization rate	9.57%	5.00%	6.30%
Operating leasehold interests [2], [3], [4]	962,879	4,637	Discount rate [5]	6.00%	5.50%	5.58%
Land leasehold interests [2]	161,920	3,547	Discount rate [5]	8.00%	6.50%	7.27%
Total Investment Properties excluding right-of-use assets	**$ 13,059,303**					
Add: Right-of-use assets, net of fair value change	37,123					
Total Investment Properties	**$ 13,096,426**					

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

(2) The fair values of operating leasehold interests subject to a contractual air rights lease and land leasehold interests subject to land leases reflect the estimated air rights or land lease payments over the term of the leases.

(3) The fair values of operating leasehold interests include the fair values of the options to purchase the related freehold interests of $412,799 as at March 31, 2020 (December 31, 2019 - $470,169). The decrease during the three months ended March 31, 2020 is due to exercise of an operating lease buyout option of $57,370 transferred to fee simple upon conversion of the leasehold interest into fee simple.

(4) For the eight pending operating lease buyouts, it is assumed that the buyout will occur within 2020. For the four remaining operating leasehold interests, the contractual weighted average remaining lease term on operating leasehold interests is 16.1 years as at March 31, 2020 (December 31, 2019 - 16.4 years) based on the assumption that the early purchase option is not exercised. If the purchase option is exercised at the earliest allowable date, the weighted average remaining lease term on the four remaining operating leasehold interests is 6.1 years as at March 31, 2020 (December 31, 2019 - 6.4 years).

(5) Represents the discount rate used to determine the fair value of operating leasehold interests using the Discounted Cash Flow ("DCF") method. A weighted average stabilized net operating income growth of 3.1% has been assumed as at March 31, 2020 and December 31, 2019, respectively.

(6) The fee simple interests include $2,099,773 (December 31, 2019 - $1,962,949) of CAPREIT's European portfolio with an implied capitalization rate of 3.91% (December 31, 2019 - 3.89%) which were valued using the DCF method at a weighted average discount rate of 5.81% and a terminal capitalization rate of 5.02% (December 31, 2019 - 5.81% and 5.16% respectively).

The below table summarizes the sensitivity impact of changes in both the capitalization rate and normalized NOI on CAPREIT's fair value of investment properties:

As at March 31, 2020		Change in NOI				
($ Thousands)		**(2.0)**%	**(1.0)**%	**—**%	**1.0**%	**2.0**%
Change in Capitalization Rate (1)	**(0.50)**%	1,563,237	1,714,420	1,865,603	2,016,787	2,167,970
	(0.25)%	586,572	727,789	869,006	1,010,223	1,151,441
	—%	(265,085)	(132,558)	—	132,496	265,023
	+0.25%	(1,014,838)	(889,962)	(765,085)	(640,209)	(515,333)
	+0.50%	(1,680,327)	(1,562,242)	(1,444,156)	(1,326,070)	(1,207,985)

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

Reconciliation of Carrying Amounts of Investment Properties by Type

For the Three Months Ended March 31, 2020	Fee Simple MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
Balance of Investment Properties, beginning of the period	$ 11,934,504	$ 965,869	$ 196,053	$ 13,096,426
Additions:				
Acquisitions	467,457	—	—	467,457
Property capital investments	38,639	3,786	819	43,244
Capitalized leasing costs (1)	(25)	2	(16)	(39)
Operating lease buyout (2)	—	19,045	—	19,045
Foreign currency translation	134,571	—	—	134,571
Dispositions	(26,260)	—	—	(26,260)
Transfer between investment property types (2)	128,035	(128,035)	—	—
Fair value adjustments	(26,173)	(3,790)	(1,956)	(31,919)
Balance of Investment Properties, end of the period	**$ 12,650,748**	**$ 856,877**	**$ 194,900**	**$ 13,702,525**

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

(2) During the three months ended March 31, 2020, CAPREIT purchased the freehold interest on one of its operating leasehold properties and converted the ownership into fee simple.

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

For the Three Months Ended March 31, 2019	Fee Simple MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
Balance of Investment Properties, beginning of the period	9,420,347	876,067	206,973	10,503,387
Additions:				
Properties acquired through Business Combination [1]	135,533	—	—	135,533
Acquisitions	220,290	—	—	220,290
Property capital investments	38,024	2,676	1,219	41,919
Capitalized leasing costs [2]	(21)	8	(126)	(139)
Foreign currency translation	(41,403)	—	—	(41,403)
Fair value adjustments	115,273	5,244	2,799	123,316
Balance of Investment Properties, end of the period	**$ 9,888,043**	**$ 883,995**	**$ 210,865**	**$ 10,982,903**

[1] Represents the fair value of the properties acquired as part of the Acquisition. For details, please refer to the audited consolidated annual financial statements for the year ended December 31, 2019.
[2] Comprises tenant inducements, straight-line rent and direct leasing costs.

7. Other Assets

As at	Note	March 31, 2020	December 31, 2019
Other non-current assets			
Property, plant and equipment [1]		$ 52,983	$ 51,306
Accumulated amortization of property, plant and equipment		(37,920)	(36,366)
Net property, plant and equipment		15,063	14,940
Right-of-use asset, net of amortization [2]		1,605	1,777
Prepaid CMHC premiums, net [3]		81,652	79,767
Deferred loan costs, net [4]		966	1,320
Fair value through profit or loss investment		34,307	41,177
Investment in associate [6]		238,492	224,812
Derivative asset	18	9,452	3,984
Deferred tax asset	20	1,573	1,810
Goodwill [5]		16,428	15,848
Total		**$ 399,538**	**$ 385,435**
Other current assets			
Prepaid expenses		$ 11,721	$ 8,032
Other receivables		16,646	13,973
Derivative asset	18	805	—
Restricted cash		9,416	8,959
Deposits		11,443	27,796
Total		**$ 50,031**	**$ 58,760**

[1] Consists of head office and regional offices' leasehold improvements, corporate assets and information technology systems.
[2] Amortization during the three months ended March 31, 2020 is $172 (three months ended March 31, 2019 - $178).

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

(3) Represents prepaid CMHC premiums on mortgages payable net of accumulated amortization of $33,257 (December 31, 2019 - $32,175).

(4) Represents deferred loan costs related to the revolving credit facilities net of accumulated amortization of $12,083 (December 31, 2019 - $11,690).

(5) Goodwill arising from the acquisition of ECREIT on March 29, 2019, as discussed in note 4 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2019, was fully allocated to the Europe segment described in note 28 given that it is expected to benefit from the synergies of that acquisition.

(6) CAPREIT has determined that its investment in IRES should be accounted for using the equity method of accounting given the significant influence it has over IRES. In making the determination that CAPREIT does not control IRES, CAPREIT used judgment when considering the extent of its ownership interest in IRES, the level of its involvement, responsibilities and remuneration as IRES' investment manager, and the control and influence exerted over IRES by its independent Board of Directors and CEO. As at March 31, 2020, CAPREIT concluded that it continues to exert significant influence over IRES. CAPREIT will continue to reassess this conclusion should its ownership interest or the terms of the asset management agreement change. Refer to note 25 for further details.

The table below discloses CAPREIT's ownership in IRES and IRES' share price:

As at	March 31, 2020	December 31, 2019
IRES Investment		
Share ownership (%)	**18.3%**	18.3%
Number of IRES shares	**95,510,000**	95,510,000
IRES share price (€)	**1.22**	1.59

8. Other Liabilities

As at	Note		March 31, 2020		December 31, 2019
Other non-current liabilities					
Derivative liability	18		6,766		3,361
Total		**$**	**6,766**	**$**	**3,361**
Other current liabilities					
Current tax liability (1)	20	$	20,403	$	17,646
Derivative liability	18		538		3,734
Mortgage interest payable			10,181		12,011
Current lease liability			1,090		1,121
Total		**$**	**32,212**	**$**	**34,512**

(1) The current tax liability is primarily a result of reorganization of legal structures of the Netherlands subsidiaries in connection with the Acquisition.

9. Accounts Payable and Accrued Liabilities

As at		March 31, 2020		December 31, 2019
Accounts payable	$	32,380	$	47,096
Accrued liabilities		46,708		51,824
Deferred revenue		13,173		11,920
Distributions payable to ERES non-controlling unitholders		460		832
Other		4,928		4,872
Total	**$**	**97,649**	**$**	**116,544**

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

10. ERES Units Held by Non-Controlling Unitholders

The ERES units held by non-controlling unitholders are classified as equity on ERES' balance sheets but are classified as a liability on CAPREIT's consolidated balance sheets. ERES units are redeemable at any time, in whole or in part, by the unitholder. Upon receipt of the redemption notice by ERES, all rights to and under the units tendered for redemption shall be surrendered, and the holder shall be entitled to receive a price per unit equal to the lesser of (i) 90% of the weighted average market price of the ERES units on the principal exchange or market on which the ERES units are listed or quoted for trading during the 10 consecutive trading days ending on the date (the "Redemption Date") on which the units were surrendered for redemption of ERES units; and (ii)100% of the closing market price on the principal exchange or market on which the ERES units are listed or quoted for trading on the Redemption Date.

As at March 31, 2020, CAPREIT valued the ERES units held by non-controlling unitholders at $292,349 (December 31, 2019 - $364,928) and classified the units as a liability on the consolidated balance sheets. Due to the change in the market value of the ERES units and the distributions paid to ERES non-controlling unitholders, CAPREIT recorded a gain on non-controlling interest for the three months ended March 31, 2020 of $69,679 (three months ended March 31, 2019 - $nil) in the consolidated statements of income and comprehensive income. The mark-to-market gain arises from the decrease in ERES' unit price.

For the Three Months Ended March 31,		2020		2019
Mark-to-market gain on ERES units	$	(72,693)	$	—
Distributions to ERES non-controlling unitholders		3,014		—
Gain on non-controlling interest	**$**	**(69,679)**	**$**	**—**

11. Mortgages Payable

As at March 31, 2020, mortgages payable bear interest at a weighted average effective rate of 2.80% (December 31, 2019 - 2.84%) and mature between 2020 and 2034. The effective interest rate as at March 31, 2020 includes 0.06% (December 31, 2019 - 0.06%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of $32,494 included in AOCL. As at March 31, 2020, 99.2% of CAPREIT's mortgages payable are financed at fixed interest rates. Investment properties at fair value of $12,734,940 have been pledged as security as at March 31, 2020. CAPREIT has investment properties with a fair value of $967,585 as at March 31, 2020 that are not encumbered by mortgages. $800,440 of these investment properties are located in Canada and secure only the Acquisition and Operating Facility, while the remaining properties are located in Europe. As at March 31, 2020, unamortized deferred financing costs of $12,833 and unamortized fair value loss of $685 are netted against mortgages payable.

Future principal repayments as at March 31, 2020 for the years indicated are as follows:

As at March 31, 2020		Principal Amount		% of Total Principal
2020	$	402,007		8.8
2021		565,896	(1)	12.4
2022		535,202	(2)	11.8
2023		576,975	(2)	12.7
2024		345,446		7.6
2025 - 2034		2,123,621	(2)	46.7
		4,549,147		**100.0**
Deferred financing costs and fair value adjustments		(12,148)		
Total Portfolio	**$**	**4,536,999**		

As at		March 31, 2020		December 31, 2019
Represented by:				
Mortgages payable - non-current [1]	$	4,072,838	$	3,872,125
Mortgages payable - current		464,161		436,447
	$	**4,536,999**	**$**	**4,308,572**

[1] Included in mortgages payable as at March 31, 2020 is a $65,000 fully drawn, non-amortizing credit facility on two of the MHC sites.
[2] Included in mortgages payable as at March 31, 2020 are non-amortizing mortgages from ERES.

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

12. Bank Indebtedness

Effective November 15, 2019, CAPREIT amended its credit agreement to, among other things: (i) increase its Acquisition and Operating Credit Facility by $100,000 to $740,000, (ii) increase its Acquisition and Operating Facility by $200,000 for four months via a Bridge Facility maturing on March 15, 2020, as well as (iii) amend the tangible net worth requirement to $2,400,000. The Bridge Facility cannot be drawn once repaid. On March 15, 2020, the Bridge Facility expired.

Effective June 28, 2019, CAPREIT amended its credit agreement to amend the “conversion date” to June 30, 2020 for when the revolving facility converts to a two-year non-revolving term facility, and to remove the sublimit on the aggregate amount of Euro LIBOR borrowings. CAPREIT can request an extension of the conversion date by one year by requesting to the lenders prior to the conversion date. The lenders have discretion on whether to grant the extension.

CAPREIT’s Credit Facilities include the $740,000 Acquisition and Operating Facility which can be borrowed in USD, Euro, or CAD, and the existing $65,000 five-year non-revolving term credit facility (collectively, the “Credit Facilities”). The $65,000 five-year non-revolving term credit facility bears interest at the bankers’ acceptance rate plus 1.4% per annum (included in mortgages payable). The Acquisition and Operating Facility matures on June 30, 2022 and the margins are renegotiated annually. The interest rate on the Acquisition and Operating Facility is determined by interest rates on prime advances and bankers’ acceptances utilized during the year. The Credit Facilities are subject to compliance with the various provisions of the Credit Facilities. The Credit Facilities are used to fund operations, acquisitions, capital improvements, letters of credit and working capital deficiencies.

On July 8, 2019, ERES entered into a new revolving credit facility ("ERES Credit Facility") for up to $77,920 (€50,000) with two Canadian chartered banks. The ERES Credit Facility will expire on July 8, 2021.

On December 12, 2019, ERES entered into a one-year revolving Bridge Credit Facility ("ERES Bridge Facility") for up to $77,920 (€50,000) with the same two Canadian chartered banks. The ERES Bridge Facility will expire on December 6, 2020. As of March 31, 2020, no amounts were drawn on the ERES Bridge Facility.

As at March 31, 2020	**Acquisition and Operating Facility**		**ERES Credit Facility**	
Facility	$ 740,000		$ 77,920	[4]
Less: USD LIBOR borrowings	(633,585)	[2], [5]	(39,879)	
Letters of credit	(7,223)		—	
Available borrowing capacity	**$ 99,192**		**$ 38,041**	
Weighted average interest rate including interest rate swaps	**1.07%**	[6]	**1.10%**	[7]

As at December 31, 2019	**Acquisition and Operating Facility**		**ERES Credit Facility**	
Facility	$ 740,000	[1]	$ 72,915	[4]
Less: USD LIBOR borrowings	(579,821)	[2], [5]	(37,226)	
Euro LIBOR borrowings	(6,846)	[3]	—	
Letters of credit	(7,163)		—	
Available borrowing capacity	**$ 146,170**		**$ 35,689**	
Weighted average interest rate including interest rate swaps	**1.08%**	[6]	**1.15%**	[7]

[1] In addition to the above Facility, there is a $200,000 Bridge Facility in place. There were no amounts drawn on this Bridge Facility as of December 31, 2019. The Bridge Facility expired on March 15, 2020.

[2] CAPREIT has net USD LIBOR borrowings of USD $446,596 (December 31, 2019 - USD $446,428) that bears interest at the USD LIBOR rate plus a margin of 1.65% per annum.

[3] CAPREIT has net Euro LIBOR borrowings of €nil (December 31, 2019 - €4,694) that bears interest at the Euro LIBOR rate plus a margin of 1.65% per annum, subject to a floor of 0%.

[4] In addition to the above ERES Credit Facility, there is a $77,920 (€50,000) ERES Bridge Facility. No amounts are drawn on this Bridge Facility as of March 31, 2020. The Bridge Facility will expire on December 6, 2020.

[5] For details on cross-currency interest rate swaps, refer to note 18.

[6] Excluding the impact of interest rate swaps, the weighted average interest rate on the Acquisition and Operating Facility is 3.25% (December 31, 2019 - 3.44%).

[7] Excluding the impact of interest rate swaps, the weighted average interest rate on the ERES Credit Facility is 3.29% (December 31, 2019 - 3.57%).

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

13. Unit-based Compensation Financial Liabilities

Units are issuable pursuant to CAPREIT's Unit-based compensation plans, namely the Unit Option Plan ("UOP"), the Employee Unit Purchase Plan ("EUPP"), the Deferred Unit Plan ("DUP") and the Restricted Unit Rights Plan ("RUR Plan"), each of which is more fully described in note 14. As at March 31, 2020, the maximum number of Units issuable under CAPREIT's Unit-based incentive plans (excluding ERES UOP) is 9,500,000 Units (December 31, 2019 - 9,500,000). The maximum number of Units available for future issuance under all Unit incentive plans as at March 31, 2020 is 619,959 Units (December 31, 2019 - 729,783 Units).

The Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans and the ERES UOP as at March 31, 2020 and 2019 are as follows:

Three Months Ended March 31, 2020 (Number of Units)	**ERES UOP**	**DUP**	**RUR**	**Total CAPREIT [1]**
Unit rights and Unit options outstanding as at January 1, 2020	4,256,014	150,996	542,087	693,083
Issued, cancelled or granted during the period				
Issued or granted	—	5,384	87,985	93,369
Exercised or settled	—	—	(21,944)	(21,944)
Cancelled or forfeited	(56,320)	—	(236)	(236)
Distributions reinvested	—	949	3,590	4,539
Unit rights and Unit options outstanding as at March 31, 2020	**4,199,694**	**157,329**	**611,482**	**768,811**

Three Months Ended March 31, 2019 (Number of Units)	**ERES UOP**	**DUP**	**RUR**	**Total CAPREIT [1]**
Unit rights and Unit options outstanding as at January 1, 2019	—	286,696	578,120	864,816
Issued, cancelled or granted during the period				
Assumed	1,143,014	—	—	—
Issued or granted	500,000	4,727	83,124	87,851
Exercised or settled	—	—	(96,768)	(96,768)
Cancelled or forfeited	—	—	(5)	(5)
Distributions reinvested	—	1,999	3,847	5,846
Unit rights and Unit options outstanding as at March 31, 2019	**1,643,014**	**293,422**	**568,318**	**861,740**

[1] Total CAPREIT excluding ERES UOP.

The table below summarizes the change in the total Unit-based compensation financial liabilities for the three months ended March 31, 2020 and year ended December 31, 2019, including the settlement of such liabilities through the issuance of Trust and ERES Units.

For the Period Ended	**March 31, 2020**	**December 31, 2019**
Total Unit-based compensation financial liabilities, beginning of the period	$ 33,049	$ 32,805
Unit-based compensation (recovery) expense	(5,362)	14,497
ERES UOP assumed as part of the Acquisition	—	487
Settlement of Unit-based compensation awards for Trust Units and ERES units	(1,279)	(14,740)
Total Unit-based compensation financial liabilities, end of the period	**$ 26,408**	**$ 33,049**

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

Unit-based compensation financial liabilities are as follows:

As at		**March 31, 2020**		**December 31, 2019**
Current				
DUP	$	6,701	$	8,005
RUR		6,776		9,662
ERES UOP		395		991
	$	**13,872**	**$**	**18,658**
Non-current				
RUR	$	12,381	$	14,080
ERES UOP		155		311
		12,536		**14,391**
Total Unit-based compensation financial liabilities, end of the period	**$**	**26,408**	**$**	**33,049**

Units or Unit-based Compensation Financial Liabilities Held by Trustees, Officers and Other Senior Management

As at March 31, 2020, 0.7% (March 31, 2019 - 1.0%) of all Trust Units outstanding were held by trustees, officers and other senior management of CAPREIT.

14. Unit-based Compensation (Recovery) Expense

These costs represent Unit-based compensation (recovery) expenses, which include fair value remeasurements at each reporting date recognized over the respective vesting periods for each plan for the periods ended March 31, 2020 and 2019, as follows:

For the Three Months Ended March 31,		**2020**		**2019**
DUP	$	(1,289)	$	2,372
RUR Plan		(3,483)		5,110
EUPP		110		70
ERES UOP		(590)		—
Unit-based compensation (recovery) expense	**$**	**(5,252)**	**$**	**7,552**

a) DUP

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

For the Three Months Ended		**March 31, 2020**					**March 31, 2019**			
		Weighted Average Issue Price		**Fair Value per Unit**	**Number of Units**		**Weighted Average Issue Price**		**Fair Value per Unit**	**Number of Units**
Outstanding, beginning of the period	$	30.09	$	53.01	150,996	$	26.31	$	44.30	286,696
Granted during the period		42.59		—	5,384		51.37		—	4,727
Additional Unit distributions		54.68		—	949		47.46		—	1,999
Outstanding, end of the period	**$**	**30.66**	**$**	**42.59**	**157,329**	**$**	**26.86**	**$**	**51.37**	**293,422**

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

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

b) RUR Plan

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

For the Three Months Ended	March 31, 2020			March 31, 2019		
	Weighted Average Issue Price	Fair Value per Unit	Number of Units	Weighted Average Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the period	$ 32.69	$ 53.01	542,087	$ 29.23	$ 44.30	578,119
Granted during the period	59.00	—	87,985	47.84	—	83,124
Additional Unit distributions	55.01	—	3,590	47.82	—	3,847
Settled or cancelled during the period	25.32	—	(22,180)	27.30	—	(96,772)
Outstanding, end of the period	**$ 36.87**	**$ 42.59**	**611,482**	**$ 29.73**	**$ 51.37**	**568,318**

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

c) EUPP

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

d) ERES UOP

A summary of Unit option activity for the three months ended March 31, 2020 and 2019 is presented below.

For the Three Months Ended	March 31, 2020		March 31, 2019	
	Weighted Average Issue Price	Number of Units	Weighted Average Issue Price	Number of Units
Outstanding unit options, beginning of the period	$ 4.41	4,256,014	$ —	—
Assumed	—	—	3.97	1,143,014
Issued or granted	—	—	4.00	500,000
Cancelled or forfeited	3.26	(56,320)	—	—
Outstanding unit options, end of the period	**4.42**	**4,199,694**	**3.98**	**1,643,014**
Exercisable unit options, end of the period	**$ 3.94**	**758,214**	**$ 3.75**	**321,529**

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

As at	March 31, 2020	December 31, 2019
Number of Units	**4,199,694**	4,256,014
Weighted average issue price	**$ 4.42**	$ 4.41
Weighted average risk-free rate (%)	**0.60**	1.68
Weighted average distribution yield (%)	**4.40**	3.29
Weighted average expected years	**4.16**	4.38
Weighted average volatility (%)	**25.00**	25.00
Weighted average unit option value	**$ 0.30**	$ 0.82

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

15. Unitholders' Equity

All Trust Units outstanding are fully paid, have no par value and are voting Trust Units. The authorized capital of CAPREIT consists of an unlimited number of Units, an unlimited number of Special Voting Units and 25,840,600 Preferred Units. As at March 31, 2020, no Preferred Units or Special Voting Units were issued and outstanding. Trust Units represent a Unitholder's proportionate undivided beneficial interest in CAPREIT. No Trust Unit has any preference or priority over another. No Unitholder has or is deemed to have any right of ownership in any of the assets of CAPREIT. Each Unit confers the right to one vote at any meeting of Unitholders and to participate pro rata in any distributions by CAPREIT and, in the event of termination of CAPREIT, in the net assets of CAPREIT remaining after satisfaction of all liabilities. Units will be issued in registered form and are transferable. Issued and outstanding Units may be subdivided or consolidated from time to time by the trustees without Unitholder approval. No certificates for fractional Units will be issued and fractional Units will not entitle the holders thereof to vote.

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

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

For the Three Months Ended March 31,	Ref	**2020**	**2019**
Units outstanding, beginning of the period		169,869,197	145,653,982
Issued or granted during the period in connection with the following:			
New Units issued	(a)	—	6,325,000
Distribution Reinvestment Plan ("DRIP")	(b)	358,498	334,447
EUPP	(c)	12,152	8,693
RUR Plan	(d)	21,944	96,768
Units outstanding, end of the period		**170,261,791**	**152,418,890**

a) New Units Issued

Three Months Ended March 31, 2020

There were no new units issued during the three months ended March 31, 2020.

Three Months Ended March 31, 2019

	Price per Unit	**Gross Proceeds**	**Transaction Costs**	**Net Proceeds**	**Units Issued**
January 2019 (the "January 2019 Equity Offering")					
Bought-deal (January 4, 2019)	$ 45.50	$ 250,250	$ 11,512	$ 238,738	5,500,000
Over-allotment (January 11, 2019)	$ 45.50	37,538	900	36,638	825,000
Total		**$ 287,788**	**$ 12,412**	**$ 275,376**	**6,325,000**

b) Distribution Reinvestment Plan

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

c) Employee Unit Purchase Plan

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

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

d) Restricted Unit Rights Plan

During the first quarter of 2020, 22,180 RUR Units were settled, out of which 21,944 RUR Units were settled for an equivalent number of Trust Units and the remaining RUR Units were forfeited. During the first quarter of 2019, 96,773 RUR Units were settled, out of which 96,768 RUR Units were settled for an equivalent number of Trust Units and the remaining RUR Units were settled in cash.

16. Distributions on Trust Units

CAPREIT paid distributions to its Unitholders in accordance with its DOT. Distributions declared by its Board of Trustees were paid monthly, on or about the 15th day of each month. Effective March 2019, monthly cash distributions declared to Unitholders increased to $0.1150 ($1.38 annually) compared to $0.1108 ($1.33 annually) effective May 2018.

For the Three Months Ended March 31,		2020		2019
Distributions declared on Trust Units	$	**58,693**	$	51,263
Distributions per Unit	$	**0.345**	$	0.337

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

17. Financial Instruments, Investment Properties and Risk Management

a) Fair Value of Financial Instruments

At March 31, 2020, the fair value of CAPREIT's mortgages payable is estimated to be $4,665,000 (December 31, 2019 - $4,196,000) due to changes in interest rates since the dates the individual mortgages were financed and the impact of the passage of time on the primarily fixed rate nature of CAPREIT's mortgages. The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions. At March 31, 2020, the principal outstanding on CAPREIT's mortgages payable is $4,549,147 (December 31, 2019 - $4,320,169) as shown in note 11.

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

	Level 1 Quoted prices in active markets for identical assets and liabilities	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Total
Recurring Measurements				
Assets				
Investment properties				
Fee simple and MHC land lease sites	$ —	$ —	$ 12,650,748 [1]	$ 12,650,748
Operating leasehold interests	—	—	856,877 [1]	856,877
Land leasehold interests	—	—	194,900 [1]	194,900
Investments	34,307 [2]	—	—	34,307
Derivative financial assets [3]	—	10,257	—	10,257
Liabilities				
Derivative financial liabilities [3]	—	(7,304)	—	(7,304)
ERES units held by non-controlling unitholders	(292,349)	—	—	(292,349)
Total	**$ (258,042)**	**$ 2,953**	**$ 13,702,525**	**$ 13,447,436**

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

[2] CAPREIT's investments (excluding CAPREIT's equity accounted investment in IRES) are accounted for as fair value through profit or loss ("FVTPL") and are measured at fair value based on the quoted market price in an active market of the asset.

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

Although CAPREIT has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by CAPREIT. As at March 31, 2020, CAPREIT has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of the derivative. As a result, CAPREIT has determined that the derivative valuations in their entirety should be classified as Level 2 of the fair value hierarchy. For assets and liabilities measured at fair value as at March 31, 2020, there were no transfers between Level 1, Level 2 and Level 3 during the period.

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

b) Risk Management

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

Interest Rate Risk

CAPREIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced on terms as favourable as those of the existing indebtedness. In addition, interest on CAPREIT's bank indebtedness is subject to floating interest rates. CAPREIT is also subject to the risks associated with changes in interest rates or different financing terms from the hedging derivative assumptions, which may result in the hedging relationship being ineffective, causing volatility in earnings.

For the three months ended March 31, 2020 and 2019, a 100 basis point change in interest rates would have the following effect:

	Change in interest rates (basis points)	Increase (decrease) in net income	
		March 31, 2020	March 31, 2019
Floating rate debt	+100	$ —	$ (3)
Floating rate debt	-100	$ —	$ 3
Cross-currency interest rate swaps [(1)]	+100	$ 9,254	$ 4,679
Cross-currency interest rate swaps [(1)]	-100	$ (8,572)	$ (3,937)

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

CAPREIT's objective in managing interest rate risk is to minimize the volatility of interest expenses due to fluctuations in market interest rates. As at March 31, 2020, interest rate risk has been minimized as 99.2% (March 31, 2019 - 98.8%) of the mortgages payable are financed at fixed interest rates, with maturities staggered over a number of years. Taking into consideration interest rate swaps where hedge accounting has not been applied, 100.0% of the mortgages payable are financed at fixed interest rates.

Liquidity Risk

Liquidity risk is the risk that CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 98.4% of CAPREIT's mortgages are CMHC-insured (excluding $1,062,368 of mortgages on the MHC sites and the ERES properties), which reduces the risk in refinancing mortgages. CAPREIT's overall risk for mortgage refinancings is further reduced as the unamortized mortgage insurance premiums are transferable between approved lenders and are effective for the full amortization period of the underlying mortgages, ranging between 25 and 40 years. To mitigate the risk associated with the refinancing of maturing debt, CAPREIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAPREIT manages its overall liquidity risk by maintaining sufficient available credit facilities and unencumbered assets to fund its ongoing operational and capital commitments, distributions to Unitholders, and to provide future growth in its business. As at March 31, 2020, CAPREIT had undrawn lines of credit in the amount of $99,192 (December 31, 2019 - $146,170), excluding borrowing capacity under the ERES Credit Facility, the Bridge Facility and the ERES Bridge Facility. Including the additional borrowing capacity under the ERES Credit Facility, the Bridge Facility and the ERES Bridge Facility, CAPREIT had undrawn lines of credit in the amount of $215,153 (December 31, 2019 - $454,774). On March 15, 2020, the Bridge Facility expired.

CAPREIT has available borrowing capacity in its Credit Facilities described in note 12 in addition to cash on hand. As a result, management has determined that CAPREIT is in a strong financial position despite the changes in the market and the heightened risk environment.

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

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at March 31, 2020 are as follows:

	2020 [2]	2021 - 2022	2023 - 2024	2025 onward
Mortgages payable	$ 402,007	$ 1,101,098	$ 922,421	$ 2,123,621
Bank indebtedness	—	673,464	—	—
Mortgage interest [1]	84,643	186,205	127,407	118,345
Bank indebtedness interest [1]	15,505	30,813	—	—
Other liabilities [4]	128,233	—	—	—
Derivative financial liabilities	538	4,753	—	2,013
ERES units held by non-controlling unitholders	—	—	—	292,349
Lease liabilities	832	2,196	1,241	34,338
Security deposits	41,566	—	—	—
Distributions payable	19,580	—	—	—
Swap premium [3]	137	351	330	6
	$ 693,041	**$ 1,998,880**	**$ 1,051,399**	**$ 2,570,672**

(1) Based on current in-place interest rates for the remaining term to maturity.
(2) Estimates of the amounts as at March 31, 2020.
(3) Related to interest rate swaps on ERES commercial properties.
(4) Related to accounts payable and accrued liabilities, current tax liability and mortgage interest payable.

Credit Risk

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

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

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

CAPREIT monitors its collection experience on a monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. CAPREIT's bad debt experience has historically been less than 0.5% of revenue in the past three years. The maximum exposure to credit risk at the reporting date is the carrying value of the tenant receivables.

Foreign Currency Risk

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

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

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

18. Realized and Unrealized Gains and Losses on Derivative Financial Instruments

a) Contracts for Which Hedge Accounting Is Being Applied

(i) In June 2011, CAPREIT entered into a hedging program, which effectively hedged interest rates on approximately $312,000 of mortgages maturing between September 2011 and June 2013. The maturing mortgages have been refinanced for 10-year terms and as a result bear interest rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before the credit spread. The change in the intrinsic value of the forward interest rate hedge has been included in OCI (see note 21). The hedging program matured in June 2013, for which hedge accounting was applied. The ineffective portion and the difference between the settled amount and the mark-to-market have been recognized in net income. All contracts have been settled.

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

As at		March 31, 2020		December 31, 2019
Derivative liability in AOCL, beginning of the period	$	(6,005)	$	(8,270)
Amortization from AOCL to interest and other financing costs		565		2,265
Derivative liability in AOCL, end of the period	**$**	**(5,440)**	**$**	**(6,005)**

b) Contracts for Which Hedge Accounting Is No Longer Effective

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

CAPREIT settled these Interest Rate Forward Contracts in 2009. The associated cumulative unamortized loss of $9,908 included in AOCL at September 30, 2008 is being amortized to mortgage interest expense over the original terms of the hedged contracts. For the three months ended March 31, 2020, $67 (March 31, 2019 - $67) was amortized from AOCL to mortgage interest expense.

(iii) CAPREIT had a $65,000 interest rate swap agreement fixing the bankers' acceptance rate at 2.20%, which had a maturity date of September 2022, for which hedge accounting was not being applied. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a 10-year term (see note 11 for further details). The related floating rate credit facility is for a five-year non-revolving term with an effective interest rate of 3.60%, and any principal that is repaid may not be reborrowed. The hedge became ineffective in July 2017. On September 26, 2019, the $65,000 swap was settled.

c) Contracts for Which Hedge Accounting Is Not Being Applied

(iv) In June 2017, CAPREIT entered into a cross-currency swap to (i) hedge a US-based loan of USD $186,436 into €163,540 effective July 2017 and (ii) convert the variable interest rate on the US-based loan of LIBOR plus 1.65% to a fixed interest rate of EURIBOR plus 1.65%, equaling 1.20%, and maturing in June 2019. The US-based loan was drawn from the Acquisition and Operating Facility in July 2017. As at June 30, 2019 the cross-currency swap matured and settled.

(v) In June 2019, CAPREIT entered into a new cross-currency swap to (i) hedge a US-based loan of USD $186,190 into €163,540 effective June 2019 and (ii) convert the variable interest rate on the US-based loan of LIBOR plus 1.65% to a fixed interest rate of EURIBOR plus 1.65%, equaling 1.08%, and maturing in June 2021. The gain on the derivative has been recorded under gain on derivative financial instruments of $4,574 in the consolidated statements of income and comprehensive income for the three months ended March 31, 2020 and the cumulative mark-to-market gain of $7,827 is in other non-current assets as at March 31, 2020.

(vi) In January 2019, CAPREIT entered into a recurring monthly cross-currency swap to convert surplus Canadian dollars into Euro denominated amounts to pay down Euro debt throughout 2019. The cross-currency swap was unwound as Canadian dollars were required. As at December 20, 2019, CAPREIT exited this swap program.

(vii) On January 31, 2020, ERES settled the €7,500 interest rate swap connected to the mortgages on the ERES commercial property located in Düsseldorf, Germany. There is a remaining €25,500 interest rate swap fixing the variable three-month EURIBOR rate at 0.49%, which matures on January 13, 2025, and results in a fixed effective interest rate of 1.87%. There is an interest rate floor agreement, which stipulates that any variable rate associated with the agreement will not be below 0%. This results in a $702 derivative financial asset and $2,011 derivative financial liability as presented in the statements of financial position. During the three months ended March 31, 2020, a $115 gain on the derivative financial instruments has been recorded.

(viii) In September 2019, CAPREIT entered a cross-currency swap to (i) hedge a $65,000 CAD based loan into €44,818 effective September 2019 and (ii) convert the variable interest rate on the CAD based loan of banker's acceptance plus 1.40% to a EURIBOR fixed interest rate of 0.97%, and maturing June 28, 2021 to match the maturity on the credit facility (see note 9 for further details). The loss on the derivative has been recorded under gain on derivative financial instruments of $4,359 in the consolidated statements of income and comprehensive income for the three months ended March 31, 2020 and the cumulative mark-to-market loss of $4,755 is in other non-current liabilities as at March 31, 2020.

(ix) In November 2019, ERES entered into a 3-month cross-currency EURIBOR/LIBOR interest rate swap in connection with the US dollar draw on the revolving credit facility of USD $28,634 to hedge into €26,000 (see note 10 for further details). Interest is paid at floating rates of EURIBOR plus 1.55% and LIBOR plus1.65% on the Euro and US dollar notional amounts, respectively. The cross-currency interest rate swap expired February 27, 2020. Upon the settlement of the derivative, the gain on the derivative has been recorded under gain on derivative financial instruments of $1,134.

(x) In December 2019, CAPREIT entered a cross-currency swap to (i) hedge a USD $177,296 US-based loan into €160,000 effective December 2019 and (ii) convert the variable interest rate on the US based loan of US LIBOR plus 1.65% to a EURIBOR fixed interest rate of 1.06%, and maturing November 30, 2020. The gain on the derivative has been recorded under gain on derivative financial instruments of $3,946 in the consolidated statements of income and comprehensive income for the three months ended March 31, 2020 and the cumulative mark-to-market gain of $805 is in other current assets as at March 31, 2020.

(xi) In December 2019, CAPREIT entered a cross-currency swap to (i) hedge a USD $82,525 US-based loan into €74,000 effective December 2019 and (ii) convert the variable interest rate on the US based loan of US LIBOR plus 1.65% to a EURIBOR fixed interest rate of 1.05%, and maturing December 31, 2021. The gain on the derivative has been recorded under gain on derivative financial instruments of $1,617 in the consolidated statements of income and comprehensive income for the three months ended March 31, 2020 and the cumulative mark-to-market gain of $923 is in other non-current asset as at March 31, 2020.

(xii) In February 2020, ERES entered into a 2-month cross-currency EURIBOR/LIBOR interest rate swap in connection with the US dollar draw on the revolving credit facility of USD $28,300 to hedge into €26,045. Interest is paid at floating rates of EURIBOR plus 1.55% and LIBOR plus1.65% on the Euro and US dollar notional amounts, respectively. The loss on the derivative has been recorded under gain on derivative financial instruments of $538 in the consolidated statements of income and comprehensive income for the three months ended March 31, 2020 and the cumulative mark-to-market loss of $538 is in other current liabilities as at March 31, 2020.

19. Capital Management

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

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

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

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

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

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

The total capital managed by CAPREIT is as follows:

As at		March 31, 2020		December 31, 2019
Mortgages payable	$	4,536,999	$	4,308,572
Bank indebtedness		673,464		623,893
Unitholders’ equity		8,531,457		8,403,895
Total capital	**$**	**13,741,920**	**$**	**13,336,360**

The results of CAPREIT's compliance with the key covenants is summarized below:

	Threshold		March 31, 2020		December 31, 2019
Total debt to gross book value (1)	Maximum 70.00%		**36.14%**		34.99%
Tangible net worth (2)	Minimum $2,400,000	**$**	**8,542,016**	$	8,421,096
Debt service coverage ratio (times) (3) (4)	Minimum 1.20		**1.97**		1.87
Interest coverage ratio (times) (3) (5)	Minimum 1.50		**3.86**		3.69

(1) CAPREIT’s DOT limits the maximum amount of total debt to 70% of the gross book value (“GBV”) of CAPREIT’s total assets. GBV is defined as the gross book value of CAPREIT's assets as per CAPREIT's consolidated financial statements, determined on a fair value basis for investment properties, plus accumulated amortization on property, plant and equipment, CMHC fees and deferred loan costs. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments. Under the terms of CAPREIT’s LBA with CMHC, total indebtedness of CAPREIT is limited to the greater of (i) 60% of gross book value, determined on a fair value basis, of total assets or (ii) 70% of gross book value, determined on a historical basis, of total assets, and may only be increased above such limits with CMHC’s consent.

(2) As per the Credit Facilities agreement, the tangible net worth is generally represented by Unitholders' Equity and Unit-based rights and compensation liabilities or assets, including Exchangeable Units added back, and excluding goodwill. The tangible net worth requirement is $2,400,000 (December 31, 2019 - $2,400,000).

(3) Based on the trailing four quarters.

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

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

CAPREIT's subsidiary, ERES, is subject to various debt covenants contained in ERES' credit facilities. ERES must have a maximum debt to gross book value of 65%, a maximum debt to market value of portfolio of 60%, a minimum tangible net worth of €372,400, a minimum debt service coverage ratio of 1.35, and a minimum interest coverage ratio of 1.50. For the period ended March 31, 2020, ERES is in compliance with its debt covenants.

Due to the recent emergence of the COVID-19 pandemic, CAPREIT has been closely monitoring its investment and debt restrictions along with the financial covenants contained in CAPREIT's Credit Facilities, LBA and DOT. Management has performed stress-testing on CAPREIT's covenants prescribed above to ensure that CAPREIT continues to meet its covenant obligations long term.

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

20. Income Taxes

CAPREIT is taxed as a "mutual fund trust" as defined under the Income Tax Act (Canada) (the "Tax Act") and continues to meet the prescribed conditions relating to the nature of its assets and revenues in order to qualify as a Real Estate Investment Trust eligible for the REIT exception to the specified investment flow-through ("SIFT") rules. The Trust expects to distribute all of its taxable income to its Unitholders; accordingly, no provision for Canadian income tax has been made. Income tax obligations relating to the distributions from CAPREIT are with the individual Unitholder, with the exception of Canadian withholding taxes for distributions to non-resident Unitholders.

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

For the Three Months Ended March 31,		2020		2019
Income before income taxes	$	85,140	$	208,312
Income not subject to taxation [1]		(57,895)		(194,570)
Income before income taxes in foreign subsidiary entities		27,245	$	13,742
Tax calculated at the Dutch corporate tax rate of 25%		6,811		3,436
Increase (decrease) resulting from:				
Effect of different tax rates in countries in which CAPREIT operates		(119)		(13)
Adjustments to deferred taxes for the current and future years' change in tax rates		(866)		(607)
Adjustments for difference in tax rates for first €200 of income		(284)		(450)
Other adjustments		(35)		436
Provision for income taxes	**$**	**5,507**	**$**	**2,802**

[1] Relates to Canadian income subject to tax at the Unitholder level.

A breakdown of current and deferred income tax expense is as follows:

For the Three Months Ended March 31,		2020		2019
Current income tax expense	$	1,581	$	18,051
Deferred income tax expense (recovery)		3,926		(15,249)
Deferred and current income tax expense (net)	**$**	**5,507**	**$**	**2,802**

Deferred income tax assets (liabilities) are primarily due to the following:

As at		March 31, 2020		December 31, 2019
Deferred tax liability related to difference in tax and book basis of investment properties	$	(39,739)	$	(33,000)
Deferred tax assets related to loss carryforward		2,929		2,498

Due to the reorganization of the legal structure of the Netherlands subsidiaries as a result of the Acquisition, capital gains were triggered. Therefore, $18,050 was reclassified from deferred income tax liability to current income tax liability during the three months ended March 31, 2019.

As at March 31, 2020, CAPREIT has total non-capital loss carryforwards of $14,570 (December 31, 2019 - $12,459). Of these losses, $10,678 are in respect of the Netherlands subsidiaries and expire between 2025 and 2027. The remaining losses of $3,891 are in respect of German subsidiaries and have no expiry period.

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

21. Accumulated Other Comprehensive Income

For the Three Months Ended March 31,		2020		2019
AOCL balance, beginning of the period	$	(19,510)	$	28,846
Other comprehensive income (loss):				
Amortization from AOCL to interest and other financing costs [1], [2]		634		640
Foreign currency translation		85,402		(28,914)
Other comprehensive income (loss)		**86,036**		**(28,274)**
AOCL balance, end of the period	**$**	**66,526**	**$**	**572**

		March 31, 2020		December 31, 2019
AOCL comprises:				
Loss on derivative financial instruments				
Cumulative realized loss	$	(9,908) [1]	$	(9,908) [1]
Accumulated amortization to interest and other financing costs		9,328		9,261
Unamortized balance of loss on cash flow hedges previously settled		(58)		(61)
Loss on interest rate swap agreements		—		—
Loss on forward interest rate hedge		(22,884) [2]		(22,884) [2]
Accumulated amortization to interest and other financing costs		17,444		16,880
Cumulative gain (loss) on foreign currency translation		69,477		(15,925)
Reversal of cumulative foreign currency translation relating to IRES ownership dilution		3,127		3,127
AOCL balance, end of the period	**$**	**66,526**	**$**	**(19,510)**

(1) The cumulative realized loss on derivative financial instruments aggregating to $9,908 will be amortized to net income as mortgage interest expense over periods ending December 2017 to September 2022, being the original terms of the hedged contracts. The estimated amount of the amortization that is expected to be reclassified to net income from AOCL in the next 12 months is $270.

(2) The realized loss component of the $22,884 OCI loss on forward interest rate hedges is $22,586, which will be amortized to net income as mortgage interest expense over the original 10-year term of the hedged contracts. The estimated amount of the amortization expected to be reclassified to net income from AOCL in the next 12 months is $2,247.

22. Interest and Other Financing Costs

For the Three Months Ended March 31,		2020		2019
Interest on mortgages payable [1]	$	30,887	$	28,764
Amortization of CMHC premiums and fees		1,082		1,003
Interest on bank indebtedness and other deferred costs [2]		2,310		1,412
Interest on land and air rights lease liability		517		452
	$	**34,796**	**$**	**31,631**

(1) Includes amortization of deferred financing costs, fair value adjustments and OCI hedge interest for the year ended of $1,378 (March 31, 2019 - $1,171).

(2) Includes amortization of deferred loan costs of $393 (March 31, 2019 - $320) and OCI hedge interest of $nil (March 31, 2019 - $84).

23. Supplemental Cash Flow Information

a) Net Income Items Related to Investing and Financing Activities

For the Three Months Ended March 31,		2020		2019
Dividend and interest income	$	(1,848)	$	(466)
Distributions to ERES non-controlling unitholders		3,014		—
Interest paid on mortgages payable		31,299		27,494
Interest paid on bank indebtedness		1,914		1,102
Interest paid on leases		517		452
Net disbursements	**$**	**34,896**	**$**	**28,582**

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

b) Changes in Non-cash Operating Assets and Liabilities

For the Three Months Ended March 31,		2020		2019
Prepaid expenses	$	(3,607)	$	(3,481)
Tenant inducements, direct leasing costs and other adjustments		99		738
Other receivables		(2,673)		(2,080)
Deposits		(988)		(396)
Accounts payable and other liabilities		(20,622)		(8,809)
Security deposits		1,679		901
Current tax liability		396		—
Net increase (decrease) in non-cash operating assets and liabilities	**$**	**(25,716)**	**$**	**(13,127)**

c) Net Cash Distributions to Unitholders and ERES Non-Controlling Unitholders

For the Three Months Ended March 31,		2020		2019
Distributions declared to Unitholders and ERES non-controlling unitholders	$	(61,707)	$	(51,263)
Add: Distributions payable to Unitholders at beginning of the period		(19,533)		(16,143)
Less: Distributions payable to Unitholders at end of the period		19,580		17,528
Less: Distributions to participants in the DRIP		18,794		15,258
Add: Distributions payable to ERES non-controlling unitholders at beginning of the period		(832)		—
Less: Distributions payable to ERES non-controlling unitholders at end of the period		460		—
Net disbursements	**$**	**(43,238)**	**$**	**(34,620)**

d) Capital Investments

For the Three Months Ended March 31,		2020		2019
Capital investments	$	(44,920)	$	(42,915)
Change in capital investments included in accounts payable and other liabilities		(2,413)		(3,134)
Net disbursements	**$**	**(47,333)**	**$**	**(46,049)**

e) Acquisition of Investment Properties

For the Three Months Ended March 31,		2020		2019
Acquired properties	$	(467,457)	$	(220,290)
Fair value adjustment of assumed debt		(463)		—
Assumed debt		108,744		—
Deposit on purchases		17,340		(6,629)
Net disbursements	**$**	**(341,836)**	**$**	**(226,919)**

f) Disposition of Investment Properties

For the Three Months Ended March 31,		2020		2019
Proceeds	$	26,260	$	—
Closing costs		(753)		—
Working capital adjustments		(8)		—
Mortgages assumed by purchasers and discharged		(10,166)		—
Net proceeds	**$**	**15,333**	**$**	**—**

g) Issuance of Trust Units

For the Three Months Ended March 31,		2020		2019
Issuance of Trust Units	$	1,792	$	280,514
Settlement of Unit-based Compensation Awards for Trust Units		(1,279)		(4,723)
Net proceeds	**$**	**513**	**$**	**275,791**

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

h) Mortgage Portfolio

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

For the Three Months Ended March 31,	2020	2019
Balance, beginning of the period	$ 4,308,572	$ 3,728,333
Add:		
New borrowings on acquisitions	69,694	73,719
Refinanced	57,896	11,071
Less:		
Mortgage principal amortization	(32,904)	(30,537)
Mortgages matured	(23,708)	(5,955)
Mortgages repaid on dispositions of investment properties	(10,166)	—
Non-cash Adjustments:		
Mortgages assumed [1]	108,744	73,469
Foreign currency translation	59,423	(18,381)
Change in deferred financing costs, fair value adjustments, net	(552)	117
Balance, end of the period	**$ 4,536,999**	**$ 3,831,836**

[1] Includes the mortgages on the properties acquired as part of the Acquisition.

i) Bank Indebtedness

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

For the Three Months Ended March 31,	2020	2019
Balance, beginning of the period	$ 623,893	$ 567,365
Net repayments before foreign currency translation	(4,584)	(63,534)
Foreign currency translation	54,155	(12,266)
Balance, end of the period	**$ 673,464**	**$ 491,565**

24. Revenues and Other Income

Other Income

For the Three Months Ended March 31,	2020	2019
Investment income	$ 832	$ 367
Net profit from equity-accounted investment [1]	2,749	1,984
Asset and property management fees [2]	2,347	1,956
Other	1,015	99
Total	**$ 6,943**	**$ 4,406**

[1] CAPREIT's share of IRES' investment property fair value change, earnings and foreign exchange effects thereon. For the three months ended March 31, 2020 and 2019, CAPREIT's share of IRES's investment property fair value gain is $nil.
[2] Based on investment management agreement with IRES, which owns properties in Ireland.

In accordance with IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), management has evaluated the lease and non-lease components of its revenue and income. Revenues under IFRS 15 consist of asset and property management fees listed above and miscellaneous revenues. For the three months ended March 31, 2020, miscellaneous revenues of $4,956 were included in revenue from investment properties (three months ended March 31, 2019 - $4,034). Miscellaneous revenues consist of cable income, common area maintenance recoveries and premium service components.

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

25. Related Party Transactions

a) IRES Transactions

As at March 31, 2020, CAPREIT has an 18.3% share ownership in IRES and has determined that it has significant influence over IRES. Pursuant to a placing of shares completed by IRES in June 2019 and July 2019, CAPREIT's share ownership increased to 18.3% from 18.0%. The share ownership is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. See note 7 for a more detailed description.

Included in other income for the three months ended March 31, 2020 is $2,347 (March 31, 2019 - $1,956) from asset management and property management fees. Expenses related to the asset and property management services are included in trust expenses. The amount receivable from IRES as at March 31, 2020 is $2,073 (December 31, 2019 - $2,730).

b) Transactions with Key Management Personnel

Key management personnel are eligible to participate in the EUPP. In addition, certain key management personnel also participate in the RUR Plan and trustees currently participate in the DUP. Pursuant to employee contracts, key management personnel are entitled to termination benefits that provide for payments of up to 36 months of benefits (based on base salary, bonus and other benefits), depending on cause.

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

For the Three Months Ended March 31,	2020	2019
Short-term employee benefits	$ 927	$ 525
Unit-based compensation - grant date amortization [1]	562	1,543
	1,489	2,068
Unit-based compensation - fair value remeasurement	(3,568)	3,594
Total	**$ (2,079)**	**$ 5,662**

[1] 2019 figures include $750 of accelerated vesting of previously granted RUR Units related to the former President and CEO.

c) ERES Transactions

New Management Agreement

Upon closing of the Acquisition, CAPREIT and CanLiving (together, the "Manager") entered into a new management agreement with ERES pursuant to which the Manager will act as the asset manager to ERES, except for the commercial properties (the "New Management Agreement"). The Manager will, among other things, provide strategic, advisory, asset management, project management, construction management and administrative services necessary for ERES.

The New Management Agreement provides for a broad range of asset management services for the following fees:

a) An annual asset management fee in the amount of 0.35% of the historical purchase price of ERES' properties excluding the commercial properties plus HST/VAT;

b) An acquisition fee in the amount of (i) 1.0% of the purchase price paid by ERES or one or more of its subsidiaries for the purchase of a residential or commercial real property of ERES located in Europe, on the first €100,000 of such properties acquired in each fiscal year, (ii) 0.75% of the purchase price paid by ERES or one or more of its subsidiaries for the purchase of such a property, on the next €100,000 of such properties acquired in each fiscal year, and (iii) 0.50% of the purchase price paid by ERES or one or more of its subsidiaries for the purchase of such a property, on properties in excess of €200,000 acquired in each fiscal year, plus VAT;

c) A capital expenditure fee equal to 5.0% of all hard construction costs incurred on each capital project (other than in respect of the commercial properties) with costs in excess of €1,000, excluding work done on behalf of tenants or any maintenance expenditures, plus VAT; and

d) A financing fee equal to 0.25% of the debt and equity of all financing or refinancing transactions completed for ERES or any of its subsidiaries, which is intended to cover the actual expenses incurred by the Manager in supplying services to ERES relating to financing transactions. To the extent that the Financing Fees paid by ERES exceed the actual amount of such expenses, the Manager will reimburse ERES for the difference. To the extent that the Financing Fees charged by the Manager are less than the actual amount of such expenses, ERES will pay the difference as an additional Financing Fee amount.

During the three months ended March 31, 2020, the Manager recorded asset management fees from ERES of $1,536 (three months ended March 31, 2019 - $20).

Any asset management fees and acquisition fees charged by the Manager to ERES are eliminated upon consolidation in these condensed consolidated interim financial statements.

Property Management Agreement

Prior to closing of the Acquisition, ERES had a property management agreement with CanLiving. Under the terms of the agreement, CanLiving received 3.5%, effective February 2019 (2.5% previously) of EGI (effective gross income) for its services. CanLiving was a subsidiary of Holding BV prior to December 27, 2018, when Holding BV transferred the shares of CanLiving to CAPREIT.

Upon closing of the Acquisition, CanLiving entered into a new property management agreement with ERES pursuant to which CanLiving will act as the property manager to ERES for residential properties and receive 3.5% of EGI for its services.

During the three months ended March 31, 2020, CAPREIT recorded property management fees from ERES of $866 (March 31, 2019 - $352).

Any property management fees charged by CanLiving to ERES are eliminated upon consolidation in these condensed consolidated interim financial statements.

Services Agreement

The Manager has entered into a services agreement with ERES, pursuant to which the Manager will provide ERES with certain administrative services, including financial, information technology, internal audit and other support services as may be reasonably required from time to time. The Manager will provide these services to ERES on a cost recovery basis.

During the three months ended March 31, 2020, CAPREIT recorded service fees from ERES of $190 (three months ended March 31, 2019 - $nil).

Any service fees charged by the Manager to ERES are eliminated upon consolidation in these condensed consolidated interim financial statements.

Pipeline Agreement

CAPREIT entered into a pipeline agreement with ERES (the "Pipeline Agreement") on March 29, 2019, pursuant to which CAPREIT, for a period ending on March 29, 2021, will make up to $257 million (€165 million) (the "Total Commitment") available to acquire Pipeline Properties that comply with ERES' investment policy and do not contravene the investment policy of CAPREIT for which ERES wishes to purchase but is unable to do so (a "Suitable Property Investment"). Once any part of the Total Commitment has been repaid by cash or units, that part of the Total Commitment will be available for reuse under the terms of the Pipeline Agreement. CAPREIT will receive an underwriting fee in the amount of 1.0% of the purchase price on any acquisitions under the Pipeline Agreement.

There were no acquisitions made pursuant to the Pipeline Agreement during the three months ended March 31, 2020 and March 31, 2019.

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

26. Commitments

Natural Gas

Through the combination of fixed and variable price contracts, CAPREIT is committed as at March 31, 2020, in the aggregate amount of $9,368 for its natural gas and transport requirements. These commitments, which range from one to three years, fix the price of natural gas and transport for a portion of CAPREIT's requirements as summarized below.

	Remaining 2020	2021	2022
Gas Commodity			
Fixed weighted average cost per GJ [1]	$ 2.13	$ 1.70	$ 1.85
Total of CAPREIT's estimated requirements	107.6%	67.3%	33.2%
Transport			
Fixed weighted average cost per GJ [1]	$ 1.22	$ 1.41	$ 1.28
Total of CAPREIT's estimated requirements	95.1%	67.3%	33.7%

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

Property capital investments

Commitments primarily related to capital investments in investment properties of $40,671 were outstanding as at March 31, 2020 (December 31, 2019 - 29,483).

27. Contingencies

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

28. Segmented Information

CAPREIT owns and operates investment properties located in Canada, the Netherlands, Germany and Belgium. In measuring performance, CAPREIT distinguishes its operations on a geographic basis and, accordingly, has identified two reportable segments for disclosure purposes after aggregation. Segments include (i) Canada and (ii) the Netherlands and other European markets. CAPREIT's chief operating decision-maker reviews operating results for the European properties to make decisions about resources to be allocated to the segment and assess its performance.

	Three Months Ended March 31, 2020		
Selected income statement items	**Canada**	**Europe**	**Consolidated Financial Statements**
Revenue from investment properties	$ 190,641	$ 25,419	$ 216,060
Operating expenses	(72,072)	(5,930)	(78,002)
Net rental income	**$ 118,569**	**$ 19,489**	**$ 138,058**
Fair value adjustments of investment properties	$ (54,319)	$ 22,400	$ (31,919)

	Three Months Ended March 31, 2019		
Selected income statement items	**Canada**	**Europe**	**Consolidated Financial Statements**
Revenue from investment properties	$ 168,566	$ 13,330	$ 181,896
Operating expenses	(64,998)	(3,063)	(68,061)
Net rental income	$ 103,568	$ 10,267	$ 113,835
Fair value adjustments of investment properties	$ 111,146	$ 12,170	$ 123,316

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

				As at March 31, 2020
Selected balance sheet items		Canada	Europe	Consolidated Financial Statements
Investment properties	$	11,602,748 $	2,099,777 $	13,702,525
Mortgages payable		3,609,545	927,454	4,536,999

				As at December 31, 2019
Selected balance sheet items		Canada	Europe	Consolidated Financial Statements
Investment properties	$	11,133,477 $	1,962,949 $	13,096,426
Mortgages payable		3,429,921	878,651	4,308,572

29. Subsequent Events

The long-term impact of the COVID-19 pandemic is still uncertain at this time and may have a significant impact on economic forecasts of the Canadian and global economic performance for the remainder of 2020. CAPREIT will continue to monitor the development of the pandemic and assess how it will respond to the changing economic environment. Management believes that CAPREIT has a strong balance sheet and has sufficient availability on its Credit Facilities.

Unitholder Information

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

website: www.caprent.com or www.capreit.net

OFFICERS

Michael Stein
Chairman

Mark Kenney
President and Chief Executive Officer

Scott Cryer
Chief Financial Officer

Jodi Lieberman
Chief Human Resources Officer

Corinne Pruzanski
General Counsel and Corporate Secretary

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

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

REGISTRAR AND TRANSFER AGENT

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

AUDITOR

PricewaterhouseCoopers LLP

LEGAL COUNSEL

Stikeman Elliott LLP

STOCK EXCHANGE LISTING

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