

Engagement =
Profitability :)



Profile

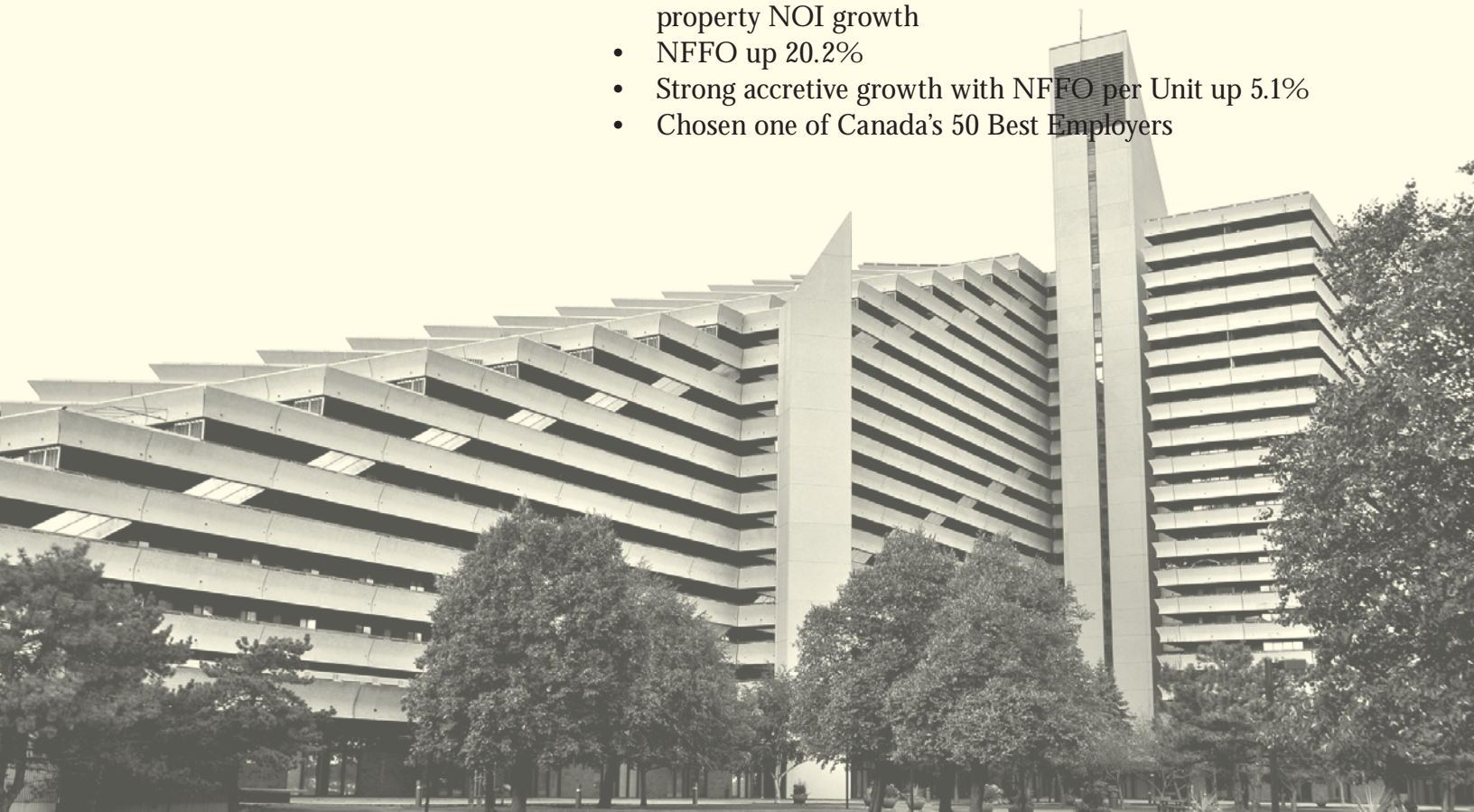
Canadian Apartment Properties Real Estate Investment Trust (“CAPREIT”) is a growth-oriented investment trust owning interests in multi-unit residential complexes, including apartment buildings, townhomes and manufactured home communities (“MHC”), principally located in or near major urban centres across Canada.

Objectives

- To provide Unitholders with long-term, stable and predictable monthly distributions;
- To grow Normalized Funds From Operations (“NFFO”), sustainable distributions and Unit value through the active management of our properties, accretive acquisitions and strong financial management; and
- To reinvest capital within the property portfolio in order to ensure the life safety of residents and maximize earnings and cash flow potential.

Highlights

- Acquired 4,931 suites and sites for \$456.5 million, and entered new geographic markets
- Revenues, NOI, FFO and AFFO at record levels, driven by portfolio growth, continuing high occupancies and increased AMRs
- Residential suite occupancy rises to 98.0% with 2.9% increase in AMRs
- Stabilized NOI up 3.0%, capping eight years of same-property NOI growth
- NFFO up 20.2%
- Strong accretive growth with NFFO per Unit up 5.1%
- Chosen one of Canada’s 50 Best Employers



Financial Highlights

Year Ended December 31,	2013	2012
Portfolio Performance		
Overall Portfolio Occupancy ⁽¹⁾	98.0%	97.6%
Overall Portfolio Average Monthly Rents ⁽¹⁾	\$ 951	\$ 975
Operating Revenues (000s)	\$ 477,023	\$ 412,421
NOI (000s)	\$ 273,854	\$ 237,916
NOI Margin	57.4%	57.7%
Operating Performance ⁽²⁾		
FFO Per Unit – Basic	\$ 1.522	\$ 1.448
NFFO Per Unit – Basic	\$ 1.562	\$ 1.486
Weighted Average Number of Units – Basic (000s)	102,064	89,215
Cash Distributions Per Unit	\$ 1.138	\$ 1.097
FFO Payout Ratio	76.8%	78.4%
NFFO Payout Ratio	74.8%	76.4%
Liquidity and Leverage		
Total Debt to Gross Book Value ⁽¹⁾	47.32%	47.25%
Total Debt to Gross Historical Cost ^{(1),(3)}	56.74%	56.71%
Weighted Average Mortgage Interest Rate ⁽¹⁾	3.76%	3.87%
Weighted Average Mortgage Term (years) ⁽¹⁾	6.0	5.4
Debt Service Coverage (times) ⁽⁴⁾	1.54	1.52
Interest Coverage (times) ⁽⁴⁾	2.62	2.51
Available Liquidity – Acquisition and Operating Facility (000s) ⁽¹⁾	\$ 86,443	\$ 126,296
Other		
Number of Suites and Sites Acquired	4,931	6,984
Number of Suites Disposed	604	773
Closing Price of Trust Units ⁽¹⁾	\$ 21.25	\$ 24.90
Market Capitalization (millions) ⁽⁵⁾	\$ 2,361	\$ 2,550

1. As at December 31.

2. NOI, FFO and NFFO are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies.

3. Based on the historical cost of investment properties.

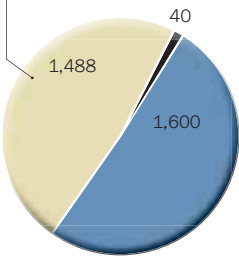
4. Based on the trailing four quarters.

5. Defined as the closing price of the Units on the last trading date of the period times the number of Units outstanding on that date.



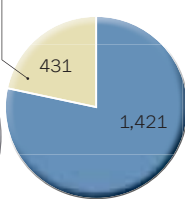
GREATER VANCOUVER AREA AND VICTORIA

Total Suites **3,128**
Occupancy **98.6%**
Average Monthly Rents **\$1,017**



CALGARY

Total Suites **1,852**
Occupancy **98.2%**
Average Monthly Rents **\$1,154**



EDMONTON

Total Suites **310**
Occupancy **99.0%**
Average Monthly Rents **\$1,128**



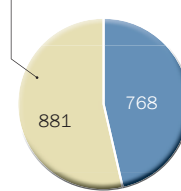
REGINA AND SASKATOON

Total Suites **241**
Occupancy **99.2%**
Average Monthly Rents **\$961**



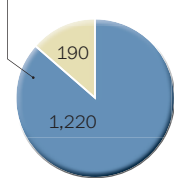
KITCHENER, WATERLOO AND LONDON

Total Suites **1,649**
Occupancy **97.5%**
Average Monthly Rents **\$873**



OUTSIDE GREATER TORONTO AREA

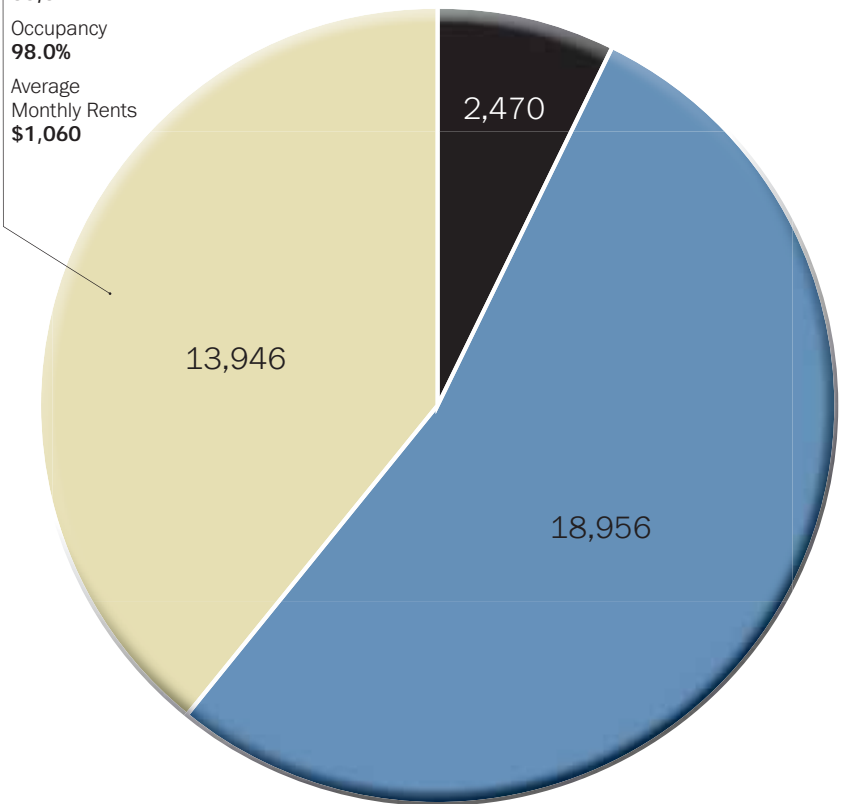
Total Suites **1,410**
Occupancy **99.1%**
Average Monthly Rents **\$1,079**



- Affordable
- Mid-Tier
- Luxury

TOTAL

Suites **35,372**
Occupancy **98.0%**
Average Monthly Rents **\$1,060**



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



GREATER TORONTO AREA (GTA)

Total Suites
15,780
Occupancy
98.3%
Average Monthly Rents
\$1,159

OTTAWA

Total Suites
1,527
Occupancy
99.7%
Average Monthly Rents
\$927

GREATER MONTRÉAL REGION

Total Suites
4,581
Occupancy
98.0%
Average Monthly Rents
\$881

QUÉBEC CITY

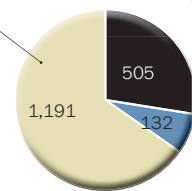
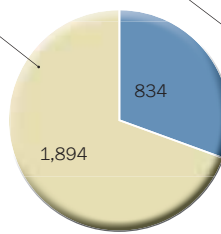
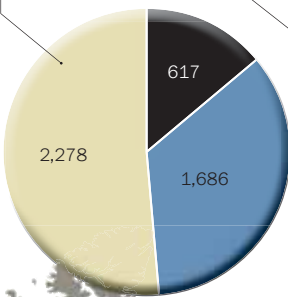
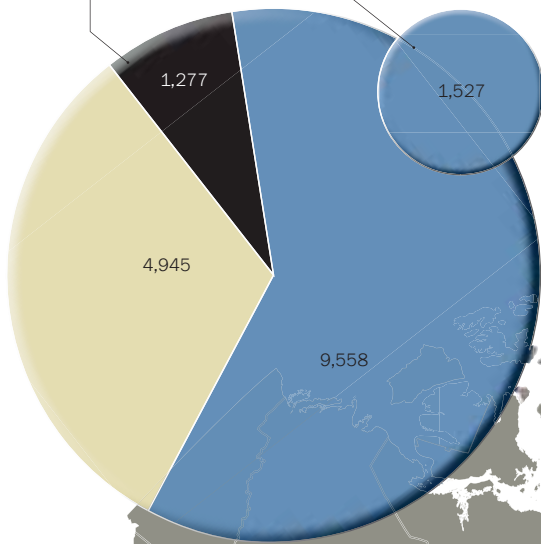
Total Suites
2,728
Occupancy
97.4%
Average Monthly Rents
\$925

CHARLOTTETOWN AND HALIFAX

Total Suites
1,828
Occupancy
93.1%
Average Monthly Rents
\$996

DUBLIN

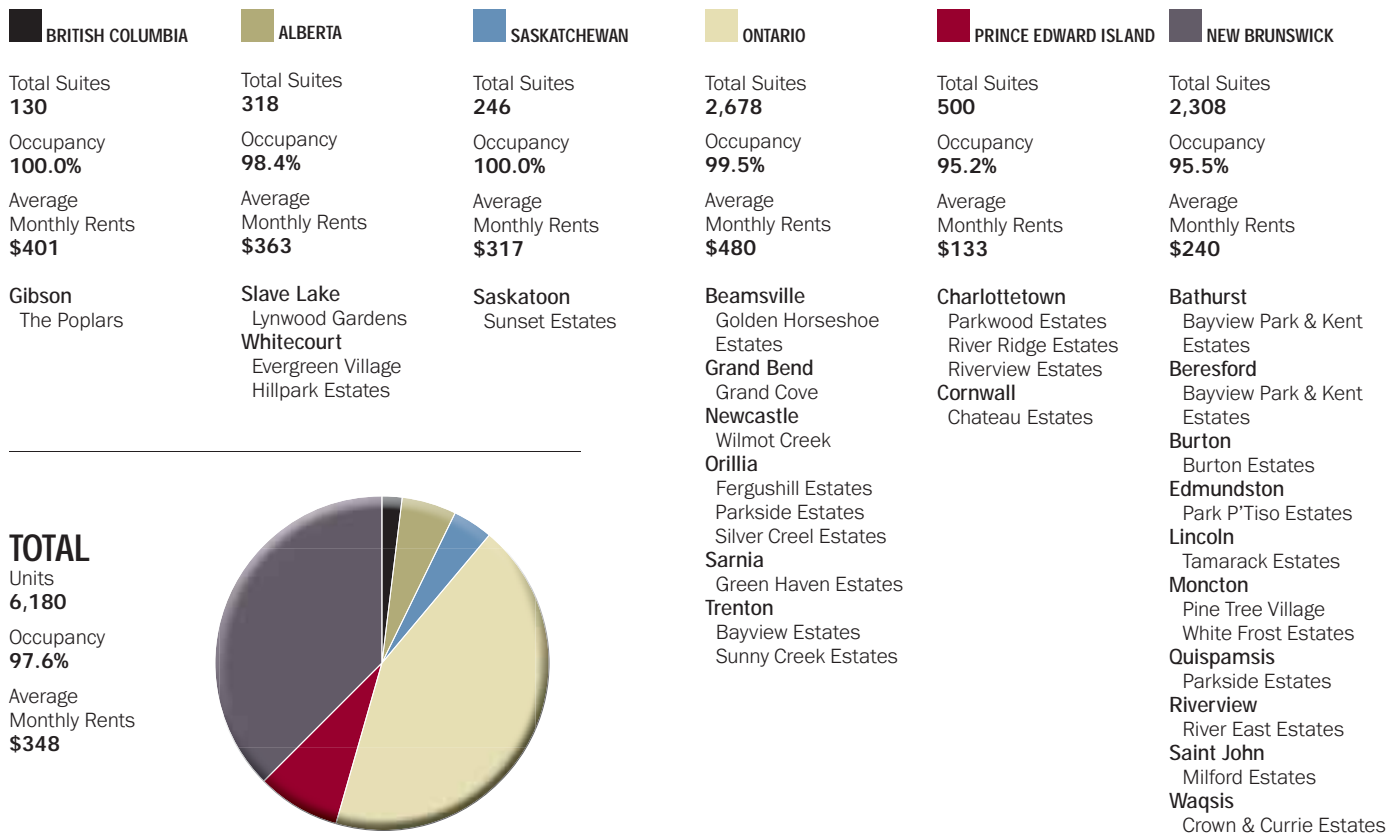
Total Suites
338
Occupancy
99.4%
Average Monthly Rents
\$1,449



CANADA

IRELAND

Manufactured Home Communities: In 2013, we extended our presence in the robust manufactured home communities business with the purchase of 2,808 new sites in Prince Edward Island and New Brunswick.



Report to Unitholders: 2013 was another record year for CAPREIT as we benefited from our continuing strong occupancies and increases in average monthly rents, while further expanding and diversifying our property portfolio. Looking ahead, with the best team in the business, our proven and highly successful asset and property management programs, and continuing strong fundamentals in the Canadian residential rental sector, we look for this growth to continue.



From left to right:
Maria Amaral, Chief Accounting Officer
Corinne Pruzanski, General Counsel and Corporate Secretary
Scott Cryer, Chief Financial Officer
Thomas Schwartz, President and Chief Executive Officer
Mark Kenney, Chief Operating Officer

Strengthening our Property Portfolio

2013 was another year of strong portfolio growth as we accretively acquired 4,931 apartment and townhouse suites and manufactured home community (MHC) land lease sites for total acquisition costs of approximately \$456.5 million. Our goal is to expand the portfolio by between 1,500 and 2,000 suites and sites each year, and once again in 2013, we exceeded our prudent growth objective.

A number of acquisitions were completed in our current markets of Victoria, British

Columbia, Calgary, Alberta, the Greater Toronto Area and Montréal, Québec. These purchases not only strengthened our presence in these cities, we expect to see solid improvements in operating performance as our new properties benefit from the economies of scale and operating synergies already established in these regions.

In addition to enhancing our presence in current markets, we further diversified our portfolio with our entry into a new geographic region in 2013. In October

The peer-recognition program lets workers encouraged to show appreciation through



we completed our first purchase in vibrant Prince Edward Island with the acquisition of 240 residential suites and 500 MHC land lease sites in Charlottetown and Cornwall for acquisition costs of approximately \$36.4 million. We look forward to building our presence in this strong and growing market.

We also significantly strengthened our very stable MHC portfolio with the purchase of 2,308 land lease sites in November, well situated in eleven locations across New Brunswick for total costs of approximately \$71.8 million. Our MHC portfolio now stands at 6,180 sites and represents approximately 14.9% of our total property portfolio.

Today our overall portfolio includes 41,552 apartment suites and land lease sites, well diversified by property type across key targeted urban geographic markets. Looking ahead, we will continue to prudently and accretively expand and strengthen our asset base, capitalizing on our strong presence in current markets while entering new regions that further diversify the portfolio and enhance our risk profile.

Another Year of Record Performance
With our significant growth over the last three years, the positive impact of our property management programs, and continuing strong fundamentals in the Canadian multi-residential rental

From left to right:

Winek Janczura, Senior Human Resources Business Partner
Jodi Lieberman, Vice President, Human Resources
Ryan McDermott, National Training Manager
James Isenberg, Human Resources Manager
Patti Baker, Managing Director
Mike McLoughlin, Maintenance Manager
Brandon Benvenuto, Operations Manager
Lana Macfarlane, Operations Manager

shine a spotlight on colleagues; managers are handwritten thank-you cards.



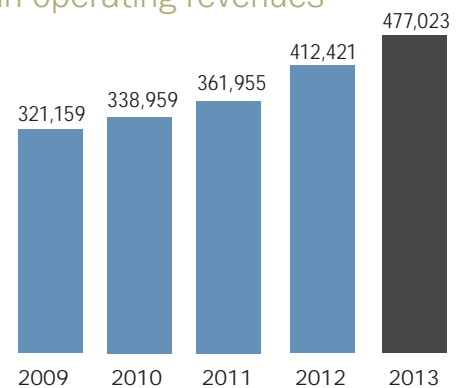
business, we generated another record year in 2013.

Operating revenues rose by 15.7% to \$477.0 million, the result of contributions from acquisitions, continuing high stable occupancies and an increase in average monthly rents. Ancillary revenues, including parking, laundry, communications services and antenna rental, continue to make a strong contribution to our revenues, rising 20.6% to \$24.6 million in 2013 compared to the prior year.

Our focus on keeping our buildings full resulted in nearly-full average occupancies of 98.0% at year-end, while average monthly

Operating Revenues (\$ Thousands)

Acquisitions, high occupancies and increased average monthly rents contribute to stable and consistent growth in operating revenues



In addition to doubling contributions to the program, it started an assistance program for



From left to right:
Gopal Mailwaganam, Managing Director
Ahalya Gobal, Regional Procurement Specialist
Zabeeda Sulaman, Administrative Coordinator
Shalini Bhutani, Operations Manager
Otilia Ciobanu, Revenue Specialist
Zack El Helou, Operations Manager
Carmen Oltean, Revenue Specialist
Santina Ratnasingham, Revenue Specialist
Krishna Moorthy, Regional Accounting Manager

rents in our apartment properties increased 2.9% to \$1,060 per suite in 2013. The performance in our MHC portfolio also remained very strong in 2013, with occupancies standing at 97.6% at year-end.

With this increase in operating revenues, combined with our relentless focus on managing our costs, our Net Operating Income (NOI) margin remained very strong at 57.4%, with Normalized Funds from Operations (NFFO), our key performance benchmark, up 20.2% for the year to \$159.4 million or \$1.56 per Unit. Importantly, our payout ratio of distributions declared to NFFO further strengthened to 74.8% from 76.4% last year.

While acquisitions made a strong contribution to our results, we are also generating solid organic growth as NOI from our stabilized properties increased 3.0% in 2013. We have now generated stable or improved quarterly growth in our same-property NOI for eight consecutive years, a significant track record in our industry.

Despite our record growth, we continue to possess one of the strongest and most conservative balance sheets in our business. Total debt to gross book value ratio was a conservative 47.3% at year-end, well within our guidelines. Our mortgage portfolio remained balanced with the weighted average interest rate declining to 3.76% at

firm's retirement planning family issues.

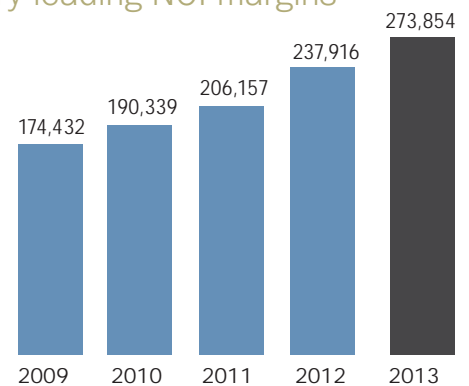


December 31, 2013 from 3.87% last year. During 2014, we expect to raise between \$600 million and \$650 million in total mortgage renewals and refinancings, and expect to complete these renewals at lower interest rates than the maturing debt, generating further cost savings over the long term.

Largely to finance our growth, during 2013 we successfully completed a bought-deal equity offering in October for aggregate gross proceeds of approximately \$149.5 million. Given the challenging capital markets during the year, we were very pleased to have seen such strong support for CAPREIT through this offering.

Net Operating Income (\$ Thousands)

Strong revenue growth combined with proven management programs generating stable NOI growth with industry-leading NOI margins



A promote-from-within culture means nearly every manager has risen from the ranks.

Importantly, despite the 14.4% increase in the weighted average number of Units outstanding at December 31, 2013, our growth was significantly accretive as NFFO per Unit rose a solid 5.1% to \$1.56 per Unit over the prior year. At year-end we maintained a very strong liquidity position with available financing capacity of over \$86.4 million, providing us with the resources and flexibility to act on further accretive growth opportunities going forward.

We were also pleased to announce a 2.7% increase in monthly cash distributions in June 2013 to \$1.15 per Unit annually. This increase is based on our strong performance and our confidence in the future. This was our tenth increase in cash distributions since our Initial Public Offering in 1997 and a reflection of our commitment to enhance Unitholder value over the long term.

The Best Team in the Business

While we believe we have one of the strongest property portfolios in our business, it is our team of people that really makes the difference at CAPREIT. It is their dedication and commitment, working tirelessly each and every day, that have resulted in strong resident satisfaction and our continuing record operating and financial performance. One of our goals over the last few years was to build a team of fully engaged and satisfied employees, and in recognition of our achievements, we were very pleased to have been selected as one of Canada's 50 Best Employers in November. We know that our people are our most important

asset, and we thank everyone at CAPREIT for their contribution to our success.

A Positive Outlook


Looking ahead, we are confident our growth and record performance will continue. The acquisitions made over the last few years are making a solid and increasing contribution to our cash flows, and as our proven property management, procurement and energy programs are implemented, we see this contribution only getting better. We will continue to expand and diversify our portfolio, capitalizing on our industry-leading balance sheet and financial position. Fundamentals also remain very strong in



From left to right:

Judy Harkai, Managing Director
 Patrick Ryan, Maintenance Manager
 Daniela Douglas, Senior Operations Manager
 Georgeta Morar, Operations Manager
 Daniel Mack, Associate Vice President, Operations
 Geeta Pundit, Operations Manager
 Stacey Lilly, Operations Manager

the Canadian rental residential business, with solid demand in all of our key urban markets. And with the best team of people in the business, we are in a stronger position than ever before to continue building value for our Unitholders.



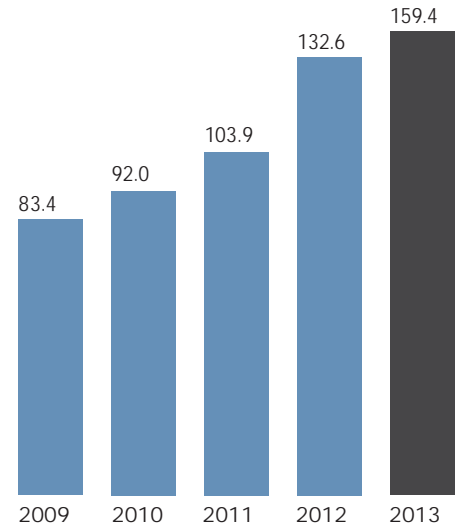
Thomas Schwartz
President and Chief Executive Officer



Michael Stein
Chairman

Normalized Funds From Operations (\$ Millions)

Strong and accretive growth in NFFO and NFFO per Unit despite increases in number of Units outstanding



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CSR Reporting

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Strengthening Performance – Strengthening Environmental and Sustainability Practices

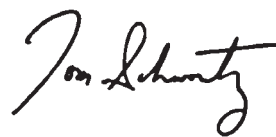
In 2013 we celebrated sixteen years of providing our residents with high-quality, safe and secure homes and an engaging place to work for our employees while delivering stable monthly cash distributions and solid long-term value to our Unitholders. This track record of success, and our platform for future growth, is driven by a relentless focus on our proven property and asset management strategies, executed by a talented team dedicated to meeting CAPREIT’s long-term goals and objectives.

To accelerate our growth, while ensuring CAPREIT remains a good corporate citizen, we also recognize that we must build on our strengths in environmental conservation, employee engagement, tenant relations and corporate governance. To achieve these objectives, we are pleased to present CAPREIT’s first report on key initiatives to enhance sustainability and social responsibility within our business.

Since CAPREIT’s inception in 1997, we have implemented numerous programs to enhance our environmental performance including investments in energy-efficient heating boilers, low-power light bulbs, high-efficiency toilets, low-flow faucets and showers, and many others. We recognized from the outset that our employees are our most important asset, and have targeted their engagement and satisfaction through education, training and development, rewarding exceptional service, introducing an Employee Unit Purchase Plan and fostering a culture of teamwork and collegiality where employees enjoy coming to work and making a difference every day. We were very proud to have been selected as one of Canada’s 50 Best Employers in 2013, a testament to our success in engaging our employees. From a governance perspective, CAPREIT’s Board of Trustees is comprised of skilled and experienced individuals, the majority of them independent, fully engaged in CAPREIT’s operations and who ensure our business practices remain ethical, open and transparent.

At CAPREIT we also believe in giving back to the communities where we operate. In 2012 we instituted a nutritional breakfast program for underprivileged schoolchildren and recently made a three-year commitment to partner with the Toronto Foundation for Student Success (“TFSS”), a well-respected charitable organization with similar goals, to provide healthy meals to underprivileged students. In addition, for the last fifteen years we have partnered with government agencies to provide approximately 1,800 suites across our portfolio as affordable homes for less fortunate families.

Beginning with our 2013 Annual Report, each year we will share with you our progress toward meeting our goals in various aspects of our corporate responsibility and sustainability initiatives. Our industry-leading practices in these important areas are another reason we have been so successful, and why we will continue to build value in the years ahead.



Thomas Schwartz
President and CEO

Corporate Social Responsibility and Sustainability

CAPREIT is one of Canada's largest publicly-traded residential landlords, serving over 41,000 families. CAPREIT owns and operates a large portfolio of multi-unit residential rental properties, including apartments, townhomes and manufactured home communities, predominantly located near and in major urban centres across Canada. CAPREIT's portfolio serves residents across all demographic segments and is highly diversified geographically.

Established in 1997, CAPREIT has grown by acquiring properties at values below replacement cost, primarily in large, urban rental markets close to public facilities such as transportation links, schools, shopping, parks, libraries and hospitals. CAPREIT creates value by ensuring its acquisitions are accretive and through focused operational strategies oriented to long-term ownership. This focus has contributed to steady and sustainable growth in net operating income, normalized funds from operations and net asset value.

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

CAPREIT's mission is to attract the right tenants by hiring the right employees and acquiring the right properties to generate the highest sustainable and profitable growth for Unitholders.

CAPREIT's Board of Trustees and Management have made sustainable business practices a priority, seeking to incorporate sustainability principles into CAPREIT's long-term business strategy, corporate culture and operations. The goals of this focus are to operate the business safely, more efficiently, use energy more wisely and produce less waste, while retaining and attracting the best employees and

residents. Management believes this approach will lead to better risk management, cost efficiency, innovation, and operational and sustainable financial performance.

In line with Management's commitment to best practice communication, CAPREIT's annual reporting will incorporate Corporate Social Responsibility and Sustainability information deemed relevant and material to CAPREIT's employees, residents and investors. Such reporting will better demonstrate how the business is managed and how financial and non-financial objectives contribute to CAPREIT's long-term sustainability.

Key Opportunities and Achievements

Management continually monitors emerging trends in its business and, where appropriate, takes steps to mitigate risk through the use of such programs as economic hedges related to utility costs and interest rate volatility, the reduction in consumption of natural resources, targeted capital investments to enhance the comfort and life safety of residents, philanthropic and charitable efforts, tenant satisfaction and employee engagement initiatives.

CAPREIT achieved the following goals in 2013:

Employment practices:

- Selected as one of Canada's 50 Best Employers
- Instituted a variety of employee-oriented programs and benefits
- Achieved status as a qualified Chartered Professional Accountant ("CPA") Training Office
- Implemented information technology enhancements to permit flexibility and broaden mobility for employees while reducing operating costs
- Integrated procurement system for greater efficiencies and reduced overall costs
- Enhanced workplace design and ergonomics for improved employee satisfaction and productivity

Resident satisfaction:

- \$80.7 million of structural capital investments for enhanced life safety and property improvement
- \$67.4 million in suite improvements, common areas and other enhancements for the greater comfort of residents
- \$12.9 million on repairs and maintenance including reconditioning and improved curb appeal of properties
- Expansion across Canada of CAP CARES, a 24/7 urgent maintenance request line for residents
- Information systems upgrades and enhancements for quicker suite turnover and cost reduction

Affordable housing and philanthropic efforts:

- Provided over 1,800 affordable suites to families in need in partnership with multiple government agencies
- Increased the number of free breakfasts served to schoolchildren at CAPREIT properties to approximately 100 daily
- Partnered with the TFSS for a three-year commitment in support of serving healthy meals at a school in proximity to CAPREIT properties
- CAPREIT employees and residents joined in 35 Ontario towns and cities during the spring Housing Owners & People Everywhere ("HOPE") food drive to raise over 35,000 pounds of food

Environmental conservation:

- Invested \$9.8 million in energy-efficiency capital investments for reduced resource consumption
- Implemented better tracking and visibility of resource consumption for identification of underperforming properties

Corporate governance:

- Two new Trustees bring greater diversity and a broader wealth of knowledge to the Board

Investors:

- Fifteenth increase in cash distributions since IPO to \$1.15 per Unit annually
- Continued improvement in the normalized funds from operations payout ratio despite higher distributions
- Extended weighted average term to maturity for the mortgage portfolio
- Acquired 4,931 suites and sites
- Improved Total Debt to Gross Book Value ratios
- Maintained a minimum of \$130 million of unencumbered assets
- Trust Expenses as a percentage of Gross Historical Cost have remained below 0.50% for four consecutive years

Future Targets

2014:

- Deliver year over year stabilized net operating income growth
- Acquire between 1,500 and 2,000 suites and sites
- Raise between \$600 million and \$650 million in total mortgage refinancings
- Invest \$2.5 million in energy-efficient and environment-friendly projects
- Sustain overall portfolio occupancy above 97% while increasing average monthly rents
- Further improve employee engagement levels and maintain one of "Canada's 50 Best Employers" ranking
- Implement a full-scale Human Resource Information System for performance management, tracking and employee efficiency information, among other benefits
- Commence corporate head office workplace redesign for improved employee productivity
- Formalize an integrated Enterprise Risk Management ("ERM") process encompassing virtually all aspects of CAPREIT's operations and tied to key performance metrics
- Establish a Leadership & Talent Management Committee comprised of Executives and Trustees for succession planning at the senior executive level
- Establish a Leadership Excellence and Development ("LEAD") program to mentor staff, provide cross-functional exposure and groom future leaders

- Establish a Rotational Leadership Development (“RLD”) program to provide cross-functional exposure and opportunities for talented younger leaders to accelerate their career advancement at CAPREIT
- Expand the number of schoolchildren served complimentary breakfasts at CAPREIT buildings
- Increase CAPREIT’s commitment to the TFSS with the support of employees and residents
- Establish an academic bursary for students pursuing higher education

In the medium term:

- Improve CAPREIT’s ranking as one of “Canada’s 50 Best Employers”
- Reduce average energy use and water consumption intensity on a per suite basis
- Establish key sustainability performance indicators
- Align executive performance incentives with key sustainability performance indicators
- Expand charitable efforts to improve the livelihood of underprivileged families

Ultimately, these will help CAPREIT achieve its vision to:

- Attain recognition as a Top Ten Employer in Canada
- Attain over 98% occupancy while improving average monthly rents
- Attain the lowest energy and water consumption intensity in the multi-residential industry

Sustainability Performance

ENVIRONMENTAL AND RESOURCE CONSERVATION PRACTICES

CAPREIT’s ability to measure and monitor energy consumption is critical to reducing operational costs, which fluctuate due to changes in energy consumption and prices. The type and volume of energy used also determines the volume of Greenhouse Gas (GHG) emissions generated from CAPREIT’s operations.

CAPREIT believes it can minimize its environmental impact while improving its long-term financial performance through the optimization of its utility consumption and by facilitating the reduction of resident waste. Since inception, CAPREIT has strived to reduce energy and water consumption in a cost-effective manner, thereby reducing emissions and contributing to better financial performance.

One of CAPREIT’s key strategies is to evaluate the implementation of a variety of energy efficiency initiatives at every property on acquisition and thereafter on a regular basis by means of newer, cost-effective technology allowing even greater reduction in energy use. These initiatives, with favourable payback periods, include:

- Installation of new high-efficiency boilers and chillers
- Installation of compact fluorescent light bulbs in suites and common areas
- Replacement of laundry machines with high-efficiency washing machines and dryers
- Use of reflective panels to cost-effectively reduce heat loss
- Regular cleaning of in-suite heating coils, fins and radiators

The high-efficiency boilers, remotely monitored by CAPREIT’s in-house energy department, allow for optimal temperatures for residents’ comfort with efficient energy use. Total expenditures since 2010 on energy consumption optimization investments total \$25.5 million.

The primary form of energy consumed by volume is natural gas, a clean-burning energy source, used for heating the majority of the property portfolio. Over the last few years, a number of properties using heating oil have been converted to natural gas, reducing overall emissions as well as operating costs.

The following table shows the results of CAPREIT’s energy-efficiency and environmental initiatives on a per suite basis for the years 2012 and 2011 calculated by an independent consulting firm in accordance with GHG Protocol (including Scopes 1 to 3):

Energy Use Intensity Performance over Prior Year

	2012	2011
In Accordance with GHG Protocol	(7.9%)	0.2%
In Accordance with GHG Protocol but Adjusted for Impact of Weather and Occupancy	(2.6%)	(1.8%)

In addition, to optimize electricity consumption, as of December 31, 2013, CAPREIT had installed tenant sub-metering systems at 85 properties comprising over 14,000 suites. On lease turnovers, new rental agreements include metered billing payable by the resident, which acts as a strong incentive to reduce energy consumption.

The following table demonstrates the benefit of sub-metering through the reduction in annual electricity use intensity on a per suite basis in sub-metered buildings compared with those for the overall portfolio for the years 2012 and 2011.

Percent Reduction in Electricity Use Intensity

	2012	2011
Sub-metered Properties	(2.6%)	(1.5%)
Overall Portfolio	(0.6%)	0.2%

The historical data above was adjusted to exclude the impact of weather and occupancy fluctuation. It should be noted that while sub-metered buildings performed, on average, better than the overall portfolio, other factors, such as energy retrofits and operational improvements, have also contributed to the improved performance.

Management has been studying alternative sources of energy such as wind and solar power since 2008, however, provincial legislation restricts progress in this area.

CAPREIT also evaluates the prompt installation of the latest water-efficiency equipment at newly acquired properties and on a regular basis where considered cost-effective. Such initiatives include the installation of the following since 2010:

- Over 16,000 ultra-high-efficiency toilets
- Over 15,000 low-flow showerheads plus faucets using aerators
- Over 3,000 high-efficiency laundry machines

The following table shows the results of CAPREIT's initiatives to reduce water consumption on a per suite basis calculated by an independent consulting firm in accordance with GHG Protocol:

Water Use Intensity Performance over Prior Year

	2012	2011
In Accordance with GHG Protocol	(1.0%)	(7.1%)

CAPREIT maintains a waste-diversion policy and expanded recycling initiatives at almost all of its properties. This policy consists of increased usage of blue bins and garbage compactors, adaptation of building waste collection substructure for recycling, and education of residents as to the benefits of recycling.

CAPREIT's operations have little to no impact on land contamination. Prior to the acquisition or refinancing of a property, thorough environmental studies are performed by an independent consulting firm to ensure there are no pre-existing contaminations and, if present, that appropriate remediation work is performed to current standards prior to acquisition.

CAPREIT contributes to the benefits of greater urban density and lowers pollution by revitalizing existing residential properties rather than developing new buildings and thus consuming more resources and generating greater emissions. Revitalization adds to the useful economic life of properties while at the same time modernizing them for changing demographic needs and adding to the beautification of the neighbourhood through contemporary landscaping and other improvements.

Employment Practices

CAPREIT recognizes that its people are its most important asset. Talented and experienced property managers, combined with specialists in procurement and knowledgeable finance staff, are the key success drivers. CAPREIT is focused on providing its employees with meaningful work in a safe environment, with training and development opportunities for career advancement in a culture of teamwork and recognition that encourages exceptional service.

One of CAPREIT's main goals has been to be recognized as an industry-leading employer, and in 2013 was proud to have achieved a ranking as one of the "50 Best Employers in Canada" as evaluated by human resource firm Aon Hewitt. Employees are encouraged to "SAY, STAY and STRIVE", speak positively about CAPREIT, have the desire to remain a long-term employee, and go the extra mile to do the best possible job. Management is committed to further improving the work environment. Annual focus groups allow Management to hear from employees from across the organization and to provide the appropriate means of attracting and retaining the best employees. CAPREIT's flexible benefits programs, competitive compensation, employee mentorship, training and development initiatives, and a warm and friendly work atmosphere, should help CAPREIT achieve its goals. CAPREIT employees are provided with the opportunity to own CAPREIT's Trust Units through a highly beneficial Employee Unit Purchase Plan aligning their interests with all Unitholders. CAPREIT is also proud to have its head office qualified as a CPA Training Office.

CAPREIT has also taken a leadership role in gender balance. As of December 31, 2013, CAPREIT is proud that 14 of the 26 seniormost managers are female.

Societal and Resident Satisfaction Practices

CAPREIT's success is also driven by strong relationships with its residents and the communities in which it operates. Building relationships with residents begins before a lease is signed, with an up-to-date, easy-to-navigate and interactive website featuring building floor plans, virtual tours, pictures and videos, and local points of interest, all combined with a proactive social media presence to address questions.

Happy and satisfied residents mean lower lease turnover, lower vacancy loss, lower repairs and maintenance, higher average monthly rents, more resident referrals and a better resident community. Therefore, Management ensures there are resident engagement initiatives at every building focused on strengthening these relationships, which include summer barbecues, weekly movie nights, informative resident newsletters, on-site summer camps for resident children, and food and toy drives that benefit the underprivileged.

In addition to a formalized annual resident satisfaction survey, CAP CARES is an effective and efficient means for residents to communicate urgent maintenance requests. The program serves to reduce response time for residents while also addressing and mitigating possibly costly repairs. Feedback to CAPREIT helps identify areas of improvement and enables CAPREIT's team to enhance and deliver resident services provided at its properties. CAPREIT also employs a "mystery shopper" program to ensure its customer service initiatives are effective and meeting its goals.

The reconditioning and enhancement of buildings under CAPREIT's capital investment program ensures residents enjoy safe, secure and comfortable homes. In the interest of resident safety and security, building manuals are maintained at every property in order to provide easily accessible information on shutdown procedures for all building mechanical systems in case of an emergency.

To help working families in need of assistance, CAPREIT has formed long-term partnerships over the last fifteen years with housing agencies at federal, provincial and municipal levels of government across

Canada to provide well-managed, high-quality accommodation that would otherwise be out of reach for many families. Such partnerships also aid the integration of disadvantaged families into the broader community while the efficient operating platforms of landlords such as CAPREIT have the added benefit of effectively reducing the burden and cost to the government. CAPREIT works closely with virtually every agency and under every program possible to provide additional suites, however, the imbalance between growing needs and available accommodation persists due to the limited funding available to partnering agencies. As of 2013, CAPREIT provides over 1,800 suites across Canada and is one of the largest contributors of affordable housing in the Greater Toronto Area. CAPREIT is committed to supporting and expanding these programs as it contributes to the well-being of communities and society and ensures properties are fully occupied at market rents.

CAPREIT also runs a Student Breakfast Program that benefits disadvantaged resident schoolchildren by providing complimentary breakfasts at select CAPREIT properties with the aim of championing academic performance. To expand this initiative, in 2013 CAPREIT made a three-year commitment to partner with the TFSS to serve healthy meals at an elementary school in proximity to certain CAPREIT properties. Established in 1998, the TFSS supports over 600 breakfast, lunch and snack programs providing over 147,000 meals daily, as well as medical care, emergency funds and after-school programs for children in need. CAPREIT also supports the annual United Way Campaign and supports additional philanthropic initiatives that benefit disadvantaged schoolchildren.

Over the last sixteen years, CAPREIT has come a long way from a small, regional property owner to one of Canada's largest residential landlords, with a portfolio spanning the country and all demographic sectors. This growth and success would not have been possible without CAPREIT's service-oriented approach to residents, the engagement and productivity of its employees, the control of resource consumption, and addressing the needs of the investment community. It is CAPREIT's goal to maintain its focus on programs that enable CAPREIT *to be the premier residential landlord in Canada, the landlord and employer of choice, and the investment of choice in its industry.*

Management's Discussion and Analysis

SECTION I

Forward-Looking Disclaimer

The following Management's Discussion and Analysis ("MD&A") of Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") results of operations and financial condition for the year ended December 31, 2013 should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2013.

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, projected costs, capital investments, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to acquisition and capital investment strategy and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including: that the Canadian and Irish

economies will generally experience growth, which, however, may be adversely impacted by the global economy; that inflation will remain low; that interest rates will remain low in the medium term; that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates; that the Canadian capital markets will continue to provide CAPREIT with access to equity and/or debt at reasonable rates; that vacancy rates for CAPREIT properties will be consistent with historical norms; that rental rates will grow at levels similar to the rate of inflation on renewal; that rental rates on turnovers will remain stable; that CAPREIT will effectively manage price pressures relating to its energy usage; and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions, Management believes they are reasonable as of the date hereof, there can be no assurance actual results will be consistent with these forward-looking statements and they may prove to be incorrect. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond CAPREIT's control, that may cause CAPREIT or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: reporting investment properties at fair value, real property ownership, leasehold interests,

co-ownerships, investment restrictions, operating risk, energy costs and hedging, environmental matters, insurance, capital investments, indebtedness, interest rate hedging, foreign operation and currency risks, taxation, harmonization of federal goods and services taxes and provincial sales taxes, government regulations, controls over financial accounting, legal and regulatory concerns, the nature of units of CAPREIT ("Trust Units") and of CAPREIT's subsidiary, CAPREIT Limited Partnership ("Exchangeable Units") (collectively, the "Units"), unitholder liability, liquidity and price fluctuation of Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, continued growth, risks related to acquisitions, and foreign operating and currency risks. There can be no assurance the expectations of CAPREIT's Management will prove to be correct. For a detailed discussion of risk factors, refer to the Risks and Uncertainties section. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

Non-IFRS Financial Measures

CAPREIT prepares and releases unaudited consolidated interim financial statements and audited consolidated annual financial statements in accordance with International Financial Reporting Standards ("IFRS"). In this MD&A, and in earnings releases and investor conference calls, as a complement to results provided in accordance with IFRS, CAPREIT also discloses and discusses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS, including Net Operating Income ("NOI"), Net Rental Revenue Run-Rate, Funds From Operations ("FFO"), Normalized Funds From Operations ("NFFO") and Adjusted Funds From Operations ("AFFO"), and applicable per Unit amounts and payout ratios (collectively the "non-IFRS measures"). These non-IFRS measures are further defined and discussed in Section III under Non-IFRS Financial Measures. Since NOI, Net Rental Revenue Run-Rate, FFO, NFFO and AFFO are not measures determined under IFRS, they may not be comparable to similarly titled measures reported by other issuers. CAPREIT has presented such non-IFRS measures because Management believes these non-IFRS measures are relevant measures of the ability of CAPREIT to earn and distribute cash returns to investors in the Units ("Unitholders") and to evaluate CAPREIT's performance. A reconciliation of non-IFRS measures is provided in Section III under Non-IFRS Financial Measures. These non-IFRS measures should not be construed as alternatives to net income (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of CAPREIT's performance.

Overview

CAPREIT is an unincorporated open-ended publicly-traded real estate investment trust and one of Canada's largest residential landlords, serving over 41,000 families across the country. CAPREIT owns and operates a portfolio of multi-unit residential rental properties, including apartments, townhomes and manufactured home communities located in and near major urban centres in Canada and Ireland. CAPREIT's concentration on the residential real estate market is aimed at generating solid year-over-year income growth in a portfolio with stable occupancy and rising average monthly rents. In addition, CAPREIT mitigates concentration risk through demographic diversification by operating properties across the affordable, mid-tier and luxury sectors, as well as through geographic diversification principally across Canada.

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

CAPREIT's mission is to attract the right tenants by hiring the right employees and acquiring the right properties to generate the highest sustainable and profitable growth for Unitholders.

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

2013 was a significant year of growth for CAPREIT with an almost 12% increase in its portfolio, having acquired 2,121 residential suites and 2,810 land lease sites in 15 manufactured home communities. In the same period, pursuant to its strategy to dispose of non-core assets from time to time, CAPREIT sold 604 non-core residential suites. The acquisitions completed in 2013 have strengthened the portfolio geographically. The acquisition of new manufactured home communities has increased CAPREIT's base in a profitable sector of residential real estate, which Management believes will provide CAPREIT with accretive growth in the long term.

CAPREIT was established under the laws of the Province of Ontario by a declaration of trust (the "DOT") dated February 3, 1997, as most recently amended and restated on May 21, 2013. As at December 31, 2013, CAPREIT owned interests in 41,552 residential units, comprised of 35,372 residential suites and 29 manufactured home communities ("MHC"), comprised of 6,180 land lease sites. As at December 31, 2013, CAPREIT had 892 employees (829 employees as at December 31, 2012).

The tables below summarize property acquisitions and dispositions for the years ended December 31, 2013 and 2012:

ACQUISITIONS COMPLETED DURING THE YEAR ENDED DECEMBER 31, 2013

<i>(\$ Thousands)</i>	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
January 31, 2013	Mid-tier	263	Calgary	\$ 49,022	\$ 7,181	6.95%	4.7
May 15, 2013	Mid-tier	396	Toronto	58,019	– ⁽³⁾	– ⁽³⁾	– ⁽³⁾
May 31, 2013	Luxury	114	Calgary	25,812	11,041	4.25%	1.6
August 28, 2013	Various ⁽⁴⁾	770	Various ⁽⁴⁾	153,894	9,475	3.62%	0.9
September 10, 2013	Luxury	338	Dublin, Ireland	61,431	– ⁽⁵⁾	– ⁽⁵⁾	– ⁽⁵⁾
October 10, 2013	MHC	2	Bowmanville	170	– ⁽³⁾	– ⁽³⁾	– ⁽³⁾
October 22, 2013	Various ⁽⁶⁾	740	Prince Edward Island	36,393	10,274	4.49%	1.8
November 29, 2013	MHC ⁽⁷⁾	2,308	New Brunswick	71,782	– ⁽³⁾	– ⁽³⁾	– ⁽³⁾
Total		4,931		\$ 456,523	\$ 37,971		

(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 10 properties consisting of 770 suites (597 mid-tier and 173 luxury suites) located in British Columbia, Ontario and Québec.

(5) The acquisition was primarily funded from CAPREIT's €45 million five-year non-revolving Euro-denominated credit facility at an all-in interest rate of 3.22% (see Liquidity and Financial Condition section).

(6) The acquisition comprised 240 suites (132 mid-tier and 108 luxury suites) and 500 land lease sites in four communities located in Charlottetown and Cornwall, Prince Edward Island.

(7) The acquisition comprised 2,308 land lease sites in 11 communities in New Brunswick.

ACQUISITIONS COMPLETED DURING THE YEAR ENDED DECEMBER 31, 2012

<i>(\$ Thousands)</i>	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
May 31, 2012	MHC	2,032	Various ⁽³⁾	\$ 76,324	\$ 37,753	5.33%	3.0
June 29, 2012	Mixed ⁽⁴⁾	3,562	Various ⁽⁴⁾	461,428	183,939	3.99%	2.6
July 19, 2012	MHC ⁽⁵⁾	5	Bowmanville and Grand Bend	499	– ⁽⁶⁾	– ⁽⁶⁾	– ⁽⁶⁾
August 31, 2012	Mid-tier ⁽⁷⁾	405	Calgary	69,501	31,208	3.38%	1.7
November 1, 2012	Luxury	980	Montréal	183,516	82,048	4.39%	0.8
Total		6,984		\$ 791,268	\$ 334,948		

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

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

(3) The acquisition comprised 12 manufactured home communities ("MHC") located in Ontario, Saskatchewan, Alberta and British Columbia.

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

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

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

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

DISPOSITIONS COMPLETED DURING THE YEAR ENDED DECEMBER 31, 2013

(\$ Thousands)	Demographic Sector	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
August 28, 2013	Various ⁽¹⁾	604	Greater Toronto Area	\$ 94,250	\$ 57,672	\$ 34,772
Total		604		\$ 94,250	\$ 57,672	\$ 34,772

(1) The disposition comprised 5 properties consisting of 604 mid-tier suites located in Mississauga and Toronto, Ontario.

DISPOSITIONS COMPLETED DURING THE YEAR ENDED DECEMBER 31, 2012

(\$ Thousands)	Demographic Sector	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
February 22, 2012	Mid-tier	136	Greater Toronto Area	\$ 17,500	\$ 7,726	\$ 9,485
May 31, 2012	Luxury	199	Greater Toronto Area	33,500	17,974	15,030
October 31, 2012	Various ⁽¹⁾	438	Various ⁽¹⁾	60,700	29,944	29,018
Total		773		\$ 111,700	\$ 55,644	\$ 53,533

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

Objectives

CAPREIT's objectives are to:

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

Business Strategy

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

Customer Service – CAPREIT recognizes that it is in a “people business” and strives to be recognized as the Landlord of Choice in all its chosen markets by providing its residents with safe, secure and comfortable homes. It takes a hands-on approach to managing its properties, stressing open and frequent communications to ensure residents' needs are met efficiently and effectively, thereby maintaining a high occupancy level. Numerous initiatives, such as newsletters, special events, resident committees and other initiatives help to build a true sense of community at its properties. CAPREIT's strong sales and marketing team continues to execute innovative and highly effective strategies to help attract and

retain residents and adapt to changing conditions in specific markets. In addition, CAPREIT's lease administration system improves control of rent-setting by suite, increasing resident service and enhancing the overall profile of its resident base.

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

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

Portfolio Growth – CAPREIT will grow its portfolio over the long term through accretive acquisitions that meet its strategic criteria and, where possible, enhance geographic diversification while capturing economies of scale and cost synergies, thereby increasing net operating income. As a component of this growth strategy, CAPREIT will monitor its portfolio and, from time to time, identify certain non-core properties for divestiture. The funds from these divestitures will be used to acquire additional strategic assets better suited to CAPREIT's portfolio composition and property management objectives or to pay down existing debt. Management believes the continued realization and reinvestment of capital is a fundamental component of its growth strategy and demonstrates the success of CAPREIT's capital investment programs and its ability to maximize and manage the earnings and cash flow potential of its property portfolio.

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

Key Performance Indicators

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

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

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

NOI – As a measure of its operating performance, CAPREIT currently strives to achieve an annual net operating income margin that is in the range of 56% to 58% of operating revenues.

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

Payout Ratio – To help ensure it retains sufficient cash to meet its capital investment objectives, CAPREIT has historically targeted a long-term annual NFFO payout ratio of between 80% and 85%.

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

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

Performance Measures

The following table presents an overview of certain key IFRS and non-IFRS financial measures and operational results of CAPREIT for the years ended December 31, 2013 and 2012. Management believes that these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. Effective June 2013, monthly cash distributions declared to Unitholders increased to \$0.096 per Unit (\$1.15 annually), compared to \$0.093 per Unit (\$1.12 annually) since September 2012 and \$0.090 per Unit (\$1.08 annually) previously.

Year Ended December 31,	2013	2012
<i>Portfolio Performance</i>		
Overall Portfolio Occupancy ⁽¹⁾	98.0%	97.9%
Overall Portfolio Average Monthly Rents ⁽¹⁾	\$ 951	\$ 975
Operating Revenues (000s)	\$ 477,023	\$ 412,421
NOI (000s)	\$ 273,854	\$ 237,916
NOI Margin	57.4%	57.7%
<i>Operating Performance⁽²⁾</i>		
FFO Per Unit – Basic	\$ 1.522	\$ 1.448
NFFO Per Unit – Basic	\$ 1.562	\$ 1.486
Weighted Average Number of Units – Basic (000s)	102,064	89,215
Cash Distributions Per Unit	\$ 1.138	\$ 1.097
FFO Payout Ratio	76.8%	78.4%
NFFO Payout Ratio	74.8%	76.4%
<i>Liquidity and Leverage</i>		
Total Debt to Gross Book Value ⁽¹⁾	47.32%	47.25%
Total Debt to Gross Historical Cost ^{(1),(3)}	56.74%	56.71%
Weighted Average Mortgage Interest Rate ⁽¹⁾	3.76%	3.87%
Weighted Average Mortgage Term (years) ⁽¹⁾	6.0	5.4
Debt Service Coverage (times) ⁽⁴⁾	1.54	1.52
Interest Coverage (times) ⁽⁴⁾	2.62	2.51
Available Liquidity – Acquisition and Operating Facility (000s) ⁽¹⁾	\$ 86,443	\$ 126,296
<i>Other</i>		
Number of Suites and Sites Acquired	4,931	6,984
Number of Suites Disposed	604	773
Closing Price of Trust Units ⁽¹⁾	\$ 21.25	\$ 24.90
Market Capitalization (millions) ⁽⁵⁾	\$ 2,361	\$ 2,550

(1) As at December 31.

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

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

(4) Based on the trailing four quarters.

(5) Defined as the closing price of the Units on the last trading date of the period times the number of Units outstanding on that date (see discussion of Unitholders' equity under the Liquidity and Financial Condition section).

Property Portfolio

TYPES OF PROPERTY INTERESTS

CAPREIT's investments in its property portfolio reflect different forms of property interests, including:

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

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

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

Land Leasehold Interests – CAPREIT owns leasehold interests in three land parcels in Alberta, of which one was purchased in 2012, and one land parcel in British Columbia. CAPREIT acquired a residential building on each of the four land parcels and pays ground rent on an annual basis for its use of the land. One land lease matures in 2045, two mature in 2068 and another matures in 2070. CAPREIT does not have the unilateral right to acquire the land or extend the lease term at the maturity of the respective leases (see Portfolio of Land Leasehold Interests for additional information).

Fee Simple Interests – MHC Land Lease Sites – CAPREIT has fee simple interests in 29 MHCs, whereby CAPREIT owns sites, which it rents to residents.

Portfolio by Type of Property Interest

As at December 31,	2013	%	2012	%
Fee Simple Interests – Apartments and Townhomes	30,506	73.4	28,989	77.9
Operating Leasehold Interests	3,815	9.2	3,815	10.2
Land Leasehold Interests	1,051	2.5	1,051	2.8
Total Residential Suites	35,372	85.1	33,855	90.9
Fee Simple Interests – MHC Land Lease Sites	6,180	14.9	3,370	9.1
Total Suites and Sites	41,552	100.0	37,225	100.0

PORTFOLIO DIVERSIFICATION

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

Portfolio by Demographic Sector

As at December 31,	2013	%	2012	%
Affordable	2,470	5.9	2,470	6.6
Mid-tier	18,956	45.6	18,172	48.8
Luxury	13,946	33.6	13,213	35.5
Total Residential Suites	35,372	85.1	33,855	90.9
MHC Land Lease Sites	6,180	14.9	3,370	9.1
Total Suites and Sites	41,552	100.0	37,225	100.0

Portfolio by Geography

As at December 31,	2013	%	2012	%
<i>Residential Suites</i>				
Ontario				
Greater Toronto Area	15,780	38.0	15,728	42.3
Ottawa	1,527	3.7	1,527	4.1
London / Kitchener / Waterloo	1,649	4.0	1,649	4.4
Other Ontario	1,410	3.4	1,410	3.8
	20,366	49.1	20,314	54.6
Québec				
Greater Montréal Region	4,581	11.0	4,436	11.9
Québec City	2,728	6.6	2,728	7.3
	7,309	17.6	7,164	19.2
British Columbia				
Greater Vancouver Region	1,948	4.7	1,948	5.2
Victoria	1,180	2.8	815	2.2
	3,128	7.5	2,763	7.4
Alberta				
Edmonton	310	0.7	310	0.8
Calgary	1,852	4.4	1,475	4.0
	2,162	5.1	1,785	4.8
Nova Scotia				
Halifax	1,588	3.8	1,588	4.3
Saskatchewan				
Saskatoon	133	0.3	133	0.3
Regina	108	0.3	108	0.3
	241	0.6	241	0.6
Prince Edward Island				
Charlottetown	240	0.6	–	–
Ireland				
Dublin	338	0.8	–	–
Total Residential Suites	35,372	85.1	33,855	90.9
<i>MHC Land Lease Sites</i>				
Ontario	2,678	6.4	2,676	7.2
British Columbia	130	0.3	130	0.3
Alberta	318	0.8	318	0.9
Saskatchewan	246	0.6	246	0.7
Prince Edward Island	500	1.2	–	–
New Brunswick	2,308	5.6	–	–
Total MHC Land Lease Sites	6,180	14.9	3,370	9.1
Total Suites and Sites	41,552	100.0	37,225	100.0

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

CAPREIT has exceeded its growth objective for 2013 with a total gross number of 4,931 suites and sites acquired for the year, as historically, CAPREIT targeted acquiring between 1,500 and 2,000 suites and sites on an annual basis.

PORTFOLIO OF OPERATING LEASEHOLD INTERESTS

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

The purchase options are independently exercisable, enabling CAPREIT to acquire additional interests in any or all of the properties. The option prices vary by property and by the year in which the

option is to be exercised. The aggregate range of option prices would be approximately \$283 million to \$339 million if each of the options were exercised in the 26th and 35th years, respectively, of the lease terms. If CAPREIT elected to exercise any option prior to the maturity of the lease term, CAPREIT would be entitled to receive a pro rata amount of the prepaid interest based on the remaining lease term. In addition, under certain circumstances, the option price may be reduced by the unamortized portion of capital expenditures incurred during the final ten years of the lease term.

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

Operating Leasehold Interests Portfolio by Lease Maturity

(\$ Thousands)

As at December 31, 2013 and 2012

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

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

PORTFOLIO OF LAND LEASEHOLD INTERESTS

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

Land Leasehold Interests Portfolio by Lease Maturity

(\$ Thousands)

Year Ended December 31,

Year of Lease Maturity	Suites	%	Annual Ground Rent	
			2013	2012
2045	473	45.0	\$ 1,000	\$ 1,000
2068 ⁽¹⁾	306	29.1	579	312
2070	272	25.9	1,279	1,118
Total Land Leasehold Interests Portfolio	1,051	100.0	\$ 2,858	\$ 2,430

(1) A land leasehold interest was purchased in 2012.

Investment Properties

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

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

Market assumptions applied for valuation purposes do not necessarily reflect the specific history or experience related to CAPREIT, and in many cases, the stabilized cash flows or NOI used for appraisal purposes may not reflect the results ultimately realized during future periods.

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

For a discussion of risk factors associated with the valuation of investment properties, refer to the Risks and Uncertainties section. For a detailed description of valuation methods and key assumptions used for investment properties, see note 6 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2013 contained in CAPREIT's 2013 Annual Report.

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

<i>(\$ Thousands)</i>		
As at December 31,	2013	2012
Balance, Beginning of the Year	\$ 4,826,355	\$ 3,713,737
Add:		
Acquisitions	456,523	791,268
Property Capital Investments ⁽¹⁾	160,220	133,286
Capitalized Leasing Costs ⁽²⁾	692	1,038
Unrealized Gain on Remeasurement at Fair Value	106,470	298,228
Foreign Currency Translation	3,208	-
Less:		
Dispositions	(93,439)	(109,589)
Realized Loss on Dispositions	(811)	(1,613)
Investment Properties at Fair Value, End of the Year	\$ 5,459,218	\$ 4,826,355

(1) See Property Capital Investments section.

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

For the years ended December 31, 2013 and 2012, the unrealized gain on remeasurement of investment properties is primarily the result of changes in net operating income and capitalization rates offset by certain capital investments not having an immediate effect on stabilized NOI and thus not being reflected in the fair value of the investment properties at the measurement date.

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

Investment Properties by Geography

As at <i>(S Millions)</i>	Dec 2012		Change Due to Change in			Dec 2013		Dec 2012	Dec 2013
	Fair Value	Rates ⁽¹⁾	Stabilized NOI	Forex Translation	Net Acquisitions	Fair Value	Rates ⁽¹⁾	Rates ⁽¹⁾	
Greater Toronto Area	\$ 2,265	\$ 73	\$ 93	\$ –	\$ 5	\$ 2,436	5.07%	4.86%	
Other Ontario	460	14	8	–	–	482	5.38%	5.22%	
Québec	848	23	11	–	20	902	5.52%	5.36%	
British Columbia	497	(6)	9	–	89	589	4.27%	4.30%	
Alberta	330	9	22	–	73	434	4.94%	4.84%	
Nova Scotia	226	9	(3)	–	–	232	5.98%	5.75%	
Saskatchewan	27	–	–	–	–	27	6.14%	6.19%	
Prince Edward Island	–	–	–	–	27	27	–	6.28%	
Dublin, Ireland	–	–	3	3	61	67	–	6.37%	
MHC Land Lease Sites	173	5	10	–	75	263	6.25%	6.07%	
Total	\$ 4,826	\$ 127	\$ 153	3	\$ 350	\$ 5,459			

(1) Weighted average capitalization rates excluding implied capitalization rates on Operating and Land Leasehold Interests.

See note 6 to the accompanying audited consolidated annual financial statements for further valuation assumption details including discount rates as at December 31, 2013 for Operating and Land Leasehold Interests.

As at December 31, 2013, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of investment properties:

<i>(S Millions)</i> As at December 31, 2013	Change (basis points) ⁽¹⁾	Estimated (Decrease) Increase
Weighted Average Capitalization Rate	+25	\$ (252)
Weighted Average Capitalization Rate	–25	\$ 278

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

SECTION II

Average Monthly Rents and Occupancy

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

As at December 31,	Total Portfolio				Properties Owned Prior to December 31, 2012				Properties Acquired Since December 31, 2012	
	2013		2012		2013		2012 ⁽¹⁾		2013	
	AMR	Occ. %	AMR	Occ. % ⁽²⁾	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %
Affordable	\$ 870	96.6	\$ 862	97.7	\$ 870	96.6	\$ 862	97.7	\$ -	-
Mid-tier	\$ 1,009	98.2	\$ 989	98.1	\$ 1,017	98.4	\$ 987	98.2	\$ 915	96.4
Luxury	\$ 1,160	98.0	\$ 1,115	97.3	\$ 1,153	98.2	\$ 1,115	97.3	\$ 1,275	94.8
Average Residential Suites	\$ 1,060	98.0	\$ 1,030	97.8	\$ 1,061	98.2	\$ 1,030	97.8	\$ 1,039	95.9
Average MHC Land Lease Sites	\$ 348	97.6	\$ 439	99.2	\$ 454	99.5	\$ 439	99.2	\$ 221	95.4
Overall Portfolio Average	\$ 951	98.0	\$ 975	97.9	\$ 1,004	98.3	\$ 974	97.9	\$ 572	95.6

(1) Prior year comparable AMR and occupancy have been restated for properties disposed of in 2013.

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

AMR is defined as actual residential rents, net of vacancies, divided by the total number of suites and sites in the property and does not include revenues from parking, laundry or other sources. Average monthly rents increased in all demographic sectors of the residential suite portfolio, resulting in a 2.9% increase in overall average monthly rent as at December 31, 2013 compared to last year while occupancy increased to 98.0% compared to 97.8% for last year. The increases in average monthly rents were due to higher rent guideline increases, a combination of ongoing successful sales and marketing strategies, above

guideline increases, and continued strength in the residential rental sector in the majority of CAPREIT's regional markets. As at December 31, 2013, the AMR of the luxury properties increased compared to last year, partially as a result of the acquisitions in Dublin, Ireland.

Average monthly rents for residential properties owned prior to December 31, 2012 also increased as at December 31, 2013 to \$1,061 from \$1,030 as at December 31, 2012, an increase of 3.0% from last year. As at December 31, 2013, occupancy has increased to 98.2% from 97.8% for December 31, 2012.

For the MHC land lease portfolio, average monthly rents decreased to \$348 as at December 31, 2013, compared to \$439 as at December 31, 2012, primarily due to the acquisition of 2,808 MHC land lease sites acquired in the fourth quarter of 2013 in lower rent geographic regions. Occupancy for MHC properties owned prior to December 31, 2012 remained strong at 99.5%. Management believes

MHC land lease sites provide secure and stable cash flows due to long-term tenancies, high occupancies, steady increases in average monthly rents, and significantly lower capital and maintenance costs.

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

Suite Turnovers and Lease Renewals

For the Year Ended December 31,

	2013			2012		
	Change in AMR		% Turnovers & Renewals ⁽¹⁾	Change in AMR		% Turnovers & Renewals ⁽¹⁾
	\$	%		\$	%	
Suite Turnovers	23.5	2.2	28.7	20.3	2.0	26.8
Lease Renewals	28.7	2.7	77.9	34.2	3.3	70.0
Weighted Average of Turnovers and Renewals	27.3	2.6		30.3	2.9	

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

Suite turnovers in the residential suite portfolio (excluding co-ownerships) during the year ended December 31, 2013 resulted in average monthly rent increasing by approximately \$24 or 2.2%, compared to an increase of approximately \$20 or 2.0% for last year.

Pursuant to Management's focus on increasing overall portfolio rents for the year ended December 31, 2013, average monthly rents on lease renewals increased by approximately \$29 or 2.7%, compared to an increase of approximately \$34 or 3.3% for last year. The lower rate of growth in average monthly rents on lease renewals during the year is due primarily to the lower guideline increases for 2013

(Ontario – 2.5%, British Columbia – 3.8%), compared to the permitted guideline increases in 2012 (Ontario – 3.1%, British Columbia – 4.3%), partially offset by increases due to above guideline increases ("AGI") achieved in Ontario. For 2014, the permitted guideline increase in Ontario and British Columbia has been set at 0.8% and 2.2%, respectively. Management continues to pursue applications in Ontario for AGIs where it believes increases are supported by market conditions above the annual guideline to raise average monthly rents on lease renewals (see discussion in the Future Outlook section).

Portfolio Average Monthly Rents and Occupancy by Geography

As at December 31,	Total Portfolio				Properties Owned Prior to December 31, 2012				Properties Acquired Since December 31, 2012	
	2013		2012		2013		2012 ⁽¹⁾		2013	
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %
Residential Suites										
Ontario										
Greater Toronto Area	\$ 1,159	98.3	\$ 1,134	98.5	\$ 1,169	98.4	\$ 1,138	98.6	\$ 928	97.0
Ottawa	927	99.7	913	99.9	927	99.7	913	99.9	-	-
London / Kitchener / Waterloo	873	97.5	828	93.0	873	97.5	828	93.0	-	-
Other Ontario	1,079	99.1	1,057	99.4	1,079	99.1	1,057	99.4	-	-
	\$ 1,119	98.4	\$ 1,093	98.3	\$ 1,126	98.5	\$ 1,095	98.3	\$ 928	97.0
Québec										
Greater Montréal Region	\$ 881	98.0	\$ 846	96.1	\$ 881	98.1	\$ 846	96.1	\$ 881	96.6
Québec City	925	97.4	907	97.5	925	97.4	907	97.5	-	-
	\$ 898	97.8	\$ 869	96.6	\$ 898	97.8	\$ 869	96.6	\$ 881	96.6
British Columbia										
Greater Vancouver Region	\$ 1,075	99.5	\$ 1,036	98.4	\$ 1,075	99.5	\$ 1,036	98.4	\$ -	-
Victoria	922	97.1	864	96.3	896	98.0	864	96.3	978	95.1
	\$ 1,017	98.6	\$ 986	97.8	\$ 1,022	99.1	\$ 986	97.8	\$ 978	95.1
Alberta										
Edmonton	\$ 1,128	99.0	\$ 1,072	99.0	\$ 1,128	99.0	\$ 1,072	99.0	\$ -	-
Calgary	1,154	98.2	1,096	98.7	1,167	98.0	1,096	98.7	1,102	98.9
	\$ 1,150	98.3	\$ 1,092	98.8	\$ 1,160	98.2	\$ 1,092	98.8	\$ 1,102	98.9
Nova Scotia										
Halifax	\$ 1,018	94.5	\$ 1,012	96.0	\$ 1,018	94.5	\$ 1,012	96.0	\$ -	-
Saskatchewan										
Saskatoon	\$ 921	98.5	\$ 882	97.0	\$ 921	98.5	\$ 882	97.0	\$ -	-
Regina	1,010	100.0	966	100.0	1,010	100.0	966	100.0	-	-
	\$ 961	99.2	\$ 919	98.3	\$ 961	99.2	\$ 919	98.3	\$ -	-
Prince Edward Island										
Charlottetown	\$ 853	83.8	\$ -	-	\$ -	-	\$ -	-	\$ 853	83.8
Ireland										
Dublin	\$ 1,449	99.4	\$ -	-	\$ -	-	\$ -	-	\$ 1,449	99.4
Total Residential Suites	\$ 1,060	98.0	\$ 1,030	97.8	\$ 1,061	98.2	\$ 1,030	97.8	\$ 1,039	95.9
MHC Land Lease Sites										
Ontario	\$ 480	99.5	\$ 466	99.6	\$ 480	99.5	\$ 466	99.6	\$ 655	100.0
British Columbia	401	100.0	383	97.7	401	100.0	383	97.7	-	-
Alberta	363	98.4	348	97.2	363	98.4	348	97.2	-	-
Saskatchewan	317	100.0	292	99.2	317	100.0	292	99.2	-	-
Prince Edward Island	133	95.2	-	-	-	-	-	-	133	95.2
New Brunswick	240	95.5	-	-	-	-	-	-	240	95.5
Total MHC Land Lease Sites	\$ 348	97.6	\$ 439	99.2	\$ 454	99.5	\$ 439	99.2	\$ 221	95.4
Total Suites and Sites	\$ 951	98.0	\$ 975	97.9	\$ 1,004	98.3	\$ 974	97.9	\$ 572	95.6

(1) Prior year comparable AMR and occupancy have been restated for properties disposed of in 2013.

Residential properties acquired since December 31, 2012 in Victoria have higher average monthly rents, due to acquisitions in higher rent geographic regions compared to properties owned by CAPREIT prior to December 31, 2012, resulting in higher AMR for those regions in the total portfolio. Management expects the recent acquisitions will be fully integrated with CAPREIT's strategies and systems in the medium term, resulting in improved performance.

Management continues to focus on improving resident quality, with an emphasis on maintaining or increasing rents in all of the portfolio's core markets, as summarized below:

- Average monthly rents for residential properties owned prior to December 31, 2012 increased in all regional markets of the portfolio, while the overall average occupancy level increased to 98.2% as at December 31, 2013.
- Ontario, where residential suites represent about 58% of the total residential suite portfolio, experienced an increase of 2.8% in average monthly rents for its properties owned prior to December 31, 2012. Occupancy levels remained nearly full at 98.5%. Management expects the Ontario rental market to remain strong in the long run. The rent guideline increase for 2014 is 0.8%.
- Québec, representing about 21% of the total residential suite portfolio, experienced an increase of 3.3% in average monthly rents for its properties owned prior to December 31, 2012, compared to last year, while occupancy levels increased strongly to 97.8% from 96.6% for last year. Management expects the Québec rental market to remain stable.
- British Columbia experienced an increase of 3.7% in average monthly rents for its residential properties owned prior to December 31, 2012, while occupancy levels increased to 99.1% compared to 97.8% last year. Management expects the British Columbia rental market to remain strong in the long run. The rent guideline increase for 2014 is 2.2%.

- Strong economic conditions in Alberta resulted in an increase of 6.2% in average monthly rents for its properties owned prior to December 31, 2012, and occupancy remained stable at 98.2%. Management believes the Alberta market should continue to remain strong.
- MHC land lease portfolio properties owned prior to December 31, 2012 experienced an increase in average monthly rents of 3.4%, while occupancy remained stable at 99.5% as at December 31, 2013. Management believes the MHC land lease portfolio should continue to remain strong.

Overall average monthly rents for the residential suite portfolio as at December 31, 2013 increased by approximately 2.9%, as compared to December 31, 2012, while occupancies improved to 98.0% from 97.8% for last year. Management believes annual occupancies can be maintained in the 97% to 98% range and the trend for gradual increases in average monthly rents will continue, providing the basis for sustainable year-over-year increases in revenues.

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

The table below shows the new tenant inducements incurred during the years ended December 31, 2013 and 2012 as well as the amortization of tenant inducements, loss from vacancies, and bad debt expense included in net rental revenue for the same years.

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

(\$ Thousands)

Year Ended December 31,	2013	% ⁽¹⁾	2012	% ⁽¹⁾
New Tenant Inducements Incurred ^{(2),(3)}	\$ 1,813		\$ 1,139	
Tenant Inducements Amortized	\$ 1,575	0.3	\$ 881	0.2
Vacancy Loss Incurred	9,837	2.1	8,325	2.0
Total Amortization and Loss	\$ 11,412	2.4	\$ 9,206	2.2
Bad Debt Expense	\$ 1,545	0.3	\$ 3,018	0.7

(1) As a percentage of total operating revenues.

(2) New Tenant Inducements increased compared to last year in specific regions such as Halifax, London, Victoria and Vancouver.

(3) Includes tenant inducements for commercial leases.

Results of Operations

Total Operating Revenues by Geography

(\$ Thousands)

For the Year Ended December 31,	2013	2012
<i>Residential Suites</i>		
Ontario		
Greater Toronto Area	\$ 227,517	\$ 216,404
Ottawa	9,019	8,802
London / Kitchener / Waterloo	17,332	13,106
Other Ontario	19,200	18,555
	\$ 273,068	\$ 256,867
Québec		
Greater Montréal Region	\$ 53,771	\$ 35,408
Québec City	33,914	26,385
	\$ 87,685	\$ 61,793
British Columbia		
Greater Vancouver Region	\$ 26,941	\$ 26,282
Victoria	10,830	8,704
	\$ 37,771	\$ 34,986
Alberta		
Edmonton	\$ 4,603	\$ 4,413
Calgary	29,478	19,409
	\$ 34,081	\$ 23,822
Nova Scotia		
Halifax	\$ 20,238	\$ 17,715
Saskatchewan		
Saskatoon	\$ 1,467	\$ 1,415
Regina	1,309	1,240
	\$ 2,776	\$ 2,655
Prince Edward Island		
Charlottetown	\$ 468	\$ –
Ireland		
Dublin	\$ 1,860	\$ –
Total Residential Suites	\$ 457,947	\$ 397,838
<i>MHC Land Lease Sites</i>		
Ontario	\$ 15,438	\$ 12,949
British Columbia	620	347
Alberta	1,367	785
Saskatchewan	905	502
Prince Edward Island	154	–
New Brunswick	592	–
Total MHC Land Lease Sites	\$ 19,076	\$ 14,583
Total Residential Suites and MHC Land Lease Sites	\$ 477,023	\$ 412,421

Results of Operations

(\$ Thousands)

For the Year Ended December 31,	2013	% ⁽¹⁾	2012	% ⁽¹⁾
Operating Revenues				
Net Rental Revenues \$	452,429	94.8	\$ 392,024	95.1
Other ⁽²⁾	24,594	5.2	20,397	4.9
Total Operating Revenues	\$ 477,023	100.0	\$ 412,421	100.0
Operating Expenses				
Realty Taxes	55,546	11.7	49,483	12.0
Utilities	48,207	10.1	42,403	10.3
Other ⁽³⁾	99,416	20.8	82,619	20.0
Total Operating Expenses	203,169	42.6	174,505	42.3
NOI	\$ 273,854	57.4	\$ 237,916	57.7

(1) As a percentage of total operating revenues.

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

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

OPERATING REVENUES

For the year ended December 31, 2013, total operating revenues increased by 15.7%, compared to last year, due to the contributions from acquisitions, increased average monthly rents on the residential suite portfolio, and continuing high stable occupancies. As CAPREIT continues to enhance the profile of its resident base and increase the level of service to residents, it expects to realize further increases in operating and ancillary revenues. Ancillary revenues, such as parking, laundry and antenna income, increased by 20.6% for the year ended December 31, 2013, primarily from acquisitions.

Estimated Net Rental Revenue Run-Rate

(\$ Thousands)

As at December 31,	2013	2012
Residential Rent Roll ^{(1),(2)}	\$ 457,944	\$ 418,199
Commercial Rent Roll ^{(1),(2)}	18,446	11,623
Annualized Net Rental Revenue Run-Rate	\$ 476,390	\$ 429,822

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

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

The table above shows the estimated Net Rental Revenue Run-Rate based on average monthly rents in place for CAPREIT's share of residential suites and sites as at December 31, 2013 and 2012, net of average historical vacancy loss, tenant inducements and bad debt.

The estimated annualized Net Rental Revenue Run-Rate improved by 10.8% to \$476.4 million from \$429.8 million, primarily as a result of new acquisitions within the past 12 months. Net rental revenue net of dispositions for the 12 months ended December 31, 2013 was \$447.5 million (2012 – \$386.3 million).

Operating Expenses

Overall operating expenses as a percentage of operating revenues increased slightly in the year ended December 31, 2013, compared to last year, partially due to higher operating expenses for 2013 acquisitions, higher Repairs and Maintenance (“R&M”) and in-suite maintenance costs offset partially by lower wages and hydro costs.

Realty Taxes

For the year ended December 31, 2013, realty taxes as a percentage of operating revenues decreased slightly to 11.7% compared to 12.0% last year.

Utilities

As a percentage of operating revenues, utility costs for the year ended December 31, 2013 decreased to 10.1% from 10.3% for last year.

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

(\$ Thousands)

Year Ended December 31,	2013	% ⁽¹⁾	2012	% ⁽¹⁾
Electricity	\$ 21,818	4.6	\$ 20,300	4.9
Natural Gas	13,569	2.8	11,121	2.7
Water	12,820	2.7	10,982	2.7
Total	\$ 48,207	10.1	\$ 42,403	10.3

(1) As a percentage of total operating revenues.

For the year ended December 31, 2013, electricity costs as a percentage of total operating revenues decreased to 4.6% compared to 4.9% for last year, primarily due to lower electricity rates from energy saving initiatives and lower consumption from the effects of sub-metering. As at December 31, 2013, tenants who pay their hydro charges directly, represent 42.6% of the total 14,688 recently sub-metered suites in Ontario and Alberta.

For the year ended December 31, 2013, natural gas costs as a percentage of total operating revenues increased slightly to 2.8% compared to 2.7% for last year, primarily due to higher natural gas consumption and rates.

The table below provides information on CAPREIT’s fixed natural gas contracts for the fiscal years 2014 and 2015:

As at December 31,	2014	2015
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 3.19	\$ –
Total of CAPREIT’s Estimated Requirements	24.71%	–

(1) Fixed weighted average cost per gigajoule (“GJ”) excludes estimated transportation costs of \$1.20 and \$1.03 per GJ for 2014 and 2015, respectively, and other administrative costs.

Other Operating Expenses

Other operating expenses, which include R&M costs, wages and benefits, insurance and advertising, increased slightly as a percentage of operating revenues for the year ended December 31, 2013 to 20.8% from 20.0% for last year.

Net Operating Income

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

The following table shows the NOI and the NOI margin attained for each regional market for the years ended December 31, 2013 and 2012.

For the Year Ended December 31, (\$ Thousands)	2013		2012		Increase (Decrease)		
	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
<i>Residential Suites</i>							
Ontario							
Greater Toronto Area	\$ 130,251	57.2	\$ 123,787	57.2	5.1	5.0	5.2
Ottawa	4,819	53.4	4,704	53.4	2.5	2.5	2.4
London / Kitchener / Waterloo	9,544	55.1	6,921	52.8	32.2	25.9	37.9
Other Ontario	11,136	58.0	10,816	58.3	3.5	4.2	3.0
	\$ 155,750	57.0	\$ 146,228	56.9	6.3	6.0	6.5
Québec							
Greater Montréal Region	\$ 28,415	52.8	\$ 18,915	53.4	51.9	53.7	50.2
Québec City	19,013	56.1	14,777	56.0	28.5	28.4	28.7
	\$ 47,428	54.1	\$ 33,692	54.5	41.9	43.3	40.8
British Columbia							
Greater Vancouver Region	\$ 16,547	61.4	\$ 16,268	61.9	2.5	3.8	1.7
Victoria	6,978	64.4	5,831	67.0	24.4	34.1	19.7
	\$ 23,525	62.3	\$ 22,099	63.2	8.0	10.5	6.5
Alberta							
Edmonton	\$ 3,065	66.6	\$ 3,018	68.4	4.3	10.3	1.6
Calgary	17,366	58.9	11,235	57.9	51.9	48.2	54.6
	\$ 20,431	59.9	\$ 14,253	59.8	43.1	42.6	43.3
Nova Scotia							
Halifax	\$ 12,550	62.0	\$ 11,682	65.9	14.2	27.4	7.4
Saskatchewan							
Saskatoon	\$ 735	50.1	\$ 755	53.4	3.7	10.9	(2.6)
Regina	796	60.8	801	64.6	5.6	16.9	(0.6)
	\$ 1,531	55.2	\$ 1,556	58.6	4.6	13.3	(1.6)
Prince Edward Island							
Charlottetown	\$ 166	35.5	\$ -	-	-	-	-
Ireland							
Dublin	\$ 1,311	70.5	\$ -	-	-	-	-
Total Residential Suites	\$ 262,692	57.4	\$ 229,510	57.7	15.1	16.0	14.5
<i>MHC Land Lease Sites</i>							
Ontario	\$ 9,001	58.3	\$ 7,387	57.0	19.2	15.7	21.8
British Columbia	419	67.6	245	70.6	78.7	97.1	71.0
Alberta	822	60.1	504	64.2	74.1	94.0	63.1
Saskatchewan	500	55.2	270	53.8	80.3	74.6	85.2
Prince Edward Island	44	28.6	-	-	-	-	-
New Brunswick	376	63.5	-	-	-	-	-
Total MHC Land Lease Sites	\$ 11,162	58.5	\$ 8,406	57.6	30.8	28.1	32.8
Total Suites and Sites	\$ 273,854	57.4	\$ 237,916	57.7	15.7	16.4	15.1

For the year ended December 31, 2013, NOI increased by 15.1% and the NOI margin decreased marginally to 57.4% from 57.7% for last year due to higher operating expenses. The significant increase in NOI in specific regions of the portfolio was primarily the result of acquisitions completed in the prior 12 months and higher operating revenues. CAPREIT remains focused on continuing to further improve the NOI and NOI margin through a combination of accretive and value-enhancing acquisitions, successful sales and marketing strategies to improve revenues, and investments in capital programs to enhance the quality and value of its portfolio. For a comprehensive analysis of stabilized NOI growth or decline compared to last year by geography, refer to the Stabilized Portfolio Performance section.

Stabilized Portfolio Performance

For the Year Ended December 31, (<i>\$ Thousands</i>)	2013		2012		Increase (Decrease)		
	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
<i>Residential Suites</i>							
Ontario							
Greater Toronto Area	\$ 117,676	57.7	\$ 113,697	57.6	3.3	3.0	3.5
Ottawa	4,819	53.4	4,704	53.4	2.5	2.5	2.4
London / Kitchener / Waterloo	5,437	55.9	5,091	53.1	1.5	(4.5)	6.8
Other Ontario	11,109	57.9	10,816	58.3	3.3	4.2	2.7
	\$ 139,041	57.5	\$ 134,308	57.3	3.2	2.7	3.5
Québec							
Greater Montréal Region	\$ 16,613	51.7	\$ 16,515	52.9	3.0	5.7	0.6
Québec City	11,581	57.7	11,300	56.7	0.7	(1.6)	2.5
	\$ 28,194	54.0	\$ 27,815	54.4	2.1	3.0	1.4
British Columbia							
Greater Vancouver Region	\$ 16,547	61.4	\$ 16,268	61.9	2.5	3.8	1.7
Victoria	5,761	65.3	5,831	67.0	1.3	6.5	(1.2)
	\$ 22,308	62.4	\$ 22,099	63.2	2.2	4.4	0.9
Alberta							
Edmonton	\$ 3,065	66.6	\$ 3,018	68.4	4.3	10.3	1.6
Calgary	11,034	56.8	10,121	57.5	10.4	12.4	9.0
	\$ 14,099	58.6	\$ 13,139	59.7	9.2	12.0	7.3
Nova Scotia							
Halifax	\$ 9,942	66.2	\$ 10,135	67.2	(0.4)	2.6	(1.9)
Saskatchewan							
Saskatoon	\$ 735	50.1	\$ 755	53.4	3.7	10.9	(2.6)
Regina	796	60.8	801	64.6	5.6	16.9	(0.6)
	\$ 1,531	55.2	\$ 1,556	58.6	4.6	13.3	(1.6)
Total Residential Suites	\$ 215,115	57.9	\$ 209,052	58.0	3.2	3.5	2.9
<i>MHC Land Lease Sites</i>							
Ontario	\$ 5,850	56.2	\$ 5,530	54.6	2.8	(0.8)	5.8
Total MHC Land Lease Sites	\$ 5,850	56.2	\$ 5,530	54.6	2.8	(0.8)	5.8
Total Suites and Sites	\$ 220,965	57.8	\$ 214,582	57.9	3.2	3.4	3.0
Stabilized Suites and Sites	28,708		28,708				

Stabilized properties for the year ended December 31, 2013 are defined as all properties owned by CAPREIT continuously since December 31, 2011, and therefore, do not take into account the impact on performance of acquisitions or dispositions completed during 2013 and 2012. As at December 31, 2013, stabilized suites and sites represent 71.1% of CAPREIT's overall portfolio (excluding co-ownerships).

As at December 31, 2013, CAPREIT has generated more than eight years (32 consecutive quarters) of stable or improved year-over-year NOI growth for stabilized properties. For the year ended December 31, 2013, operating revenues and operating costs increased by 3.2% and 3.4%, respectively, compared to last year. As a result, stabilized NOI increased by 3.0% for the year ended December 31, 2013.

For the year ended December 31, 2013, the NOI margin for properties acquired since December 31, 2011 was 55.9%.

Ontario:

NOI for the stabilized Ontario portfolio increased by 3.5% during the year ended December 31, 2013 compared to last year, primarily due to higher operating and parking revenues and lower bad debt, electricity, and wage costs offset by higher vacancies, water and R&M costs. The NOI margin improved slightly to 57.5% for the year ended December 31, 2013, compared to 57.3% for last year. Management believes the Ontario portfolio will remain strong and generate steady returns in the medium term. As discussed earlier, the rent guideline increase for 2014 is 0.8% compared to 2.5% in 2013.

Québec:

NOI for the stabilized Québec portfolio increased by 1.4% during the year ended December 31, 2013, compared to last year, primarily due to higher operating revenues and lower vacancies costs partially offset by higher wage costs. For the year ended December 31, 2013, the NOI margin decreased marginally to 54.0% compared to 54.4% for last year. CAPREIT believes the Québec rental market will remain stable and generate steady to improving returns in the medium term.

British Columbia:

NOI for the stabilized British Columbia portfolio increased by 0.9% during the year ended December 31, 2013, compared to last year, primarily due to higher operating revenues partially offset by higher

realty taxes, R&M and water costs. For the year ended December 31, 2013, the NOI margin decreased to 62.4% from 63.2% compared to last year. Management believes the British Columbia portfolio will continue to generate steady returns in the medium term. The rent guideline increase for 2014 is 2.2% compared to 3.8% in 2013.

Alberta:

NOI for the stabilized Alberta portfolio increased by a significant 7.3% during the year ended December 31, 2013 compared to last year, primarily due to higher operating revenues and lower vacancies partially offset by higher R&M, utilities, onsite, and leasing costs. For the year ended December 31, 2013, the NOI margin decreased to 58.6% compared to 59.7% for last year. Management believes the Alberta market should continue to improve over the medium term.

Nova Scotia:

NOI for the stabilized Nova Scotia portfolio decreased by 1.9% for the year ended December 31, 2013 compared to last year, primarily due to lower parking revenue and higher tenant allowances, utilities and R&M costs partially offset by higher operating revenues and lower wage costs. For the year ended December 31, 2013, the NOI margin decreased to 66.2% from 67.2% for last year. Management believes its presence primarily in downtown Halifax locations will serve to maintain or increase occupancy levels and average monthly rents in the medium term.

MHC Land Lease Sites:

NOI for the stabilized MHC land lease sites portfolio increased significantly by 5.8% for the year ended December 31, 2013 compared to last year, primarily due to higher operating revenues and lower wage costs partially offset by higher utilities and R&M costs. For the year ended December 31, 2013, the NOI margin increased to 56.2% from 54.6% for last year. Management believes its MHC land lease portfolio will provide accretive growth in the long term.

Net Income and Other Comprehensive Income

(\$ Thousands)

Year Ended December 31,	2013	2012
Net Operating Income	\$ 273,854	\$ 237,916
(Less) Plus:		
Trust Expenses	(19,280)	(13,904)
Unrealized Gain on Remeasurement of Investment Properties	106,470	298,228
Realized Loss on Disposition of Investment Properties	(811)	(1,613)
Remeasurement of Exchangeable Units	537	(904)
Unit-based Compensation Expenses	5,968	(13,333)
Interest on Mortgages Payable and Other Financing Costs	(95,197)	(85,273)
Interest on Bank Indebtedness	(6,071)	(6,954)
Interest on Exchangeable Units	(197)	(354)
Other Income	5,280	3,503
Amortization	(2,178)	(2,195)
Unrealized and Realized Loss on Derivative Financial Instruments	(680)	(2,854)
Loss on Foreign Currency Translation	(17)	–
Net Income	\$ 267,678	\$ 412,263
Other Comprehensive Income		
Items That May Be Reclassified Subsequently to Net Income		
Amortization of Losses From AOCL to Interest and Other Financing Costs	\$ 3,265	\$ 2,000
Change in Fair Value of Derivative Financial Instruments	3,701	(2,218)
Change in Fair Value of Investments	(4,392)	3,168
Realized Gain on Sale of Investments	(1,381)	(1,451)
Gain on Foreign Currency Translation	124	–
Other Comprehensive Income	1,317	1,499
Comprehensive Income	\$ 268,995	\$ 413,762

TRUST EXPENSES

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and advisory services, trustees' and officers' insurance premiums, and other general and administrative expenses. Trust expenses increased for the year ended December 31, 2013, to \$19.3 million from \$13.9 million for last year mainly due to higher compensation, asset management and property management services costs, travel expenses, information technology costs, legal fees including a non-recurring legal provision, and one-time insurance recoveries in the previous year.

UNREALIZED GAIN ON REMEASUREMENT OF INVESTMENT PROPERTIES

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

REALIZED LOSS ON DISPOSITION OF INVESTMENT PROPERTIES

The realized loss on disposition of investment properties for the years ended December 31, 2013 and 2012 of \$0.8 million and \$1.6 million, respectively, represents the difference between the net proceeds from the disposition, compared to the fair value of the property at the date of disposition.

REMEASUREMENT OF EXCHANGEABLE UNITS

CAPREIT accounts for its Exchangeable Units as a financial liability, remeasures such liability at each reporting period, and includes this remeasurement in the consolidated statement of income and comprehensive income. During 2013, pursuant to the terms of the Exchangeable Units, 100,000 Exchangeable Units were exchanged for 100,000 Trust Units. The decrease in the market price of the underlying CAPREIT Trust Units and redemption of Exchangeable Units for the year ended December 31, 2013 compared to December 31, 2012 resulted in a gain on remeasurement of \$0.5 million from an expense of \$0.9 million last year. A description of the key components of the remeasurement of Exchangeable Units is included in note 11 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2013 contained in CAPREIT's 2013 Annual Report.

UNIT-BASED COMPENSATION EXPENSES

Unit-based compensation benefits are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and to provide additional incentives by increasing the participants' interest, as owners, in CAPREIT. Unit-based compensation expenses include costs attributable to these incentive plans, namely the Restricted Unit Rights Plan ("RUR Plan"), Unit Option Plan ("UOP"), Deferred Unit Plan ("DUP"), Long-Term Incentive Plan ("LTIP") and Senior Executive Long-Term Incentive Plan ("SELTIP") (see notes 11 and 12 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2013 contained in CAPREIT's 2013 Annual Report).

As a result of CAPREIT being an open-ended mutual fund trust, whereby each Unitholder of the Trust Units is entitled to redeem their Units in accordance with the conditions specified in CAPREIT's DOT, under IFRS, the underlying Trust Units relating to the Unit-based compensation awards are not treated as equity and are instead considered financial liabilities. As such, these Unit-based compensation awards must be presented as liabilities and remeasured at fair value at each reporting date. Close-ended mutual fund trusts, such as certain of CAPREIT's industry peers, are not required to remeasure their respective Unit-based compensation awards. In such cases, the related expense is limited to the amortization of the fair value of the award over the applicable vesting period.

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

A description of the key components of the market-based rates and assumptions used to determine the fair values of the awards is included in notes 11 and 12 to the accompanying audited consolidated annual financial statements.

CAPREIT's Unit-based compensation expense for the year ended December 31, 2013 changed to a gain of \$6.0 million from an expense of \$13.3 million for last year due to the decrease in the market

price of the underlying CAPREIT Trust Units and lower grant date amortization expense primarily relating to the full amortization of the fair value of options granted in the second quarter of 2012. The table below demonstrates the impact of each component of CAPREIT's plans on the total compensation expense.

<i>(\$ Thousands)</i>			
Year Ended December 31,	2013		2012
Remeasurement of Unit-based Compensation Liabilities	\$	(8,493)	\$ 10,053
Amortization of Fair Value on Grant Date of Unit-based Compensation		2,525	3,280
Total	\$	(5,968)	\$ 13,333

INTEREST ON MORTGAGES PAYABLE AND OTHER FINANCING COSTS

Interest on mortgages, which includes the amortization of certain financing costs, increased for the year ended December 31, 2013, to \$95.2 million from \$85.3 million for last year, due to acquisitions and top-up financings. However, as a percentage of operating revenues, mortgage interest expense decreased to 20.0% for the year ended December 31, 2013, compared to 20.7% for last year, as a result of CAPREIT's successful refinancing of mortgages at lower interest rates as well as higher operating revenues. Additional information on the interest on mortgages payable and other financing costs is included in note 15 to the accompanying audited consolidated annual financial statements and the Liquidity and Financial Condition section of this report.

INTEREST ON BANK INDEBTEDNESS

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

OTHER INCOME

Other income primarily consists of dividends received from investments (see note 7 to the accompanying audited consolidated annual financial statements), asset management and property management fees, and gains realized on the sale of investments. Other income for the year ended December 31, 2013 increased to \$5.3 million from \$3.5 million for last year primarily due to the asset management and property management fees (as detailed below) and higher gains from sale of investments. During the year ended December 31, 2013, CAPREIT sold investments and realized a gain of \$1.7 million compared to \$1.5 million for last year, which was included in other income.

Effective December 5, 2012, CAPREIT entered into third party external management agreements to perform certain asset management duties and property services with a third party real estate investment trust in the United States, which owns and operates 16 manufactured home communities in Colorado, Texas, Arizona, and Michigan. Included in other income for the year ended December 31, 2013 and 2012 is \$2.2 million and \$0.1 million, respectively, from asset management and property management fees. Expenses related to the asset management and property management services were included in trust expenses for the year ended December 31, 2013. The external management agreements relating to the asset management and property management services concluded effective January 31, 2014 (see Subsequent Events section for further details).

AMORTIZATION

These costs represent the amortization of CAPREIT's head office property, plant and equipment on a straight-line basis over their estimated useful lives ranging primarily between three and five years.

UNREALIZED AND REALIZED LOSS ON DERIVATIVE FINANCIAL INSTRUMENTS

- i) *Forward interest rate hedges for which hedge accounting is being applied:* In June 2011, CAPREIT entered into a forward interest rate hedge agreement to hedge interest rates on approximately \$312 million of mortgages maturing between September 2011 and June 2013, to which hedge accounting is being applied. The maturing mortgages have been refinanced for 10-year terms and as a result, bear interest rates based on 10-year Government of Canada bond rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before the impact of credit spread. At each reporting date up to June 2013, the hedging derivative was marked-to-market with the difference between the change in fair value and intrinsic value recognized in net income or loss. For the year ended December 31, 2013 and 2012, there was a loss on derivative financial instruments of approximately \$78 thousand and \$2.9 million, respectively. All contracts have been settled as at December 31, 2013.
- ii) *Interest rate contracts for which hedge accounting is being applied:* As at December 31, 2013, CAPREIT has two interest rate swap agreements which include:
- a. \$65 million interest rate swap agreement fixing the interest rate at 3.6%, which matures in September 2022, for which hedge accounting is being applied. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a 10-year term. The related floating rate credit facility is for a five-year term, on expiry of the term it is expected to be refinanced for an additional five-year term. At each reporting date, the hedging derivative will be marked-to-market with the ineffective portion recognized in net income (\$nil for the year ended December 31, 2013).
 - b. €45 million interest rate swap agreement fixing the interest rate at 3.22%, which matures in September 2018. The agreement effectively converts borrowings on a EURIBOR-based floating rate credit facility to a fixed rate facility for a five-year term. At each reporting date, the hedging derivative will be marked-to-market with the ineffective portion recognized in net income (\$0.2 million for the year ended December 31, 2013). Also included in net income for the year ended December 31, 2013 is \$185 thousand for the settlement of a previously terminated interest rate swap agreement with similar terms.
- iii) *Foreign currency exchange contracts for which hedge accounting is not being applied:* CAPREIT has quarterly foreign currency exchange contracts aggregating to €2.8 million commencing December 2013 and maturing quarterly until September 2015 which fix the exchange rate between the Euro and Canadian dollar, for which hedge accounting is not being applied. The mark-to-market loss of \$0.2 million has been recognized in net income for the year ended December 31, 2013.
- Additional information on the above instruments is included in notes 15 and 16 to the accompanying audited consolidated annual financial statements.

SECTION III

Non-IFRS Financial Measures

Per Unit Calculations

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

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

Year Ended December 31,	Weighted Average Number of Units		Outstanding
	2013	2012	Number of Units 2013
Trust Units	101,748	88,762	108,187
Exchangeable Units ^{(1),(5)}	177	332	161
Units under the DUP ⁽²⁾	139	121	151
Basic Weighted Average Number of Units	102,064	89,215	108,499
Plus:			
Dilutive Units under the LTIP ^{(2),(3)}	671	702	1,423
Dilutive Units under the SELTIP ^{(2),(3)}	295	303	818
Units Rights under the RUR Plan ⁽²⁾	339	249	359
Dilutive Unexercised Options under the UOP ^{(2),(4)}	88	124	– ⁽⁶⁾
Diluted Weighted Average Number of Units	103,457	90,593	111,099

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

(2) See notes 12 and 13 to the audited consolidated annual financial statements for the year ended December 31, 2013 contained in CAPREIT's 2013 Annual Report for details of CAPREIT's Unit-based compensation plans.

(3) Calculated using the treasury method after taking into account the respective subscriptions receivable (see note 12 to the accompanying audited consolidated annual financial statements).

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

(5) During the second and third quarters of 2012 and first quarter of 2013, pursuant to the terms of the Exchangeable Units, 250,000 Exchangeable Units were exchanged for 250,000 Trust Units.

(6) There are 915,900 unexercised options outstanding under the UOP.

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

(\$ Thousands)

Year Ended December 31,	2013	2012
Distributions Declared on Trust Units	\$ 116,056	\$ 97,903
Distributions Declared on Exchangeable Units	197	354
Distributions Declared on Awards Outstanding under Unit-based Compensation Plans ⁽¹⁾	3,003	2,953
Total Distributions Declared	119,256	101,210
Less:		
Distributions on Trust Units Reinvested	(27,988)	(20,421)
Distributions on Unit Awards Reinvested ⁽¹⁾	(3,003)	(2,953)
Net Distributions Paid	\$ 88,265	\$ 77,836
Percentage of Distributions Reinvested	26.0%	23.1%

(1) Comprises: (i) non-cash distributions related to the DUP and the RUR plan, and (ii) retained distributions on LTIP and SELTIP Units (see notes 12 and 13 to the audited consolidated annual financial statements for the year ended December 31, 2013 contained in CAPREIT's 2013 Annual Report for a discussion of these plans).

Under CAPREIT's DRIP, a participant may purchase additional Units with the cash distributions paid on the eligible Units, registered in the participant's name or held in a participant's account maintained pursuant to the DRIP. Each participant has the right to receive an additional amount equal to 5% of their monthly distributions reinvested pursuant to the DRIP, which will automatically be paid on each distribution date in the form of additional Units. The price at which Units will be purchased with cash distributions will be the weighted average trading price for CAPREIT's Trust Units on the Toronto Stock Exchange ("TSX") for the five trading days immediately preceding the relevant distribution date.

The average participation rate in the DRIP and other plans under which distributions are reinvested increased for the year ended December 31, 2013 to 26.0%, from 23.1% for last year. The DRIP participation rate is subject to factors beyond Management's control and varies between investors.

Distributions declared on Units outstanding under the Unit-based compensation plans in these tables are based on all awards granted under the RUR Plan, DUP, LTIP and SELTIP (see notes 12 and 13 to the accompanying audited consolidated annual financial statements for a discussion of these plans). When establishing the level

of monthly cash distributions to Unitholders, the Board of Trustees relies on cash flow information including forecasts and budgets.

NET OPERATING INCOME

NOI is a key non-IFRS financial measure of the operating performance of CAPREIT and is defined and reported in the Results of Operations section.

FUNDS FROM OPERATIONS

FFO is a measure of operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO as presented is based on the recommendations of the Real Property Association of Canada, with the exception of the amortization of certain other assets. It may not, however, be comparable to similar measures presented by other real estate trusts or companies in similar or different industries. Management considers FFO to be an important measure of CAPREIT's operating performance.

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

A reconciliation of net income to FFO is as follows:

(\$ Thousands, except per Unit amounts)

Year Ended December 31,

	2013	2012
Net Income	\$ 267,678	\$ 412,263
Adjustments:		
Unrealized Gain on Remeasurement of Investment Properties	(106,470)	(298,228)
Realized Loss on Disposition of Investment Properties	811	1,613
Remeasurement of Exchangeable Units	(537)	904
Remeasurement of Unit-based Compensation Liabilities	(8,493)	10,053
Interest on Exchangeable Units	197	354
Amortization of Property, Plant and Equipment	2,178	2,195
FFO	\$ 155,364	\$ 129,154
FFO per Unit – Basic	\$ 1.522	\$ 1.448
FFO per Unit – Diluted	\$ 1.502	\$ 1.426
Total Distributions Declared	\$ 119,256	\$ 101,210
FFO Payout Ratio	76.8%	78.4%
Net Distributions Paid	\$ 88,265	\$ 77,836
Excess FFO over Net Distributions Paid	\$ 67,099	\$ 51,318
FFO Effective Payout Ratio	56.8%	60.3%

NORMALIZED FUNDS FROM OPERATIONS

Management considers NFFO to be the key measure of CAPREIT's operating performance and the primary indicator with respect to the sustainability of CAPREIT's distributions. NFFO is calculated by excluding from FFO the effects of certain non-recurring items, including changes in fair value of hedging instruments, amortization of losses on certain hedging instruments, and mortgage prepayment penalties offset by write-off of fair value adjustment on assumed

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

A reconciliation of FFO to NFFO is as follows:

(\$ Thousands, except per Unit amounts)

Year Ended December 31,	2013	2012
FFO	\$ 155,364	\$ 129,154
Adjustments:		
Unrealized and Realized (Gain) Loss on Derivative Financial Instruments	680	2,854
Amortization of losses from AOCL to interest and other financing costs	3,265	2,000
Net Mortgage Prepayment Cost ⁽¹⁾	1,786	-
Realized Gain on Sale of Investments ⁽²⁾	(1,737)	(1,455)
Loss on Foreign Currency Translation	17	-
NFFO	\$ 159,375	\$ 132,553
NFFO per Unit – Basic	\$ 1.562	\$ 1.486
NFFO per Unit – Diluted	\$ 1.540	\$ 1.463
Total Distributions Declared	\$ 119,256	\$ 101,210
NFFO Payout Ratio	74.8%	76.4%
Net Distributions Paid	\$ 88,265	\$ 77,836
Excess NFFO Over Net Distributions Paid	\$ 71,110	\$ 54,717
Effective NFFO Payout Ratio	55.4%	58.7%

(1) Net mortgage prepayment cost relates to early refinancing fees net of fully amortized fair value adjustment on assumed mortgages.

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

NFFO for the year ended December 31, 2013 increased by 20.2%, compared to last year primarily due to the contributions from acquisitions, and higher net operating income for properties owned prior to December 31, 2012.

For the year ended December 31, 2013, basic NFFO per Unit increased by 5.1% compared to last year despite an approximate 14% increase in the weighted average number of Units outstanding due to the equity offering completed in October 2013. Management expects per Unit FFO and NFFO and related payout ratios to improve in the medium term as a result of NOI contributions from recent acquisitions.

Comparing distributions declared to NFFO, the NFFO payout ratios for the year ended December 31, 2013 improved to 74.8%, compared to 76.4% for last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the year ended December 31, 2013, to 55.4% from 58.7% for last year primarily due to higher NFFO during the current year. Management believes NFFO will be sufficient to fund CAPREIT's distributions at their current level.

ADJUSTED FUNDS FROM OPERATIONS

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

Management relies on an industry-based estimate to determine the amount of maintenance property capital investments, as significant judgement is required to classify property capital investments as either maintenance or stabilizing or value-enhancing (see discussion in the Productive Capacity section). Management views AFFO as less reliable or applicable under a gross lease operating structure, as is the case

for CAPREIT, because maintenance property capital investments are not clearly identifiable. However, given the current use by investors and other stakeholders of this non-IFRS financial measure, CAPREIT currently intends to continue presenting an estimate of AFFO.

CAPREIT calculates AFFO by deducting from NFFO an industry-based estimate for maintenance property capital investments and adding back the non-cash Unit-based compensation costs. In order to determine the AFFO payout ratio, CAPREIT compares distributions declared to AFFO. The effective AFFO payout ratio compares net cash distributions paid to AFFO.

A reconciliation of NFFO to AFFO is as follows:

(\$ Thousands, except per Unit amounts)

Year Ended December 31,

	2013	2012
NFFO	\$ 159,375	\$ 132,553
Adjustments:		
Provision for Maintenance Property Capital Investments ⁽¹⁾	(15,097)	(13,758)
Amortization of Fair Value on Grant Date of Unit-based Compensation	2,525	3,280
AFFO	\$ 146,803	\$ 122,075
AFFO per Unit – Basic	\$ 1.438	\$ 1.368
AFFO per Unit – Diluted	\$ 1.419	\$ 1.348
Distributions Declared	\$ 119,256	\$ 101,210
AFFO Payout Ratio	81.2%	82.9%
Net Distributions Paid	\$ 88,265	\$ 77,836
Excess AFFO Over Net Distributions Paid	\$ 58,538	\$ 44,239
Effective AFFO Payout Ratio	60.1%	63.8%

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

SECTION IV

Property Capital Investments

CAPREIT capitalizes all capital investments related to the improvement of its properties. These investments have the objective of growing NOI in the future.

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

To achieve its property capital investment objectives, taking into account CAPREIT's acquisition history, the soft economic conditions and the availability of competitive pricing from construction trades, in 2009, CAPREIT formulated and embarked on a multi-year capital investment plan that accelerates spending on planned building improvement programs, including upgrading parking garages,

balconies and other structural improvements. These investments are closely connected to CAPREIT's property acquisitions, many of which were anticipated at the time of such acquisitions and were included in the acquisition analysis, to ensure such transactions are accretive. Management believes these investments will increase the productive capacity, the useful economic life and the operating capabilities of CAPREIT's properties and enhance their future cash flow generating potential. Management also believes these building improvement programs, combined with existing suite improvement, common area and environment-friendly and energy-saving initiatives, will enable CAPREIT to reposition its portfolio and maintain high occupancy levels throughout any unfavourable economic conditions. These investments are expected to continue to increase average monthly rents while improving life safety and resident services. Management believes strategic investments will position the portfolio for improved operating performance over the long term.

For the year ended December 31, 2013, CAPREIT made property capital investments (excluding disposed properties) of \$157.9 million, compared to \$128.3 million for last year. Property capital investments were higher compared to the prior year primarily due to the acceleration of building improvement programs, and higher investments in suite improvements and common area, which generally tend to increase NOI more quickly.

In addition, CAPREIT continues to invest in environment-friendly and energy-saving initiatives, including high-efficiency boilers, energy-efficient lighting systems and water saving programs, which have permitted CAPREIT to mitigate potentially higher increases in utility and R&M costs and have improved overall portfolio NOI significantly as discussed in the Results of Operations section.

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

Property Capital Investments by Category

<i>(\$ Thousands)</i>					
Year Ended December 31,	2013	%	2012	%	
Building Improvements	\$ 80,728	51.1	\$ 61,232	47.7	
Suite Improvements	31,684	20.1	29,399	22.9	
Common Area	16,168	10.2	15,749	12.3	
Energy-saving Initiatives	2,604	1.7	2,781	2.2	
Equipment	10,140	6.4	7,288	5.7	
Boilers and Elevators	14,549	9.2	9,824	7.6	
Appliances	1,998	1.3	2,024	1.6	
Total	\$ 157,871	100.0	\$ 128,297	100.0	

The significant portfolio growth generated since 2011 has led CAPREIT to adjust its multi-year capital investment programs to increase the anticipated levels for 2014. Based on a revised multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments of approximately \$165 million to \$175 million during 2014, including approximately \$87 million targeted at acquisitions completed since January 1, 2011 and approximately \$22 million in high-efficiency boilers and other energy-saving initiatives.

Set out in the table below is Management's current estimate, established through consultation with an independent engineering firm, of CAPREIT's investments in building improvements for 2014 through 2017 for properties owned as of December 31, 2013. Building improvements represent the most significant category of property capital investment at present, but are expected to decline significantly in the coming years.

Future Investments in Building Improvements

<i>(\$ Thousands)</i>	Properties Held As At December 31, 2013 Excluding 2012 and 2013 Acquisitions	2012 and 2013 Acquisitions
	Estimated Range	Estimate
2014	\$ 30,000 – \$ 34,000	\$ 35,700
2015	\$ 19,000 – \$ 23,000	\$ 6,700
2016	\$ 11,000 – \$ 15,000	\$ 3,000
2017	\$ 6,000 – \$ 10,000	\$ 2,800

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

During the third quarter of 2011, CAPREIT began the multi-phase implementation of a new Enterprise Resource Planning ("ERP") system. Management believes this unified platform will continue to drive operational efficiencies to the business. To date, \$5.9 million of costs related to this initiative have been capitalized to property, plant and equipment.

Productive Capacity

The primary focus of the following discussion is to differentiate between investments to maintain existing cash flows from the properties and investments incurred in order to achieve CAPREIT's longer term goals of enhanced cash flows and Unit distributions.

Maintenance property capital investments vary with market conditions, are partially related to suite turnover and are intended to maintain the earning capacity of the portfolio. Industry estimates for annual overall maintenance capital investments are approximately \$450 per residential suite. These maintenance property capital investments are in addition to regular R&M costs, which have historically averaged in the range of \$700 to \$800 per residential suite annually and are expensed to NOI.

Stabilizing and value-enhancing property capital investments are focused on increasing the productivity of the property portfolio. These investments enhance operating effectiveness and profitability and increase revenues or reduce costs to improve NOI over the long term. In addition, they improve the economic life and value of the properties and are mainly long term in nature.

Owing to the gross lease structure of its portfolio, CAPREIT does not distinguish its property capital investments between the two categories described above. Instead, CAPREIT uses industry guidelines for maintenance property capital investments to estimate its stabilizing and value-enhancing property capital investments as follows:

(\$ Thousands)

Year Ended December 31,	2013	2012
Total Property Capital Investments ⁽¹⁾	\$ 157,871	\$ 128,297
Less: Estimated Maintenance Property Capital Investments ⁽²⁾	(15,097)	(13,758)
Stabilizing and Value-enhancing Property Capital Investments	\$ 142,774	\$ 114,539

(1) Excludes capital investments for disposed properties, head office assets, tenant improvements and signage.

(2) Based on an industry estimate of \$450 per suite per year and the weighted average number of residential suites during the year.

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

The following table presents the average NOI growth from 2009 through 2013, reflecting a segregation of the portfolio based on the amount of capital investment per suite. For example, for each year, properties with the highest capital investment per suite were included in the first quartile, and properties with the lowest capital investment per suite were included in the fourth quartile. NOI growth was measured for those properties, by quartile, for the year following the year in which the capital investments were made, with the assumption that capital investments are undertaken throughout the year and the impact on NOI could reasonably be measured in the following year. A simple average was calculated covering each of the last five years. To compute the results on a stabilized basis, only those properties owned prior to 2009 and held as at December 31, 2013 (excluding co-ownerships) were included in the analysis.

Average NOI Growth by Level of Property Capital Investment Per Suite

Quartile	Number of Properties	Average Number of Suites	% of Total Capital Investments ⁽¹⁾	Average NOI Growth
1st	32	5,658	56.8%	5.0%
2nd	33	6,062	23.3%	4.2%
3rd	32	5,862	12.8%	4.4%
4th	33	6,471	7.1%	3.2%
	130	24,053	100.0%	4.2%

(1) As a percentage of total property capital investments over the five-year period to December 31, 2013.

The analysis indicates a strong positive relationship between capital investments and higher NOI growth rates, which supports Management's assertion that continued reinvestment of capital is a fundamental component of CAPREIT's growth strategy. The analysis demonstrates the success of CAPREIT's capital investment programs, which increase the earnings potential of the property portfolio.

Capital Structure

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

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

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

CAPREIT is in compliance with all the investment and debt restrictions and financial covenants contained in the DOT and in the Credit Facilities.

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

As at (<i>\$ Thousands</i>)	December 31, 2013	December 31, 2012
Mortgages Payable	\$ 2,457,182	\$ 2,189,556
Bank Indebtedness	187,030	147,316
Unit-based Compensation Liabilities	32,764	40,844
Exchangeable Units	3,428	6,507
Unitholders' Equity	2,757,469	2,429,214
Total Capital	\$ 5,437,873	\$ 4,813,437

	Threshold		
Total Debt to Gross Book Value ⁽¹⁾	Maximum 70.00%	47.32%	47.25%
Total Debt to Gross Historical Cost ⁽³⁾		56.74%	56.71%
Tangible Net Worth ⁽⁴⁾	Minimum \$1,200,000	\$ 2,793,661	\$ 2,476,565

For the four quarters ended		December 31, 2013	December 31, 2012
Debt Service Coverage Ratio (times) ^{(2),(5)}	Minimum 1.20	1.54	1.52
Interest Coverage Ratio (times) ^{(2),(6)}	Minimum 1.50	2.62	2.51

(1) CAPREIT's DOT limits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAPREIT's total assets. GBV is defined as the gross book value of CAPREIT's assets as per CAPREIT's financial statements, determined on a fair value basis for investment properties, plus accumulated amortization on property, plant and equipment, CMHC fees, and deferred loan costs. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments.

(2) Based on the trailing four quarters.

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

(4) As per the Credit Facilities agreement, the tangible net worth is generally represented by Unitholders' Equity and Unit-based rights and compensation liabilities or assets, including Exchangeable Units are added back.

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

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

Liquidity and Financial Condition

LIQUIDITY AND CAPITAL RESOURCES

Management ensures there is adequate overall liquidity by maintaining sufficient available credit facilities to fund maintenance and property capital investment commitments, distributions to Unitholders and to provide for future growth in its business. CAPREIT finances these commitments through: (i) cash flow from operating activities; (ii) mortgage debt secured by its investment properties; (iii) secured short-term debt financing with two Canadian chartered banks; and (iv) equity. Management's assessment of CAPREIT's liquidity position continues to be stable for the foreseeable future based on its evaluation of capital resources as summarized below:

i) CAPREIT's business continues to be stable and is expected to generate sufficient cash flow from operating activities to fund the current level of distributions. Management expects the combination of the current level of funds reinvested from its DRIP,

the retained portion of its annual NFFO, mortgage top-ups and the available borrowing capacity on the Credit Facilities will be sufficient to fund its ongoing property capital investments. For the year ended December 31, 2013, CAPREIT's NFFO payout ratio was 74.8%, compared to 76.4% for last year, and the effective NFFO payout ratio was 55.4% compared to 58.7% for last year, which demonstrated a greater retained portion of annual NFFO. Historically, CAPREIT has targeted a long-term annual NFFO payout ratio in the 80% to 85% range.

ii) Management believes CAPREIT is well-positioned to meet its mortgage renewals and refinancing goals for 2014 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages maturing during 2014 of approximately \$373.7 million, which have an effective interest rate of approximately 3.77%, and refinancing approximately \$67.4 million of principal repayments through 2014 with new mortgages.

- iii) Investment properties with a fair value of \$5.2 billion have been pledged as security as at December 31, 2013. In addition, CAPREIT has investment properties with a fair value of \$271.1 million as at December 31, 2013 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. Unencumbered investment properties with a fair value over \$130 million are expected to be financed during the first six months of 2014 reducing the total unencumbered investment properties to approximately \$140 million.
- iv) Management successfully renewed and amended the Credit Facilities aggregating to \$345 million and €45 million effective September 4, 2013, which comprise an existing \$280 million revolving three-year Acquisition and Operating Facility, an existing \$65 million five-year non-revolving term credit facility (as described below) and a new €45 million five-year non-revolving Euro-denominated term credit facility (as described below), subject to compliance with the various provisions of the Credit Facilities in order to fund operations, acquisitions, capital improvements, letters of credit and other uses.
- v) Effective September 28, 2012, CAPREIT has a \$65 million credit facility on two of the MHC land lease sites bearing interest at the bankers' acceptance rate plus 1.4% per annum. This credit facility is a five-year non-revolving term credit facility, and any principal amount repaid under this facility may not be reborrowed. On expiry of the term, it is expected to be refinanced for an additional five-year term. There is an interest rate swap agreement on this facility, fixing the bankers' acceptance rate to 2.20%, maturing in September 2022. The swap agreement fixes the all-in rate of the loan at 3.60% for a five-year term.
- vi) Effective September 4, 2013, CAPREIT has a €45 million Euro-denominated credit facility to finance the Dublin, Ireland properties bearing interest at the EURIBOR rate plus 2.00% per annum. This credit facility is a five-year non-revolving term credit facility, and any principal amount repaid under this facility may not be reborrowed. There is an interest rate swap agreement on this facility, fixing the EURIBOR rate to 1.22%, maturing in September 2018. The swap agreement fixes the all-in rate of the loan at 3.22% for a five-year term.
- vii) On July 4, 2013, CAPREIT announced that the TSX approved its notice of intention to make a normal course issuer bid for its units ("Units") as appropriate opportunities arise from time to time. CAPREIT's normal course issuer bid will be made in accordance with the policies of the TSX. CAPREIT may purchase its Units during the period from July 8, 2013 to July 7, 2014. Pursuant to the notice and subject to the market price of its Units and other considerations, CAPREIT may acquire over the 12-month period up to 9,773,361 Units, representing 10% of the public float. As at December 31, 2013, no Units have been purchased under the current approved normal course issuer bid.
- viii) On September 18, 2013, CAPREIT announced it had agreed to sell, subject to regulatory approval, 6,327,000 Units for \$20.55 per Unit for aggregate gross proceeds of \$130.0 million on a bought-deal basis with an over-allotment option. The transaction closed on October 10, 2013, and under the over-allotment option, 949,050 additional Units were also issued on October 22, 2013 for gross proceeds of \$19.5 million. CAPREIT used the net proceeds of the offering to repay a portion of its borrowings under its Acquisition and Operating Facility.
- ix) On November 12, 2012, CAPREIT announced it had agreed to sell, subject to regulatory approval, 6,700,000 Units for \$24.00 per Unit for aggregate gross proceeds of \$160.8 million on a bought-deal basis with an over-allotment option. The transaction closed on December 4, 2012, and under the over-allotment option, 1,005,000 additional Units were also issued on December 13, 2012. CAPREIT used the net proceeds of the offering to repay its borrowings under its Bridge Loan and a portion of its Acquisition and Operating Facility.
- x) On April 26, 2012, CAPREIT announced it had agreed to sell, subject to regulatory approval, 6,850,000 Units for \$22.75 per Unit for aggregate gross proceeds of \$155.8 million on a bought-deal basis with an over-allotment option. The transaction closed on May 17, 2012, and under the over-allotment option, 900,000 additional Units were also issued on the same day. CAPREIT used the net proceeds of the offering to repay a portion of the borrowings under its Acquisition and Operating Facility.
- In order to maintain and enhance its CMHC-insured financing program, and consistent with CMHC's risk management practices involving large borrowers, CAPREIT has entered into an agreement with CMHC (the "Large Borrower Agreement" or "LBA"). Other than improving the efficiency and consistency of such process, the LBA has not materially affected the manner in which CAPREIT conducts its business or its approach to mortgage financing. The LBA provides for, among other things:
- i) Enhanced disclosure to CMHC;
 - ii) Certain financial covenants and commitments and limitations on indebtedness, none of which are inconsistent with CAPREIT's current operating policies;
 - iii) The posting of a revolving letter of credit with respect to certain capital expenditures on a portfolio, rather than an individual property basis; and
 - iv) Cross-collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

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

The working capital deficiency, as presented on CAPREIT's consolidated balance sheet as at December 31, 2013, which includes non-cash Unit-based compensation liabilities, is managed through the available liquidity under the Credit Facilities as well as the ongoing refinancing of mortgages payable.

The table below summarizes CAPREIT's bank indebtedness position as at December 31, 2013 and December 31, 2012:

<i>(\$ Thousands)</i> As at December 31, 2013	Acquisition and Operating Facility ^{(1),(2)}
Facility	\$ 280,000
Less:	
Bank Indebtedness	(187,030)
Letters of Credit	(6,527)
Available Borrowing Capacity	\$ 86,443
Weighted Average Floating Interest Rate	3.02%

<i>(\$ Thousands)</i> As at December 31, 2012	Acquisition and Operating Facility ^{(1),(2)}
Facility	\$ 280,000
Less:	
Bank Indebtedness	(147,316)
Letters of Credit	(6,388)
Available Borrowing Capacity	\$ 126,296
Weighted Average Floating Interest Rate	3.27%

(1) Effective June 30, 2012, the Land Lease Facility of \$10 million was combined with the Acquisition and Operating Facility.

(2) As at December 31, 2012, the Bridge Loan aggregating to \$140 million was fully repaid from the net proceeds of the equity offering completed on December 4, 2012.

CAPREIT's key liquidity metrics are summarized as follows:

As at December 31,	2013	2012
Mortgage Debt to Gross Book Value	43.97%	44.27%
Total Debt to Gross Book Value	47.32%	47.25%
Total Debt to Gross Historical Cost ⁽¹⁾	56.74%	56.71%
Total Debt to Total Capitalization	52.83%	47.82%
Debt Service Coverage Ratio (times) ⁽²⁾	1.54	1.52
Interest Coverage Ratio (times) ⁽²⁾	2.62	2.51
Weighted Average Mortgage Interest Rate ⁽³⁾	3.76%	3.87%
Weighted Average Mortgage Term to Maturity (years)	6.0	5.4

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

(2) Based on the trailing four quarters ended December 31, 2013.

(3) Weighted average mortgage interest rate includes deferred financing costs and fair value adjustments on an effective interest basis.

Including the amortization of the realized component of the loss on settlement of \$32.5 million included in AOCL, the effective portfolio weighted average interest rate at December 31, 2013 would be 3.94% (December 31, 2012 – 4.05%).

As at December 31, 2013, the overall leverage represented by the ratio of total debt to gross book value increased slightly to 47.32%, as compared to 47.25% for last year, mainly due to the higher leveraged acquisitions. As at December 31, 2013, CAPREIT's total debt increased to 52.83% of total market capitalization compared to 47.82% for last year due to the decrease in CAPREIT's Trust Unit price since December 31, 2012 offset by the equity offering completed in December 2012.

The effective portfolio weighted average interest rate has steadily declined from 3.87% as at December 31, 2012, to 3.76% as at December 31, 2013, which Management expects could result in continued interest rate savings in future years. Management believes that as CAPREIT's refinancing plan continues to be realized, there may be scope to further reduce the effective portfolio weighted average interest rate based on foreseeable market conditions. Management is also focused on ensuring the portfolio weighted average term to maturity remains above the five-year range or longer and expects to gradually extend the term, while continuing to balance the maturity profile.

MORTGAGES PAYABLE

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

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

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

As at December 31,	2013	2012
Percentage of CMHC-Insured Mortgages ⁽¹⁾	93.90%	92.90%
Percentage of Fixed-Rate Mortgages	98.85%	98.97%

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

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

<i>(\$ Thousands)</i>		
As at December 31,	2013	2012
Balance, Beginning of the Year	\$ 2,189,556	\$ 1,848,190
Add:		
New Borrowings	161,019	1,713
Assumed	37,971	334,948
Refinanced	514,990	358,556
Foreign Currency Translation	3,308	-
Less:		
Mortgage Repayments	(69,169)	(58,962)
Mortgages Matured	(340,831)	(248,954)
Mortgages Repaid on Dispositions of Investment Properties	(34,772)	(53,534)
Change in Deferred Financing Costs, Fair Value Adjustments, Net	(4,890)	7,599
Balance, End of the Year	\$ 2,457,182	\$ 2,189,556

The following table presents the refinancings for the year ended December 31, 2013, and the weighted average interest rates obtained.

<i>(\$ Thousands)</i>	Original Mortgage Amount	Original Stated Interest Rate ⁽¹⁾	New Mortgage Amount	New Stated Interest Rate ^{(1),(2)}	Weighted Average	Top-Up Amount
					Term on New Mortgages (Yrs)	
First Quarter	\$ 145,531	4.35%	\$ 234,315	2.95%	10.0	\$ 88,784
Second Quarter	90,599	4.30%	130,294	2.98%	10.1	39,695
Third Quarter	17,471	4.65%	26,723	3.37%	8.5	9,252
Fourth Quarter	80,136	4.64%	116,565	3.66%	10.1	36,429
Acquisitions	7,094	6.95%	168,113	3.55%	4.4	161,019
Total and Weighted Average	\$ 340,831	4.47%	\$ 676,010	3.25%	8.6	\$ 335,179

(1) Weighted average.

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

For purposes of estimating top-up financing potential, the following table provides annualized NOI for those properties with mortgages maturing over the next five years and beyond. A property's full NOI is included in the first year in which a mortgage matures. The balance of mortgages remaining on the same property but maturing in other years is also shown. Management expects to raise between \$600 million and \$650 million in total mortgage renewals and refinancings for 2014. Based on this mortgage maturity profile, Management believes it will be in a position to achieve its mortgage renewal and refinancing plan for 2014.

As at December 31, 2013

(\$ 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)}
2014	\$ 373,749	\$ 82,556	\$ 456,305	\$ 62,228
2015	156,587	16,547	173,134	21,570
2016	75,598	55,392	130,990	17,676
2017	164,958	(22,735)	142,223	16,296
2018	158,291	(23,002)	135,289	13,847
2019 Onward	1,008,539	(108,758)	899,781	138,123
Total	\$ 1,937,722	\$ -	\$ 1,937,722	\$ 269,740

(1) Mortgage balance due upon maturity.

(2) NOI for the twelve months ended December 31, 2013.

(3) Projected NOI included for acquisitions since December 31, 2012.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2013, is as follows:

(\$ Thousands)

Year	Principal Repayments	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) ^{(1),(2)}
2014	\$ 67,356	\$ 373,749	\$ 441,105	18.0	3.77
2015	62,320	156,587	218,907	8.9	3.57
2016	58,094	75,598	133,692	5.4	4.08
2017 ⁽³⁾	55,701	164,958	220,659	9.0	4.25
2018 ⁽⁴⁾	55,718	158,291	214,009	8.7	3.42
2019	53,702	92,636	146,338	6.0	4.91
2020	52,098	54,648	106,746	4.4	4.66
2021	46,266	240,623	286,889	11.7	4.07
2022	36,047	318,225	354,272	14.4	3.09
2023	17,251	243,319	260,570	10.6	3.23
2024 – 2027	13,044	59,088	72,132	2.9	4.71
Total	\$ 517,597	\$ 1,937,722	\$ 2,455,319	100.0	3.76 ⁽²⁾
Deferred Financing Costs, Fair Value Adjustments, Net			1,863		
Total			\$ 2,457,182		

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

(2) Effective weighted average interest rate includes deferred financing costs and fair value adjustments but excludes CMHC premiums. Including the amortization of the realized component of the loss on settlement of \$32.5 million included in AOCL, the effective portfolio weighted average interest rate as at December 31, 2013 would be 3.94% (December 31, 2012 – 4.05%).

(3) Included in mortgages payable is a \$65 million non-amortizing credit facility on two of the MHC Land Lease sites.

(4) Included in mortgages payable is a €45 million non-amortizing Euro-denominated credit facility.

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

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

UNITHOLDERS' EQUITY AND UNITS AWARDED UNDER UNIT-BASED COMPENSATION PLANS

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

Equity offerings and over-allotments as at December 31, 2013:

(\$ Thousands, except per Unit amounts)

Period	Price Per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
May 2012					
Bought-deal	\$ 22.75	\$ 155,838	\$ 6,897	\$ 148,941	6,850,000
Over-allotment	\$ 22.75	20,475	819	19,656	900,000
Total		\$ 176,313	\$ 7,716	\$ 168,597	7,750,000
December 2012					
Bought-deal	\$ 24.00	\$ 160,800	\$ 7,232	\$ 153,568	6,700,000
Over-allotment	\$ 24.00	24,120	965	23,155	1,005,000
Total		\$ 184,920	\$ 8,197	\$ 176,723	7,705,000
October 2013					
Bought-deal	\$ 20.55	\$ 130,020	\$ 5,870	\$ 124,150	6,327,000
Over-allotment	\$ 20.55	19,503	911	18,592	949,050
Total		\$ 149,523	\$ 6,781	\$ 142,742	7,276,050

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

Year Ended December 31,	2013
Market Capitalization (\$ thousands)	\$ 2,360,854
Number of Units Outstanding	111,098,998
LTIP and SELTIP Units	2,240,597
Deferred Units	151,261
RUR Plan Units	358,424
Exchangeable Units	161,311
Number of Unit Options Outstanding and Exercisable	915,900
Ownership by Trustees, Officers and Senior Managers	3.5%

NORMAL COURSE ISSUER BID

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

The table below summarizes the NCIB programs in place since January 1, 2012. No Trust Units were acquired and cancelled under these NCIB programs.

Period Covered Under Each NCIB	Approval Limit
June 27, 2011 to June 26, 2012	7,267,915
July 8, 2013 to July 7, 2014	9,773,361

Unitholder Taxation

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

Year Ended December 31,	2013	2012
Taxable to Unitholders as Other Income	6.82%	14.59%
Taxable to Unitholders as Eligible Dividend Income	1.06%	1.72%
Taxable to Unitholders as Capital Gain Income	6.25%	18.98%
Income Tax Deferral	85.87%	64.71%
Total	100.00%	100.00%
Total Effective Non-taxable Portion of Distributions	88.99%	74.20%

The portion of CAPREIT's distributions to Canadian resident Unitholders treated as taxable for the year ended December 31, 2013 decreased over the prior year, primarily due to lower recapture of capital cost allowance and capital gains resulting from the disposition of properties in the current year, partially offset by higher realized loss on the interest rate forward contract in the prior year.

SECTION V

Selected Consolidated Quarterly Information

	Q4 13	Q3 13	Q2 13	Q1 13	Q4 12	Q3 12	Q2 12	Q1 12
Overall Portfolio AMR	\$ 951	\$ 1,003	\$ 989	\$ 978	\$ 975	\$ 972	\$ 960	\$ 995
Operating Revenues (000s) ⁽¹⁾	\$ 124,018	\$ 119,995	\$ 117,686	\$ 115,324	\$ 112,109	\$ 109,118	\$ 95,932	\$ 95,262
NOI (000s) ⁽¹⁾	\$ 66,033	\$ 72,855	\$ 71,475	\$ 63,491	\$ 62,651	\$ 65,813	\$ 56,714	\$ 52,738
NOI Margin ⁽¹⁾	53.2%	60.7%	60.7%	55.1%	55.9%	60.3%	59.1%	55.4%
Net Income (000s)	\$ 88,389	\$ 53,669	\$ 58,174	\$ 67,446	\$ 162,982	\$ 96,703	\$ 120,300	\$ 32,278
FFO (000s)	\$ 35,329	\$ 42,852	\$ 41,467	\$ 35,716	\$ 32,243	\$ 39,742	\$ 30,657	\$ 26,512
NFFO (000s)	\$ 36,344	\$ 44,263	\$ 42,582	\$ 36,186	\$ 33,556	\$ 39,866	\$ 31,329	\$ 27,802
Total Debt to								
Gross Book Value	47.32%	49.42%	48.42%	47.62%	47.25%	50.97%	50.83%	50.11%
FFO Per Unit – Basic	\$ 0.329	\$ 0.426	\$ 0.414	\$ 0.357	\$ 0.342	\$ 0.434	\$ 0.350	\$ 0.318
NFFO Per Unit – Basic	\$ 0.338	\$ 0.440	\$ 0.425	\$ 0.362	\$ 0.356	\$ 0.435	\$ 0.358	\$ 0.333
Weighted Average								
Number of Units (000s)								
– Basic	107,443	100,576	100,230	99,942	94,210	91,667	87,509	83,395
– Diluted	108,704	101,832	101,718	101,512	95,635	93,134	88,880	84,640

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

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

FOURTH QUARTER

Operating revenues in the fourth quarter of 2013 increased by 10.6% over the same quarter in 2012, while NOI increased by a

significant 5.4%, driven by higher operating revenues and lower realty taxes offset by increases in R&M and utility costs as a percentage of total operating revenues, compared to the same period last year. Net income in the fourth quarter of 2013 decreased over the same period last year by \$74.6 million, mainly due to a lower unrealized gain on remeasurement of investment properties of \$56.4 million compared to \$133.1 million for the same period last year, and higher trust expenses of \$1.0 million offset by higher NOI of \$3.4 million. Higher NFFO was primarily due to NOI from acquisitions.

Selected Consolidated Financial Information

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

(\$ Thousands, except per Unit amounts)

Year Ended December 31,	2013	2012	2011
Income Statement			
Operating Revenues	\$ 477,023	\$ 412,421	\$ 361,955
Net Income	\$ 267,678	\$ 412,263	\$ 316,172
Distributions			
Distributions Declared	\$ 116,056	\$ 97,903	\$ 82,816
Distributions per Unit	\$ 1.138	\$ 1.097	\$ 1.080
Balance Sheet			
Investment Properties	\$ 5,459,218	\$ 4,826,355	\$ 3,713,737
Total Assets	\$ 5,558,934	\$ 4,921,546	\$ 3,804,650
Mortgages Payable	\$ 2,457,182	\$ 2,189,556	\$ 1,848,190
Bank Indebtedness	\$ 187,030	\$ 147,316	\$ 74,132

SECTION VI

Accounting Policies and Critical Estimates

ACCOUNTING POLICIES AND NEW ACCOUNTING STANDARDS

The following new or amended IFRS have been applied in 2013:

IFRS 11, Joint Arrangements ("IFRS 11")

CAPREIT has applied IFRS 11 to all joint arrangements as of January 1, 2013.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

CAPREIT has applied IFRS 12 to all joint arrangements for the year ended December 31, 2013.

IAS 28, Investments in Associates and Joint Ventures ("IAS 28")

CAPREIT concluded that this standard is not applicable for the year ended December 31, 2013.

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

CAPREIT has applied IFRS 13 for the year ended December 31, 2013.

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

CAPREIT has applied IFRS 10 as of January 1, 2013.

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

CAPREIT concluded that this standard is not applicable for the year ended December 31, 2013.

As at February 28, 2014, the following new or amended IFRS have been issued by the International Accounting Standards Board ("IASB") and are expected to apply to CAPREIT for annual reporting periods beginning after December 31, 2013:

Amendments to IAS 32, Financial Instruments: Presentation, on asset and liability offsetting

These amendments are to the application guidance in IAS 32, Financial Instruments: Presentation, and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This standard is applicable to annual reporting periods beginning on or after January 1, 2014, with early application permitted.

Amendment to IAS 36, Impairment of Assets on Recoverable Amount Disclosures

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This standard is applicable to annual reporting periods beginning on or after January 1, 2014, with early application permitted.

Financial Instruments: Recognition and Measurement Amendment to IAS 39, Novation of derivatives

This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. This standard is applicable to annual reporting periods beginning on or after January 1, 2014.

IFRS 9, Financial Instruments ("IFRS 9")

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

IFRS 7, Financial Instruments – Disclosure

Amended to require additional disclosures on transition from IAS 39 to IFRS 9. Effective on adoption of IFRS 9.

CAPREIT is currently assessing the impact of the standards and amendments but does not expect to be significantly impacted on adoption in its current form.

IFRIC 21, Levies

This is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is applicable to annual reporting periods beginning on or after January 1, 2014.

CRITICAL ESTIMATES

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

period. Actual results could also differ from those estimates under different assumptions and conditions.

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

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

Valuation of Investment Properties

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

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

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

Valuation of Unit-based Compensation Liabilities

The fair value of Unit-based compensation liabilities is based on assumptions of future events and involves significant estimates. The basis of valuation for CAPREIT's Unit-based compensation liabilities, such as market assumptions, estimates and valuation methodology, is

set out in note 12 to the accompanying audited consolidated annual financial statements; however, the fair values as at the reporting date may differ materially from how they are ultimately recognized if there is volatility in Trust Unit prices, interest rates or other key assumptions in future years.

Valuation of Derivative Financial Instruments

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

Controls and Procedures

DISCLOSURE CONTROLS AND PROCEDURES

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

As at December 31, 2013, Management evaluated the effectiveness of the disclosure controls and procedures against the rules adopted by the Canadian Securities Administrators as defined under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings. Based on that evaluation, using the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1992, CAPREIT's President and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as at December 31, 2013.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management assessed the effectiveness of the internal controls over financial reporting as at December 31, 2013 and, based on that assessment, determined that the internal controls over financial reporting were designed and operating effectively.

Management has designed an adequate and appropriate controls framework for the fair value assessment processes required for reporting to ensure values reported accurately reflect market

conditions. For the fair value assessment process of investment properties and Unit-based compensation, these controls include a comprehensive review of the assumptions and estimates, including those used by the independent appraiser or third party on an annual basis, as well as multiple levels of reviews of such key assumptions and data within CAPREIT by Management, with final approval by the Board of Trustees on an interim and annual basis.

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

During November 2013, CAPREIT implemented SAP, Material Management Module. The new module allows CAPREIT to integrate "purchase to pay" business process with SAP-FICO business process (previously implemented in 2011), allowing for real-time processing between procurement and FICO. CAPREIT is well positioned to handle future growth opportunities with this improved alignment of business needs and business platform. Management has assessed that the new Module did not cause significant or material changes to the design of internal controls over financial reporting.

CAPREIT did not make any other changes to the design of internal controls over financial reporting in 2013 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

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

SECTION VII

Risks and Uncertainties

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

RELATED TO REPORTING INVESTMENT PROPERTY AT FAIR VALUE

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

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

RELATED TO OWNERSHIP AND OPERATION OF REAL PROPERTY*Real Property Ownership*

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

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

Leasehold Interests

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

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

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

Co-ownerships

CAPREIT has entered into co-ownership relationships with two other entities. If the properties in the respective portfolios do not perform as expected, or there is a default on financial obligations, CAPREIT would risk bearing its proportionate share of any related losses. CAPREIT aims to reduce this risk by seeking to: (i) negotiate contractual rights upon default of a partner; (ii) enter into agreements with financially stable partners; and/or (iii) work with partners who have a historical record of success.

Investment Restrictions

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

Operating Risk

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

In general economic conditions will also affect the performance of the portfolio. Additionally, the portfolio is currently weighted with 55.5% of the overall portfolio (by number of suites and sites) in Ontario (38% in the GTA), making CAPREIT's performance particularly sensitive to its performance in, and changes affecting, Ontario and, in particular, the GTA.

CAPREIT's investment properties generate income through rental payments made by the residents thereof. Residential tenant leases are relatively short, exposing CAPREIT to market rental-rate volatility. Upon the expiry of any lease, there can be no assurance that such lease will be renewed or the resident replaced. The terms of any subsequent lease may be less favourable to CAPREIT than the existing lease. Renewal rates may be subject to restrictions on increases to the then current rent (see Government Regulations in this section). As well, unlike commercial leases, which are generally "net" leases and allow a landlord to recover expenditures, residential leases are generally "gross" leases (with the exception of sub-metering of certain utilities at some properties) and the landlord is not able to pass on costs to its residents. Moreover, there is no assurance that occupancy levels achieved to date at the properties will continue to be achieved and/or that occupancy levels expected in the future will be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to, or the financial position of CAPREIT.

Energy Costs and Hedging

As a significant part of CAPREIT's operating expenses are attributable to energy and energy-related charges and fees, fluctuations in the price of energy and any related charges and fees (including transportation costs and commodity taxes) can have a material impact on the performance of CAPREIT, its ability to pay distributions and the value of the Units.

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

During 2011 and 2012, CAPREIT entered into new natural gas physical delivery contracts, fixing a portion of its variable rate natural gas commitments. The fixed price arrangement is intended to mitigate the risk of rising natural gas prices over the related period. See the Natural Gas table in the Results of Operations section for additional information.

Environmental Matters

Environmental and ecological legislation and policies have become increasingly important, and generally restrictive, in recent years. Under various laws, CAPREIT could be liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in regulatory enforcement proceedings and/or private claims against the owner. Unless determined otherwise by the Board of Trustees, it is CAPREIT's operating policy to obtain a Phase I environmental assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property. Phase I environmental assessments have been performed in respect of each of the properties. Where Phase I environmental assessments warrant further assessment, it is CAPREIT's operating policy to obtain Phase II or Phase III environmental assessments. Wherever required by environmental regulations, CAPREIT also carries out assessments to determine the presence of asbestos-containing material and underground storage tanks to ensure compliance with appropriate provincial legislation. CAPREIT maintains environmental liability insurance to protect Unitholders against such risks (also see Insurance in this section). Notwithstanding the foregoing, Management is not aware of any environmental condition with respect to any of the properties that it believes would have a material adverse effect on CAPREIT.

Insurance

All real property investments owned and operated by CAPREIT entail an inherent risk of liability. From time to time, CAPREIT will be subject to lawsuits as a result of its business operations. It is CAPREIT's policy to protect against this risk by maintaining a comprehensive insurance program to cover general liabilities, i.e. fire, flood, injury or death, rental loss, environmental insurance, etc., with policy specification limits and deductibles as deemed appropriate based on the nature of the risk, historical experience and industry standards. There are some types of losses, including those of a catastrophic nature, that are generally uninsurable or not economically feasible to insure, or might be subject to insurance coverage limitations, such as large deductibles or co-payments. There can be no assurance that claims in excess of the insurance coverage or claims not covered by the insurance coverage will not arise or that the liability coverage will continue to

be available on acceptable terms. In addition, should an uninsured or underinsured loss occur, CAPREIT could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but CAPREIT would continue to be obligated to repay any recourse mortgage indebtedness on such properties. These types of events/losses could adversely affect the performance of CAPREIT, its ability to make distributions and the market value of the Units.

Capital Investments

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

RELATED TO FINANCING

Indebtedness

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

CAPREIT currently has access to the government-backed mortgage insurance program through the *National Housing Act*, which is administered by CMHC. CAPREIT entered into the LBA with CMHC during the third quarter of 2010. There can be no guarantee

that the provisions of the mortgage insurance program will not be changed in the future so as to make the costs of obtaining mortgage insurance prohibitive or so as to restrict access to the insurance program in the future. To the extent that any financing requiring CMHC consent or approval is not obtained or that such consent or approval is only available on unfavourable terms, CAPREIT may be required to finance a conventional mortgage which may be less favourable to CAPREIT than a CMHC-insured mortgage.

CAPREIT's Acquisition and Operating Facility of \$280 million matures on June 30, 2016. CAPREIT's Acquisition and Operating Facility is at a floating interest rate and, accordingly, changes in short-term borrowing rates will affect CAPREIT's costs of borrowing. CAPREIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing or cost-effective financing. As at the date hereof, it is difficult to forecast the future state of the commercial loan market. If, because of CAPREIT's level of indebtedness, the level of cash flows, lenders' perceptions of CAPREIT's creditworthiness or other reasons, Management is unable to renew, replace or extend the Credit Facilities on acceptable terms, or to arrange for alternative financing, CAPREIT may be required to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding could be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring property capital investments, dispositions of one or more properties on unfavourable terms, reducing or eliminating future cash distributions or other discretionary uses of cash, or other more severe actions. Also, disruptions in the credit markets and uncertainty in the economy could adversely affect the banks that currently provide the Credit Facilities, could cause the banks or a bank to elect not to participate in any new Credit Facilities sought, or could cause other banks that are not currently participants in the Credit Facilities to be unwilling or unable to participate in any such new facility.

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

Interest Rate Hedging

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

In general, hedging activities may subject CAPREIT to additional costs, such as transaction fees or breakage costs, if these arrangements are terminated. In addition, although Management enters into such

hedge contracts with financially sound counterparties in order to mitigate the risk that the counterparty may fail to honour its obligations, the risk cannot be mitigated completely.

RELATED TO TAXES AND REGULATIONS

Taxation-Related Risks

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

There can be no assurance that Canadian federal income tax laws in respect of the treatment of mutual fund trusts will not be changed in a manner that adversely affects CAPREIT or its Unitholders. If CAPREIT ceases to qualify as a "mutual fund trust", CAPREIT will be required to pay a tax under Part XII.2 of the Income Tax Act ("Tax Act"). The payment of Part XII.2 tax by CAPREIT may have adverse income tax consequences for certain of CAPREIT's Unitholders, including non-resident persons and trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit-sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans ("designated savings plans"), which acquired an interest in CAPREIT directly or indirectly from another CAPREIT Unitholder. If CAPREIT ceases to qualify as a "mutual fund trust" or "registered investment" under the Tax Act and CAPREIT Units cease to be listed on a designated stock exchange, CAPREIT Units will cease to be qualified investments for trusts governed by designated savings plans. CAPREIT will endeavour to ensure CAPREIT Units continue to be qualified investments for trusts governed by the designated savings plans; however, there can be no assurance that this will be so. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments by such trusts. Unitholders should consult their own tax advisors in this regard, including as to whether CAPREIT Units are "prohibited investments" for registered retirement saving plans, registered retirement income funds, or tax free savings accounts.

On June 22, 2007, the specified investment flow-through rules ("SIFT Rules") were enacted in the Tax Act, which modify the federal income tax treatment of certain publicly traded trusts and partnerships that are SIFT trusts or partnerships. Under the SIFT Rules, a SIFT will generally be taxed in a manner similar to corporations on income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act) at a rate similar to the combined federal/provincial tax rate of a corporation. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be taxed as eligible dividends from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. The SIFT Rules

did not apply until the 2011 taxation year to SIFTs that were publicly traded prior to November 1, 2006, provided such SIFTs complied with the "Normal Growth Guidelines" released by the Department of Finance (Canada).

In accordance with the Tax Act, for fiscal 2012 and 2013, CAPREIT qualified as a real estate investment trust ("REIT") for income tax purposes and, as such, was exempted from the SIFT Rules.

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

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

These amendments tabled by the Department of Finance received Royal Assent and were enacted on June 26, 2013.

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

- i) at each time in the taxation year the total fair market value at that time of all non-portfolio properties that are qualified REIT properties held by the trust is at least 90% of the total fair market value at that time of all non-portfolio properties held by the trust;
- ii) not less than 90% of the trust's gross REIT revenue for the taxation year is from one or more of the following: rent from real or immovable properties, interest, dispositions of real or immovable properties that are capital properties, dividends, royalties, and dispositions of eligible resale properties;

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

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

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

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

Harmonization of Federal Goods and Services Tax and Provincial Sales Tax

Both Ontario and British Columbia harmonized their respective provincial sales tax ("PST") with the federal goods and services tax ("GST") into the harmonized sales tax ("HST"), effective July 1, 2010. Currently, there is generally no HST on residential rents (i.e. they are generally HST exempt). As input tax credits for HST paid can only be claimed if the payments are in respect of commercial activities and as renting residential properties is not a commercial activity, CAPREIT is not able to claim input tax credits for HST paid. In the future, the effect of increasing the HST rate or extending its application to a variety of new business input costs presently not subject to HST

means landlords will have to absorb the additional tax costs on business inputs. Effective April 1, 2013, however, British Columbia reverted back to the original PST and federal GST. British Columbia consumers pay PST on those goods and services that were subject to PST before the implementation of the HST and all permanent PST exemptions were re-implemented.

Government Regulations

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

Applicable legislation may be further amended in a manner that may adversely affect the ability of CAPREIT to maintain the historical level of cash flow from its properties. In addition, applicable legislation provides for compliance with several regulatory matters involving tenant evictions, work orders, health and safety issues, fire and maintenance standards, etc. An amendment to the *Residential Tenancies Act, 2006*, enacted on June 19, 2012, set Ontario's annual rent increase guideline to no more than 2.5% beginning in 2013.

Controls over Financial Reporting

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

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

Other Legal and Regulatory Risks

CAPREIT is subject to a wide variety of laws and regulations across all jurisdictions and faces risks associated with legal and regulatory changes and litigation. CAPREIT relies on internal and external legal counsel to assist in remaining current with legal and regulatory changes and in enabling it to respond to litigation.

RELATED TO CAPREIT'S SECURITIES, ORGANIZATION AND STRUCTURE

Nature of CAPREIT Trust Units

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

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

Unitholder Liability

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

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

Liquidity and Price Fluctuation of Units

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

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

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

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

Dilution

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

Distributions

Cash distributions are not guaranteed. Distributions on the Units are established by the Board of Trustees and are subject to change at the discretion of the Board of Trustees. While CAPREIT has historically

made monthly cash distributions to Unitholders, the actual amount of distributions paid in respect of the Units will depend upon numerous factors, all of which are susceptible to a number of risks and other factors beyond the control of CAPREIT. The market value of the Units will deteriorate if CAPREIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of the cash distributions for tax purposes may change over time and may affect the after-tax return for Unitholders.

Distribution Reinvestment Plan ("DRIP") Participation

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

Potential Conflicts of Interest

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

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

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

Dependence on Key Personnel

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

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

RELATED TO THE REAL ESTATE INDUSTRY

General Economic Conditions and Competition for Residents

All real property investments are subject to elements of risk. The real value of real property and any improvements thereto depend on the credit and financial stability of residents and upon the vacancy rates of

such properties. The properties generate revenue through rental payments made by residents thereof. CAPREIT is affected by changes in general economic conditions (such as the availability and cost of mortgage funds), local real estate markets (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available rental premises, including new developments, and various other factors. If a significant number of residents are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be leased on economically favourable lease terms, cash available for distribution may be adversely affected.

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

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

CAPREIT will maintain its focus on maximizing occupancy and average monthly rents in accordance with local conditions in each of its markets. Since its inception in May 1997, CAPREIT's hand-on management style, focus on resident communications and capital investment programs aimed at increasing the long-term value of its properties have contributed to a strong track record of stable portfolio occupancy and average monthly rents.

Competition for Real Property Investments

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

tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

Continued Growth

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

Acquisitions

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

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

FOREIGN OPERATION AND CURRENCY RISKS

CAPREIT made acquisitions in Dublin, Ireland in September 2013 and continues to look for further investment opportunities in the region. The Irish real estate market differs from the Canadian environment and CAPREIT's experience and expertise managing Canadian properties may not apply perfectly to a foreign operation. In an effort to reduce the risk exposure, investments are made conservatively to limit any potential negative impact by aligning CAPREIT with experienced Irish operating companies and hiring locally-based employees with real estate experience. There can be no certainty, however, that CAPREIT's Irish investments will be successful. Additionally, it is

possible that CAPREIT's Irish investments will expose CAPREIT to foreign exchange fluctuations. CAPREIT will in part mitigate this risk through the use of Euro-denominated debt and a foreign currency hedging program.

Related Party Transactions

CAPREIT incurred the following transactions with key management personnel and trustees. The loans outstanding from key management personnel and trustees for indebtedness relating to the SELTIP and LTIP at December 31, 2013 were \$8.0 million and \$11.8 million, respectively (December 31, 2012 – \$8.3 million and \$13.2 million, respectively). These amounts are taken into consideration when calculating the fair value of the Unit-based compensation financial liabilities. Key management personnel are eligible to participate in the EUPP. In addition, certain key management personnel also participate in the RUR and trustees currently participate in the DUP. Pursuant to employee contracts, key management personnel are subject to termination benefits that entitle them to payments of up to 36 months of benefits (based on base salary, bonus and other benefits) depending on cause.

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

<i>(\$ Thousands)</i>			
Year Ended December 31,		2013	2012
Short-term employee benefits	\$	3,439	\$ 3,170
Unit-based compensation			
– grant date amortization		2,050	2,819
		5,489	5,989
Unit-based compensation			
– fair value remeasurement		(6,491)	7,367
Total	\$	(1,002)	\$ 13,356

Previously, CAPREIT entered into construction management agreements with a company that was owned by two trustees and officers (Thomas Schwartz, President and CEO and Michael Stein, Chairman) of CAPREIT to provide construction management services (based on 4.5% of construction costs up to \$20.0 million, 3.0% for the next \$15.0 million and 1.0% thereafter) to carry out the capital improvements for the properties. Effective January 1, 2012, CAPREIT terminated its construction management agreement and entered into a new construction management agreement with a non-related party on substantially similar terms. CAPREIT had related party management fees until the balance of the work on the previous contract was completed. All previous contracts have been completed as at December 31, 2012.

CAPREIT leases office space from a company in which Thomas Schwartz has an 18% beneficial interest. The rent paid for the office space (which is based on fair market rents at the date the lease was

entered into) for the year ended December 31, 2013 was \$0.9 million (2012 – \$0.9 million) excluding property operating costs, and has been expensed as trust expenses. The lease agreement expires on October 31, 2014 and yearly minimum rental payment for 2014 is \$0.4 million before HST.

Commitments and Contingencies

From time to time, CAPREIT enters into commitments for fixed price natural gas, hydro and land lease agreements, as outlined in note 24 to the accompanying audited consolidated annual financial statements.

CAPREIT is contingently liable under guarantees provided to certain of CAPREIT's lenders in the event of defaults and with respect to litigation and claims that arise in the ordinary course of business. These matters are generally covered by insurance. In the opinion of Management, any liability that may arise from such contingencies would not be expected to have a material adverse effect on the consolidated financial statements of CAPREIT.

SECTION VIII

Subsequent Events

On January 31, 2014, the third party external management agreements for the performance of certain asset and property management services concluded. The 16 manufactured home communities in Colorado, Texas, Arizona, and Michigan, which were managed by CAPREIT for a third party real estate owner, have been sold. The agreements were entered into on December 5, 2012.

Future Outlook

Despite the potential adverse impact of global economic uncertainty, with a strong national economy, Management believes the multi-unit residential rental business will continue to improve in the majority of the markets in which CAPREIT operates. As a result, Management expects to generate modest annual increases in overall average monthly rents while stabilizing average occupancies in the range of 97% to 98% on an annual basis. Management also anticipates operating revenues will benefit from programs over the long term to enhance ancillary revenues from parking, commercial leases, laundry, cable, telecommunications and other income sources. In addition, numerous successful cost management initiatives have proven effective, which should lead to stable net operating income over this period.

However, as a result of some continued economic uncertainty in certain geographic regions, CAPREIT may experience an increase in bad debt and tenant inducement costs combined with a reduction in occupancy levels over the short term. CAPREIT believes the strong

defensive characteristics of its property portfolio, due to diversification by both geography and demographic sector, will serve to mitigate some of the negative impact of the unfavourable economic conditions that certain regions are experiencing or may experience. CAPREIT intends to continue to seek opportunities to further diversify its property portfolio. While CAPREIT's strategy is to remain principally focused on its core Canadian markets, CAPREIT continues to consider select opportunities in other markets. In addition, despite having entered into a forward interest rate hedge, CAPREIT may still experience difficulty in obtaining long-term financing (i.e., financing for terms of ten years and longer) due to credit market conditions.

CAPREIT has defined a number of strategies to capitalize on its strengths and achieve its objectives of providing Unitholders with stable and predictable monthly cash distributions while growing distributions and Unit value over the long term.

First, Management maintains a focus on maximizing occupancy and average monthly rents in accordance with local conditions in each of its markets. Since its inception in May 1997, CAPREIT's hands-on management style, focus on resident communications and capital investment programs aimed at increasing the long-term value of its properties have contributed to a strong track record of stable portfolio occupancy and average monthly rents.

A significant part of managing CAPREIT's annual rental increases is determined by the annual guideline increases established by certain provincial governments, currently in Ontario and British Columbia, under rent control legislation that CAPREIT must adhere to in setting annual rental rates for renewing tenants. In the Province of Ontario, the guideline increase for 2014 has been set at 0.8%. An amendment to the *Residential Tenancies Act, 2006*, enacted on June 19, 2012, set Ontario's annual rent increase guideline to not more than 2.5% beginning in 2013. The Ontario rent control legislation provides that landlords may apply to the Landlord and Tenant Board (the "Board") to raise rents by more than the approved annual guideline increase ("AGI"). The Board can allow such an AGI for: (i) eligible capital expenditures; (ii) unusually high increases in property taxes and/or utility costs; and (iii) increases in eligible security costs. The maximum AGI permitted in connection with eligible capital expenditures is three percent per year to a maximum of nine percent over a three-year period. These same limitations do not apply to AGI applications related to unusually high increases in property taxes and/or utilities, or increases in eligible security costs.

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

The following table summarizes the status of cumulative AGI applications filed as at December 31, 2013 and December 31, 2012:

	December 31, 2013	December 31, 2012
Number of Units and Sites Filed	12,368	11,583
Applications Settled		
Number of Applications	73	63
Term Weighted Average Total Increase ⁽¹⁾	3.44%	3.20%
Weighted Average Term (years) ^{(1),(2)}	1.67	1.62
Applications Outstanding		
Number of Applications	8	12
Term Weighted Average Total Increase ⁽¹⁾	3.99%	5.91%
Weighted Average Term (years) ^{(1),(2)}	1.79	2.14

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

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

Second, Management continues to focus on reducing its operating costs as a percentage of total revenues. CAPREIT invests in various environment-friendly and energy-saving initiatives, including energy-efficient boilers and lighting systems, and is evaluating all energy-purchasing programs to reduce or stabilize overall net energy costs.

Third, Management continues to direct its efforts on its building infrastructure improvement programs to upgrade properties across the portfolio and to reposition the portfolio by completing value-enhancing capital investments. These investments are expected to enhance the life safety of residents, improve the portfolio's long-term cash flow generating potential and increase its useful life over the long term.

Fourth, CAPREIT continues to prudently focus on accretive acquisitions that meet its strategic criteria and enhance CAPREIT's geographic diversification. From time to time, CAPREIT may also identify certain non-core assets for sale that do not conform to its current portfolio composition or operating strategies, or where Management believes they have maximized value. Management believes the realization and reinvestment of capital are fundamental components of its growth strategy and demonstrate the success of its investment programs.

Fifth, CAPREIT will continue to effectively manage interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce borrowings on its credit facilities, while appropriately staggering the maturity dates within its mortgage portfolio to ensure it is not exposed to a refinancing risk in any single year. Management believes that as a result of the continuing availability of financing insured by CMHC that is at lower cost than is currently available under conventional mortgages, CAPREIT is well positioned to meet its financing and refinancing objectives at reasonable costs over the medium term.

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

Management's Responsibility for Financial Statements

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

To assist management in the discharge of these responsibilities, management has established the necessary internal controls, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 1992. The internal controls are designed to ensure that our financial records are reliable for preparing financial statements and other financial information; transactions are properly authorized and recorded; and assets are safeguarded.

As at December 31, 2013, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that assessment, determined that our internal

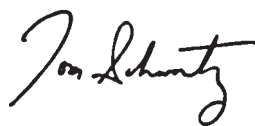
controls over financial reporting were appropriately designed and operating effectively.

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

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

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

February 28, 2014



Thomas Schwartz
President and Chief Executive Officer



Scott Cryer
Chief Financial Officer

Independent Auditor's Report

February 28, 2014

To the Unitholders of Canadian Apartment Properties
Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Canadian Apartment Properties Real Estate Investment Trust (CAPREIT) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012 and the consolidated statements of income and comprehensive income (loss), unitholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated
financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of CAPREIT and its subsidiaries as at December 31, 2013 and December 31, 2012 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Consolidated Balance Sheets

(CAS Thousands)

As at		December 31, 2013	December 31, 2012
	Note		
Non-Current Assets			
Investment properties	6	\$ 5,459,218	\$ 4,826,355
Other non-current assets	7	82,263	81,073
		5,541,481	4,907,428
Current Assets			
Other current assets	7	17,453	14,118
		\$ 5,558,934	\$ 4,921,546
Non-Current Liabilities			
Mortgages payable	9	\$ 2,016,077	\$ 1,790,772
Bank indebtedness	10	187,030	147,316
Unit-based compensation financial liabilities	11, 12	1,772	2,144
Other non-current liabilities	8	1,121	-
		2,206,000	1,940,232
Current Liabilities			
Mortgages payable	9	441,105	398,784
Unit-based compensation financial liabilities	11, 12	30,992	38,700
Accounts payable and accrued liabilities		77,432	64,295
Other current liabilities	8	7,250	11,158
Security deposits		24,892	23,377
Exchangeable Units	11	3,428	6,507
Distributions payable		10,366	9,279
		595,465	552,100
		\$ 2,801,465	\$ 2,492,332
Unitholders' Equity			
Unit Capital		\$ 1,720,066	\$ 1,544,750
Accumulated other comprehensive loss ("AOCL")	19	(21,194)	(22,511)
Retained earnings		1,058,597	906,975
		\$ 2,757,469	\$ 2,429,214
		\$ 5,558,934	\$ 4,921,546

See accompanying notes to consolidated financial statements.

Signed on behalf of the Trustees



Thomas Schwartz
Trustee



Michael Stein
Trustee

Consolidated Statements of Income and Comprehensive Income

(CAS Thousands)

For The Year Ended December 31,

	Note	2013	2012
Operating Revenues			
Revenue from investment properties		\$ 477,023	\$ 412,421
Operating Expenses			
Realty taxes		55,546	49,483
Property operating costs		147,623	125,022
		203,169	174,505
Net Rental Income			
		273,854	237,916
Trust expenses		19,280	13,904
Unit-based compensation (recoveries) expenses	12	(5,968)	13,333
Fair value adjustments of investment properties	6	(106,470)	(298,228)
Realized loss on disposition of investment properties	5	811	1,613
Amortization of property, plant and equipment		2,178	2,195
Operating Income			
		364,023	505,099
Fair value adjustments of Exchangeable Units	11	(537)	904
(Gain)/Loss on derivative financial instruments	16	680	2,854
Interest and other financing costs	20	101,465	92,581
Foreign currency translation		17	-
Other income		(5,280)	(3,503)
Net Income			
		\$ 267,678	\$ 412,263
Other Comprehensive Income			
Items That May Be Reclassified Subsequently to Net Income			
Amortization of losses from AOCL to interest and other financing costs	19	\$ 3,265	\$ 2,000
Change in fair value of derivative financial instruments	16	3,701	(2,218)
Change in fair value of investments	19	(4,392)	3,168
Realized gain on sale of investments	19	(1,381)	(1,451)
Gain on foreign currency translation		124	-
Other Comprehensive Income			
		\$ 1,317	\$ 1,499
Comprehensive Income			
		\$ 268,995	\$ 413,762

See accompanying notes to consolidated financial statements.

Consolidated Statements of Unitholders' Equity

<i>(CAS Thousands)</i>	Note	Unit Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Unitholders' Equity, January 1, 2013		\$ 1,544,750	\$ 906,975	\$ (22,511)	\$ 2,429,214
Unit Capital					
New Units issued	13	145,287	-	-	145,287
Distribution Reinvestment Plan	13	27,003	-	-	27,003
Deferred Unit Plan	12, 13	422	-	-	422
Restricted Unit Rights Plan	12, 13	119	-	-	119
Long-Term Incentive Plan	12, 13	2,024	-	-	2,024
Employee Unit Purchase Plan	12	461	-	-	461
		175,316	-	-	175,316
Retained Earnings and Other Comprehensive Income					
Net income		-	267,678	-	267,678
Other comprehensive income		-	-	1,317	1,317
		-	267,678	1,317	268,995
Distributions on Trust Units					
Distributions declared and paid	14	-	(105,690)	-	(105,690)
Distributions payable	14	-	(10,366)	-	(10,366)
		-	(116,056)	-	(116,056)
Unitholders' Equity, December 31, 2013		\$ 1,720,066	\$ 1,058,597	\$ (21,194)	\$ 2,757,469

<i>(CAS Thousands)</i>	Note	Unit Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Unitholders' Equity, January 1, 2012		\$ 1,172,058	\$ 592,615	\$ (24,010)	\$ 1,740,663
Unit Capital					
New Units issued	13	349,365	-	-	349,365
Distribution Reinvestment Plan	13	20,122	-	-	20,122
Unit Option Plan	12, 13	2,796	-	-	2,796
Employee Unit Purchase Plan	12	409	-	-	409
		372,692	-	-	372,692
Retained Earnings and Other Comprehensive Income					
Net income		-	412,263	-	412,263
Other comprehensive income		-	-	1,499	1,499
		-	412,263	1,499	413,762
Distributions on Trust Units					
Distributions declared and paid	14	-	(88,624)	-	(88,624)
Distributions payable	14	-	(9,279)	-	(9,279)
		-	(97,903)	-	(97,903)
Unitholders' Equity, December 31, 2012		\$ 1,544,750	\$ 906,975	\$ (22,511)	\$ 2,429,214

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(CAS Thousands)

For the Year Ended December 31,

2013

2012

	Note		
<i>Cash Provided By (Used In):</i>			
Operating Activities			
Net income		\$ 267,678	\$ 412,263
Items related to operating activities not affecting cash:			
Fair value adjustment – investment properties		(106,470)	(298,228)
Fair value adjustment – Exchangeable Units		(537)	904
Gain on sale of investments		(1,737)	(1,455)
Loss on disposition of investment properties	5	811	1,613
Loss on derivative financial instruments	16	680	2,854
Amortization of property, plant and equipment		2,178	2,195
Amortization of other financing costs	20	(995)	1,496
Amortization of loss on derivative financial instruments from AOCL	19, 20	3,265	2,000
Unit-based compensation expenses		(5,968)	13,333
Straight-line rent adjustment		(211)	(151)
		158,694	136,824
Net income items related to financing and investing activities	22	93,607	85,388
Changes in non-cash operating assets and liabilities	22	7,979	6,382
Cash Provided By Operating Activities		260,280	228,594
Investing Activities			
Acquisition of investment properties	22	(416,565)	(445,682)
Capital investments	22	(158,367)	(131,280)
Disposition of investments		7,815	6,830
Disposition of investment properties	22	57,672	55,644
Change in restricted cash		(1,108)	(503)
Investment income received		1,298	3,334
Cash Used In Investing Activities		(509,255)	(511,657)
Financing Activities			
Mortgage financings		676,009	360,269
Mortgage principal repayments		(69,169)	(58,962)
Mortgages repaid on maturity		(340,831)	(248,954)
Financing costs on mortgages payable		(2,706)	(1,772)
CMHC premiums on mortgages payable		(11,848)	(5,223)
Interest paid on mortgages payable	22	(89,631)	(82,490)
Bank indebtedness		39,714	73,184
Interest paid on bank indebtedness	22	(5,068)	(5,865)
Interest paid on Exchangeable Units	22	(206)	(367)
Hedge settlement	16	(3,492)	(18,377)
Proceeds on issuance of Units	22	144,169	347,570
Net cash distributions to Unitholders	22	(87,966)	(75,950)
Cash Provided By Financing Activities		248,975	283,063
Changes in Cash and Cash Equivalents During the Year		–	–
Cash and Cash Equivalents, Beginning of the Year		–	–
Cash and Cash Equivalents, End of the Year		\$ –	\$ –

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(CAS Thousands, except Unit and per Unit amounts)
December 31, 2013

1. Organization of the Trust

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

CAPREIT converted from a closed-end real estate investment trust to an open-ended mutual fund trust on January 8, 2008, and is governed under the laws of the Province of Ontario by a Declaration of Trust (“DOT”) dated February 3, 1997, as most recently amended and restated on May 21, 2013. 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, formed on April 1, 2008, owns the beneficial interest of all its properties along with the related mortgages and all the corporate debt obligations of CAPREIT.

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

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

2. Significant Accounting Policies

A) STATEMENT OF COMPLIANCE

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

These consolidated annual financial statements, which were approved by CAPREIT’s Board of Trustees on February 28, 2014, have been prepared on the basis of IFRS issued and effective, or available for early adoption, at December 31, 2013. These policies have been consistently applied to all years presented, unless stated otherwise.

B) BASIS OF PRESENTATION

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

- i) Investment properties and certain financial instruments, which are stated at fair value; and
- ii) Certain Unit-based compensation accounts, which are stated at fair value.

C) PRINCIPLES OF CONSOLIDATION

i) Subsidiaries

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

Subsidiaries are fully consolidated from the date control commences and deconsolidated from the date that control ceases.

ii) Joint Arrangements

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

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

D) INVESTMENT PROPERTIES

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

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

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

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

E) PROPERTY ASSET ACQUISITIONS

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

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

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

F) PRESENTATION OF NON-CURRENT ASSETS CLASSIFIED AS HELD-FOR-SALE

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

G) PROPERTY, PLANT AND EQUIPMENT

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

H) TENANT INDUCEMENTS

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

I) PREPAID CMHC PREMIUMS

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

J) FINANCIAL INSTRUMENTS**Financial assets and financial liabilities**

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

Classification of financial instruments

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

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

Fair Value Through Profit or Loss ("FVTPL")

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

Cash and cash equivalents and restricted cash

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

Other receivables

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

Available-for-sale

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

Other liabilities

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

Transaction costs

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

Determination of fair value

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

Derivatives

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

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

Embedded derivatives

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

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

K) HEDGING RELATIONSHIPS

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

As CAPREIT is operating the Dublin acquisition in a foreign jurisdiction, it is exposed to foreign currency fluctuations arising between the functional currency of the foreign operation (that is, Euros) and the functional currency of CAPREIT (that is, Canadian dollars). As such, CAPREIT entered into a hedge effective at the date of the Dublin acquisition (September 10, 2013). CAPREIT has hedged the investment in the Dublin foreign operations against the Euro-denominated debt on CAPREIT's balance sheet. Any foreign currency gain/loss arising from the Euro-denominated debt will be offset by the foreign currency gain/loss arising from the investment in the Dublin

foreign operations. The effective portion of foreign exchange gains and losses on the Euro-denominated debt is recognized in OCI and the ineffective portion is recognized in net earnings.

L) MORTGAGES PAYABLE AND BANK INDEBTEDNESS

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

M) EXCHANGEABLE UNITS

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

N) COMPREHENSIVE INCOME

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

O) ACCUMULATED OTHER COMPREHENSIVE LOSS ("AOCL")

AOCL is included in the consolidated balance sheets as Unitholders' Equity and includes the unrealized gains and losses of the changes in the fair value of cash flow hedges, derivatives and investments. The components of AOCL are disclosed in note 19.

P) REVENUE RECOGNITION

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

Other income includes interest, dividends and other income. Interest and dividend income are recognized as earned.

Q) BORROWING COSTS AND INTEREST ON MORTGAGES PAYABLE

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

R) DISTRIBUTIONS

Distributions represent the monthly cash distributions on outstanding Trust Units.

S) UNIT-BASED COMPENSATION AND INCENTIVE PLANS

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

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

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

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

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

T) CONSOLIDATED STATEMENTS OF CASH FLOWS

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

U) INCOME TAXES

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

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

CAPREIT uses the liability method of accounting for deferred income taxes due to CAPREIT's tax structure relating to its investment in Dublin, Ireland. The deferred income tax liability represents the cumulative amount of taxes applicable to temporary differences between

the carrying amounts of assets and liabilities and their carrying amounts for tax purposes. Future income taxes are measured at the tax rates expected to apply in the future when temporary differences reverse. Changes to future income taxes related to changes in tax rates that have been enacted or substantially enacted to the balance sheet date and are expected to apply when temporary differences reverse. Changes to deferred income taxes related to changes in tax rates are recognized in income in the period when the tax rate change is substantially enacted.

V) EARNINGS PER UNIT

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

W) FOREIGN CURRENCY TRANSLATION

Under IAS 21, The Effects of Changes in Foreign Exchange Rates, the functional currency of CAPREIT's operating subsidiary in Dublin, Ireland is the Euro, which is the primary currency in the economic environment in which the entity operates. As CAPREIT's consolidated financial statements are presented in Canadian dollars, which is the group's presentation currency, the Dublin, Ireland operations are translated into Canadian dollars as follows:

- a. assets and liabilities for the balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
- b. income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- c. all resulting exchange differences are recognized in other comprehensive income.

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

Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the date of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated into the functional currency using the prevailing rate of exchange at the balance sheet date. Gains and losses on translation of monetary items are recognized in the consolidated statements of income.

X) ACCOUNTING CHANGES APPLIED IN 2013

IFRS 11, Joint Arrangements ("IFRS 11")

CAPREIT has applied IFRS 11 to all joint arrangements as of January 1, 2013. See note 2 section C for further details of the accounting impact.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

CAPREIT has applied IFRS 12 to all joint arrangements for the year ended December 31, 2013. See note 2 section C for further details of the accounting impact.

IAS 28, Investments in Associates and Joint Ventures ("IAS 28")

CAPREIT concluded that this standard is not applicable for the year ended December 31, 2013. See note 2 section C for further details of the accounting impact.

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

CAPREIT has applied IFRS 13 for the year ended December 31, 2013. See notes 6 and 15 for further details of the accounting impact.

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

CAPREIT has applied IFRS 10 as of January 1, 2013. See note 2 section C for further details of the accounting impact.

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

CAPREIT concluded that this standard is not applicable for the year ended December 31, 2013.

Y) FUTURE ACCOUNTING CHANGES

As at February 28, 2014, the following new or amended IFRS have been issued by the International Accounting Standards Board ("IASB") and are expected to apply to CAPREIT for annual reporting periods beginning after December 31, 2013:

Amendments to IAS 32, Financial Instruments: Presentation, on asset and liability offsetting

These amendments are to the application guidance in IAS 32, Financial Instruments: Presentation, and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. This standard is applicable to annual reporting periods beginning on or after January 1, 2014, with early application permitted.

Amendment to IAS 36, Impairment of Assets on Recoverable Amount Disclosures

This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. This standard is applicable to annual reporting periods beginning on or after January 1, 2014, with early application permitted.

Financial Instruments: Recognition and Measurement Amendment to IAS 39, Novation of derivatives

This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. This standard is applicable to annual reporting periods beginning on or after January 1, 2014.

IFRS 9, Financial Instruments ("IFRS 9")

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

IFRS 7, Financial Instruments – Disclosure

Amended to require additional disclosures on transition from IAS 39 to IFRS 9. Effective on adoption of IFRS 9.

CAPREIT is currently assessing the impact of the above standards and amendments but does not expect to be significantly impacted on adoption in its current form.

IFRIC 21, Levies

This is an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is applicable to annual reporting periods beginning on or after January 1, 2014. CAPREIT is currently assessing the impact of this standard.

3. Critical Accounting Estimates, Assumptions and Judgements

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

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

i) Valuation of investment properties

Investment properties are measured at fair value as at the consolidated balance sheet dates. Any changes in the fair value are included within net income in the consolidated statements of

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

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

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

ii) Valuation of financial instruments

The fair value of derivative assets and liabilities is based on assumptions that involve significant estimates. The basis of valuation for CAPREIT's derivatives is set out in note 15; however, the fair values of derivatives reported may differ from how they are ultimately recognized if there is volatility in interest rates or energy prices between the valuation date and settlement date.

iii) Unit-based compensation

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

4. Recent Investment Property Acquisitions

CAPREIT completed the following investment property acquisitions since January 1, 2012, which have contributed to the operating results effective from their respective acquisition dates:

For the Year Ended December 31, 2013

	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
November 29, 2013 ⁽³⁾	2,308	New Brunswick	\$ 71,782	\$ – ⁽⁵⁾	– ⁽⁵⁾	– ⁽⁵⁾
October 22, 2013 ⁽⁴⁾	740	Prince Edward Island	36,393	10,274	4.49%	1.8
October 10, 2013	2	Bowmanville	170	– ⁽⁵⁾	– ⁽⁵⁾	– ⁽⁵⁾
September 10, 2013	338	Dublin, Ireland	61,431	– ⁽⁶⁾	– ⁽⁶⁾	– ⁽⁶⁾
August 28, 2013 ⁽⁷⁾	770	Various	153,894	9,475	3.62%	0.9
May 31, 2013	114	Calgary	25,812	11,041	4.25%	1.6
May 15, 2013	396	Toronto	58,019	– ⁽⁵⁾	– ⁽⁵⁾	– ⁽⁵⁾
January 31, 2013	263	Calgary	49,022	7,181	6.95%	4.7
	4,931		\$ 456,523	\$ 37,971		

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

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

(3) The acquisition comprised of 2,308 land lease sites in eleven communities in New Brunswick.

(4) The acquisition comprised of 240 suites (132 mid-tier and 108 luxury suites) and 500 land lease sites in four communities located in Charlottetown and Cornwall, Prince Edward Island.

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

(6) The acquisition was primarily funded from CAPREIT's €45,000 five-year non-revolving Euro-denominated credit facility at an all-in interest rate of 3.22% (see note 10).

(7) The acquisition comprised 10 properties consisting of 770 suites (597 mid-tier and 173 luxury suites) located in British Columbia, Ontario, and Québec.

For the Year Ended December 31, 2012

	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
November 1, 2012	980	Greater Montréal Region	\$ 183,516	\$ 82,048	4.39%	0.8
August 31, 2012 ⁽³⁾	405	Calgary	69,501	31,208	3.38%	1.7
July 19, 2012 ⁽⁴⁾	5	Bowmanville and Grand Bend	499	– ⁽⁵⁾	– ⁽⁵⁾	– ⁽⁵⁾
June 29, 2012 ⁽⁶⁾	3,562	Various	461,428	183,939	3.99%	2.6
May 31, 2012 ⁽⁷⁾	2,032	Various	76,324	37,753	5.33%	3.0
	6,984		\$ 791,268	\$ 334,948		

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

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

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

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

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

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

(7) The acquisition comprised 12 manufactured home communities ("MHC") located in Ontario, Saskatchewan, Alberta and British Columbia.

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. Investment Property Dispositions

The tables below summarize the investment property dispositions completed since January 1, 2012. These dispositions do not meet the definition of discontinued operations under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

Dispositions Completed During the Year Ended December 31, 2013

	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
August 28, 2013	604	Greater Toronto Area ⁽¹⁾	\$ 94,250	\$ 57,672	\$ 34,772
	604		\$ 94,250	\$ 57,672	\$ 34,772

(1) The disposition comprised 5 properties located in Mississauga and Toronto, Ontario.

Dispositions Completed During the Year Ended December 31, 2012

	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
October 31, 2012	438	Various ⁽¹⁾	\$ 60,700	\$ 29,944	\$ 29,018
May 31, 2012	199	Greater Toronto Area	33,500	17,974	15,030
February 22, 2012	136	Greater Toronto Area	17,500	7,726	9,485
	773		\$ 111,700	\$ 55,644	\$ 53,533

(1) The disposition comprised five properties located in Mississauga, Oakville and Toronto, Ontario. For the year ended December 31, 2013, a loss of \$811 was recognized in connection with the property dispositions.

For the year ended December 31, 2012, a loss of \$1,613 was recognized in connection with the property dispositions. The loss represents the difference between the net proceeds after transaction costs from the disposition compared to the fair value of the respective properties at the date of disposition.

6. Investment Properties

VALUATION BASIS

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

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

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

capitalization and discount rates provided by the external appraisers are verified in determining the fair value of the investment properties.

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

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

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

a) Fee Simple and MHC Land Lease Sites

CAPREIT utilizes the DC method. Under this method, capitalization rates are applied to a stabilized net operating income ("NOI") representing market-based NOI assumptions (property revenue less property operating expenses adjusted for market-based assumptions such as long-term vacancy rates, management fees, R&M costs, and general and administration costs). The most

significant assumption is the capitalization rate for each specific property. The capitalization rate is based on actual location, size and quality of the property, taking into account any available market data at the valuation date. Generally, an increase in stabilized NOI will result in an increase to the fair value of an investment property. An increase in the capitalization rate will result in a decrease to the fair value of an investment property. The capitalization rate magnifies the effect of a change in stabilized NOI, with a lower capitalization rate resulting in a greater effect of a change in stabilized NOI than a higher capitalization rate.

b) Operating Leasehold Interests

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

c) Options to Purchase the Related Operating Leasehold Interests
CAPREIT utilizes the DC method at the reversion date (option exercise date) to estimate the future value, which is then discounted to a present value. Under this method, the stabilized income is adjusted to a projected NOI as at the end of the operating lease term and the capitalization rate is adjusted to a “Reversionary Capitalization Rate” reflecting the incremental risk associated with future uncertainty. The value of the option is then determined based on the difference between the estimated fair value of the property at such date and the option buyout price, discounted back to its present value using a risk-adjusted discount rate (the “Option Discount Rate”).

d) Land Leasehold Interests

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

A summary of the market assumptions and ranges for each type of property interest along with their fair values is presented below as at December 31, 2013 and December 31, 2012:

As at December 31, 2013

Type of Interest	Fair Value	WA NOI/ Cash Flow	Rate Type	Max	Min	Weighted Average
Fee Simple Interests – Apartments and Townhomes	\$ 4,505,945	2,480	Capitalization rate	7.34%	3.50%	5.04%
MHC Land Lease Sites	264,150	2,253	Capitalization rate	7.25%	4.03%	6.07%
Operating Leasehold Interests ^{(1),(2),(3)}	497,913	2,932	Discount rate ⁽⁴⁾	7.00%	6.00%	6.25%
Land Leasehold Interests ⁽¹⁾	191,210	3,200	Discount rate	7.25%	7.00%	7.08%
Total Investment Properties	\$ 5,459,218					

As at December 31, 2012

Type of Interest	Fair Value	WA NOI/ Cash Flow	Rate Type	Max	Min	Weighted Average
Fee Simple Interests – Apartments and Townhomes	\$ 3,996,120	2,485	Capitalization rate	6.50%	3.50%	5.19%
MHC Land Lease Sites	173,620	2,592	Capitalization rate	7.52%	5.87%	6.25%
Operating Leasehold Interests ^{(1),(2),(3)}	471,185	2,799	Discount rate ⁽⁴⁾	7.75%	6.00%	6.36%
Land Leasehold Interests ⁽¹⁾	185,430	3,142	Discount rate	7.75%	7.15%	7.52%
Total Investment Properties	\$ 4,826,355					

(1) The fair values of Operating Leasehold Interests subject to a contractual air rights lease and Land Leasehold Interests subject to land leases reflect the estimated land lease or air rights payments over the term of the leases.

(2) The fair values of Operating Leasehold Interests include the fair values of the Options to purchase the related freehold interests of \$49,863 and \$36,645 as at December 31, 2013 and December 31, 2012, respectively.

(3) The weighted average (“WA”) remaining lease term on Operating Leasehold Interests is 19.8 years as at December 31, 2013 (20.8 years – December 31, 2012).

(4) Represents the discount rate used to determine the fair value for Operating Leasehold Interests using the Discounted Cash Flow (“DCF”) method. A weighted average stabilized Net Operating Income (“NOI”) growth of 2.5% has been assumed as at December 31, 2013 and December 31, 2012.

Reconciliation of carrying amounts of investment properties by type

For the Year Ended December 31, 2013	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
Balance at the beginning of the year	\$ 4,169,740	\$ 471,185	\$ 185,430	\$ 4,826,355
Additions:				
Acquisitions	456,523	–	–	456,523
Property capital investments	135,515	18,285	6,420	160,220
Capitalized leasing costs ⁽¹⁾	458	211	23	692
Foreign currency translation	3,208	–	–	3,208
Dispositions	(93,439)	–	–	(93,439)
Realized loss on dispositions of investment properties	(811)	–	–	(811)
Unrealized fair value adjustments	98,901	8,232	(663)	106,470
Balance of Investment Properties at end of year	\$ 4,770,095	\$ 497,913	\$ 191,210	\$ 5,459,218

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

For the Year Ended December 31, 2012	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
Balance at the beginning of the year	\$ 3,131,900	\$ 435,907	\$ 145,930	\$ 3,713,737
Additions:				
Acquisitions	765,853	–	25,415	791,268
Property capital investments	117,772	12,399	3,115	133,286
Capitalized leasing costs ⁽¹⁾	481	315	242	1,038
Dispositions	(109,589)	–	–	(109,589)
Realized loss on dispositions of investment properties	(1,613)	–	–	(1,613)
Unrealized fair value adjustments	246,936	22,564	10,728	298,228
Balance of Investment Properties at end of year	\$ 4,169,740	\$ 471,185	\$ 185,430	\$ 4,826,355

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

7. Other Assets

As at	December 31, 2013	December 31, 2012
Other Non-Current Assets		
Property, plant and equipment ⁽¹⁾	\$ 18,139	\$ 15,613
Accumulated amortization of property, plant and equipment	(11,928)	(9,750)
Net property, plant and equipment	6,211	5,863
Investments ⁽²⁾	22,676	34,526
Prepaid CMHC premiums, net ⁽³⁾	47,638	38,626
Deferred loan costs, net ⁽⁴⁾	2,039	2,058
Hedge asset (note 16(b))	3,699	–
Total	\$ 82,263	\$ 81,073
Other Current Assets		
Prepaid expenses	\$ 2,658	\$ 2,096
Other receivables	4,886	5,188
Restricted cash	4,852	3,744
Deposits	5,057	3,090
Total	\$ 17,453	\$ 14,118

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

(2) CAPREIT sold investments with a realized gain of \$1,737 (December 31, 2012 – \$1,455).

(3) Represents prepaid CMHC premiums on mortgages payable net of accumulated amortization of \$11,408 (December 31, 2012 – \$9,347).

(4) Represents deferred loan costs related to the revolving credit facilities net of accumulated amortization of \$5,899 (December 31, 2012 – \$4,866).

8. Other Liabilities

As at	December 31, 2013	December 31, 2012
Other Non-Current Liabilities		
Hedge liability	Note 16(b) \$ 1,121	\$ –
Total	\$ 1,121	\$ –
Other Current Liabilities		
Hedge liability	Note 16(c) \$ 232	\$ 4,352
Mortgage interest payable	7,018	6,806
Total	\$ 7,250	\$ 11,158

9. Mortgages Payable

As at December 31, 2013, mortgages payable bear interest at a weighted average effective rate of 3.94% (December 31, 2012 – 4.05%), and mature between 2014 and 2027. The effective interest rate as at December 31, 2013 includes 0.18% (December 31, 2012 – 0.18%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of \$32,494 included in AOCL. All but \$28,160 or 1.2% of CAPREIT's mortgages payable are financed at fixed interest rates. The investment properties at fair value of \$5,188,128 have been pledged as security as at December 31, 2013. CAPREIT has investment properties with a fair value of \$271,090 as at December 31, 2013 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. As at December 31, 2013, unamortized deferred financing costs of \$6,631 and fair value adjustments of (\$8,494) are netted against mortgages payable.

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

As at December 31, 2013	Principal Amount	% of Total Principal
2014	\$ 441,105	18.0
2015	218,907	8.9
2016	133,692	5.4
2017	220,659	9.0
2018	214,009	8.7
Subsequent to 2018 ⁽¹⁾	1,226,947	50.0
	2,455,319	100.0
Deferred financing costs and fair value adjustments	1,863	
	\$ 2,457,182	

As at	December 31, 2013	December 31, 2012
Represented by:		
Mortgages Payable – non-current ⁽¹⁾	2,016,077	1,790,772
Mortgages Payable – current	\$ 441,105	\$ 398,784
	\$ 2,457,182	\$ 2,189,556

(1) Included in mortgages payable as at December 31, 2013 is a \$65,000 non-amortizing credit facility on two of the MHC land lease sites as well as a €45,000 non-amortizing Euro-denominated credit facility.

10. Bank Indebtedness

CAPREIT renewed and amended the Credit Facilities, which include the existing \$280,000 acquisition and operating facility (“Acquisition and Operating Facility”), the existing \$65,000 five-year non-revolving term credit facility bearing interest at the bankers’ acceptance rate plus 1.4% per annum (included in mortgages payable), and a new €45,000 five-year non-revolving Euro-denominated term credit facility bearing interest at the EURIBOR rate plus 2.0% per annum (included in mortgages payable) (collectively, the “Credit Facilities”). The €45,000 Euro-denominated term credit facility is effective September 4, 2013. The interest rate on the Acquisition and Operating Facility is determined by the interest rates on the prime advances and bankers’ acceptances utilized during the year. The Acquisition and Operating Facility matures June 30, 2016. The Credit Facilities are subject to compliance with the various provisions of the Credit Facilities in order to fund operations, acquisitions, capital improvements, letters of credit and other uses.

As at December 31, 2013	Acquisition and Operating Facility ^{(1),(2)}
Facility	\$ 280,000
Less:	
Bank Indebtedness	(187,030)
Letters of Credit	(6,527)
Available Borrowing Capacity	\$ 86,443
Weighted Average Floating Interest Rate	3.02%

As at December 31, 2012	Acquisition and Operating Facility ^{(1),(2)}
Facility	\$ 280,000
Less:	
Bank Indebtedness	(147,316)
Letters of Credit	(6,388)
Available Borrowing Capacity	\$ 126,296
Weighted Average Floating Interest Rate	3.27%

(1) Effective June 30, 2012, the Land Lease Facility of \$10,000 was combined with the Acquisition and Operating Facility.

(2) As at December 31, 2012, the Bridge Loan aggregating to \$140,000 was fully repaid from the net proceeds of the equity offering completed on December 4, 2012.

11. Unit-based Compensation Financial Liabilities and Exchangeable Units

Units are issuable pursuant to CAPREIT’s Unit-based compensation plans, namely, the Unit Option Plan (“UOP”), the Employee Unit Purchase Plan (“EUPP”), the Unit Purchase Plan (“UPP”), the Long-term Incentive Plan (“LTIP”), the Senior Executive Long-term Incentive Plan (“SELTIP”), the Deferred Unit Plan (“DUP”) and the Restricted Unit Rights (“RUR”) Plan (each of which is more fully described in note 12). As at December 31, 2013, the maximum number of Units issuable under all of CAPREIT’s Unit-based incentive plans is 7,000,000 Units (December 31, 2012 – 7,000,000). The maximum number of Units available for future issuance under all Unit incentive plans as at December 31, 2013 is 362,583 Units (December 31, 2012 – 511,020 Units).

The Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans and exchangeable units as at December 31, 2013 and 2012 are as follows:

<i>(Number of Units)</i> Year Ended December 31, 2013	UOP	DUP	RUR	SELTIP/ LTIP ⁽¹⁾	Exch. Units ⁽²⁾	Total
Units, Unit Rights and Unit Options outstanding as at January 1, 2013	915,900	139,907	268,397	2,333,341	261,311	3,918,856
Issued, cancelled or granted during the year:						
Issued or granted	-	34,499	92,966	-	-	127,465
Exercised or settled	-	(30,015)	(9,504)	(92,744)	(100,000)	(232,263)
Cancelled	-	-	(10,360)	-	-	(10,360)
Distributions reinvested	-	6,870	16,925	-	-	23,795
Units, Unit Rights and Unit Options outstanding as at December 31, 2013	915,900	151,261	358,424	2,240,597	161,311	3,827,493

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

- The distributions payable on SELTIP and LTIP Units do not increase the number of Units outstanding on these plans but are incorporated into the fair value of the plans.*
- The outstanding 161,311 Exchangeable Units are entitled to distributions equivalent to distributions on Trust Units, must be exchanged solely for Trust Units on a one-for-one basis, and are exchangeable at any time at the option of the holder. An equivalent number of Special Voting Units were issued at the same time as the Exchangeable Units. The holders of these Units have no entitlement to any share of or interest in the distributions or net assets of CAPREIT. Through Special Voting Units, holders of Exchangeable Units are entitled to an equivalent number of votes at all meetings of Unitholders or in respect of any written resolution of Unitholders equal to the number of Exchangeable Units held. The carrying value of these Units is measured at an amortized cost of \$3,428 as at December 31, 2013 (December 31, 2012 - \$6,507), which approximates the closing bid price of the Trust Units. 100,000 Exchangeable Units were converted into 100,000 Trust Units in the first quarter of 2013. 150,000 Exchangeable Units were converted into 150,000 Trust Units in 2012 (see note 13(a)).*

The table below summarizes the change in the total Unit-based compensation financial liability for the year ended December 31, 2013 and December 31, 2012, including the reversal of liabilities as a result of settlements for Trust Units.

As at	December 31, 2013	December 31, 2012
Total Unit-based compensation financial liabilities, beginning of the year	\$ 40,844	\$ 28,975
Unit-based compensation (recoveries) expenses	(6,012)	13,296
Settlement of Unit-based compensation awards for Trust Units	(2,068)	(1,427)
Total Unit-based compensation financial liabilities, end of the year	\$ 32,764	\$ 40,844

The Unit-based compensation financial liabilities comprise:	December 31, 2013	December 31, 2012
Current		
LTIP	\$ 13,428	\$ 19,293
SELTIP	8,429	10,229
DUP	3,201	3,484
RUR	3,510	1,859
UOP	2,424	3,835
	30,992	38,700
Non-Current		
RUR	1,772	2,144
Total Unit-based compensation financial liabilities, end of the year	\$ 32,764	\$ 40,844

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

As at December 31, 2013, 3.5% (December 31, 2012 – 3.8%) of all Trust Units outstanding were held by trustees, officers and other senior management of CAPREIT.

Normal course issuer bid (“NCIB”)

The table below summarizes the NCIB programs in place since January 1, 2012. No Trust Units were acquired and cancelled under these NCIB programs.

Period Covered Under Each NCIB	Approval Limit
July 8, 2013 to July 7, 2014	9,773,361
June 27, 2011 to June 26, 2012	7,267,915

12. Unit-based Compensation (Recoveries) Expenses

These costs represent Unit-based compensation expense, which includes fair value remeasurement at each reporting date recognized over the respective vesting periods for each plan for the years ended December 31, 2013 and 2012, as follows:

Year Ended December 31,	2013	2012
UOP	\$ (1,412)	\$ 2,564
LTIP	(4,787)	4,182
SELTIP	(1,800)	3,132
DUP	467	1,060
RUR Plan	1,521	2,358
EUPP	43	37
Unit-based Compensation (Recoveries) Expenses	\$ (5,968)	\$ 13,333

a) UOP

Under the terms of the UOP, options are granted to trustees, officers and key employees based on a performance incentive for improved service and enhancing profitability and vest on the date of grant. In February 2010, the President and CEO’s employment agreement was amended to provide that during its term, the President and CEO will be awarded options to acquire three percent (3%) of the number of Units issued by the Trust pursuant to any equity offering or acquisition transaction (not including pursuant to any compensation arrangements) at the market price of the Units at the time of completion of each such treasury issuance, in accordance with the terms of the UOP, as amended from time to time. On May 17, 2012, there were 232,500 options granted to the President and CEO in connection with CAPREIT’s May 2012 Equity Offering at an exercise price of \$22.75 with an expiration date of May 16, 2022. On December 4, 2012, there were 201,000 options granted to the President and CEO in connection with CAPREIT’s December 2012 Equity Offering at an exercise price of \$24.00 with an expiration date of December 3, 2022 and, on

December 13, 2012, there were 30,150 options granted to the President and CEO in connection with the over-allotment option of CAPREIT’s December 2012 Equity Offering at an exercise price of \$24.85 with an expiration date of December 12, 2022. In connection with CAPREIT’s October 2013 Equity Offering, the President and CEO waived the right to be awarded options to acquire three percent of the number of Units issued by the Trust.

A summary of Unit option activity for the year ended December 31, 2013 and 2012 is presented below. All Unit options are exercisable as at December 31, 2013 and 2012.

(Number of Units)	2013	2012
For the Year Ended December 31,		
Balance, beginning of the year	915,900	590,750
Granted	–	463,650
Exercised	–	(138,500)
Balance, end of the year	915,900	915,900

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

As at	December 31, 2013	December 31, 2012
Number of Units	915,900	915,900
Weighted average issue price	\$ 21.14	\$ 21.14
Weighted average risk free rate (%)	2.4	1.7
Weighted average distribution yield (%)	5.4	4.5
Weighted average expected years	8.0	9.0
Weighted average volatility (%)	24.0	23.6
Weighted average Unit option value	\$ 2.65	\$ 4.19

b) LTIP and SELTIP

The Board of Trustees may award LTIP and SELTIP Units, subject to the attainment of specified performance objectives, to certain officers and key employees, collectively the “Participants.” SELTIP Units may only be awarded to the Chief Executive Officer and Chief Financial Officer of the Trust. The Participants can subscribe for Units of CAPREIT at a purchase price equal to the weighted average trading price of the Units for five trading days prior to issuance. The purchase price is payable in instalments, with an initial instalment of 5% paid when the Units are issued. The balance, represented by Instalment Receipts, is due over a term not exceeding ten years for the LTIP and 30 years in the case of the SELTIP. Participants are required to pay interest at ten-year and 30-year fixed rates, respectively, based on the Trust’s fixed borrowing rate for long-term mortgage financing, and are required to apply cash distributions received by them on these Units toward the payment of interest and the remaining instalments. In the case of the SELTIP, following the tenth anniversary, cash distributions shall be applied to pay interest only

and any excess will be distributed to the Participants. Participants may pre-pay any remaining instalments at their discretion. The Instalment Receipts are non-recourse to the Participants and are secured by the Units as well as the distributions on the Units. If a Participant fails to pay interest and/or principal, CAPREIT may elect to reacquire or sell the Units in satisfaction of the

outstanding amounts. No LTIP or SELTIP awards were granted for the year ended December 31, 2013 (2012 – nil). There are currently no plans to grant additional awards under the LTIP and the SELTIP.

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

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

<i>(Number of Units)</i> Year Ended December 31,	2013		2012	
	LTIP	SELTIP	LTIP	SELTIP
Balance, beginning of the year	1,515,427	817,914	1,522,927	817,914
Settled during the year	(92,744)	–	–	–
Cancelled	–	–	(7,500)	–
Balance, end of the year	1,422,683	817,914	1,515,427	817,914

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

<i>(Instalment Receipts)</i> Year Ended December 31,	2013		2012	
	LTIP	SELTIP	LTIP	SELTIP
Balance, beginning of the year	\$ 18,910	\$ 12,030	\$ 19,758	\$ 12,318
Principal repayments during the year	(1,790)	(340)	(848)	(288)
Balance, end of the year	\$ 17,120	\$ 11,690	\$ 18,910	\$ 12,030

The Instalment Receipts are recognized as a deduction from Unit-based compensation liability. During the years ended December 31, 2013 and 2012, interest payments in the amounts of \$1,425 and \$1,512, respectively, were applied to the outstanding Unit-based compensation liability. The outstanding balance of the instalment receivable is used in determining the fair value of the Unit and the related fair value adjustments.

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

LTIP

As at	December 31, 2013	December 31, 2012
Number of Units	1,422,683	1,515,427
Weighted average loan rate (%)	4.65	4.66
Weighted average issue price	\$ 15.54	\$ 15.49
Weighted average loan balance per Unit – current	\$ 11.91	\$ 12.39
Weighted average loan balance per Unit – at maturity	\$ 9.37	\$ 9.56
Weighted average risk free rate (%)	1.5	1.4
Weighted average distribution yield (%)	5.4	4.5
Weighted average expected years	3.9	4.8
Weighted average volatility (%)	17.7	23.6
Weighted average Unit value	\$ 9.44	\$ 12.73

SELTIP

As at	December 31, 2013	December 31, 2012
Number of Units	817,914	817,914
Weighted average loan rate (%)	4.96	4.96
Weighted average issue price	\$ 17.66	\$ 17.66
Weighted average loan balance per Unit – current	\$ 13.94	\$ 14.63
Weighted average loan balance per Unit – at maturity	\$ 13.13	\$ 13.40
Weighted average risk free rate (%)	2.8	1.8
Weighted average distribution yield (%)	5.4	4.5
Weighted average expected years	22.4	23.4
Weighted average volatility (%)	25.5	26.0
Weighted average Unit value	\$ 10.31	\$ 12.51

c) DUP

The DUP gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred units (“Deferred Units”). Each trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the “Elected Percentage”) of his annual retainer payable in respect of a calendar year (the “Elected Amount”), subject to an annual maximum Elected Percentage established by the Compensation and Governance Committee, in the form of Deferred Units, in lieu of cash. CAPREIT will match the Elected Amount in the form of Deferred Units having a value equal to the volume weighted average price of all Units traded on the TSX for the five trading days immediately preceding the date on which board compensation is payable. The maximum Elected Percentage in respect of 2013 is 100% (2012 – 100%) of a trustee’s annual board compensation of \$55.

The Deferred Units earn notional distributions based on the same distributions paid on the Units, and such notional distributions are used to acquire additional Deferred Units (“Distribution Units”). The Deferred Units and additional Distribution Units are credited to each trustee’s Deferred Unit account and are not issued to the trustee until the trustee elects to withdraw such Units. Each trustee may elect to withdraw up to 20% of the Deferred Units credited to his Deferred Unit account only once in a five-year period. The fair value of the Distribution Units represents the closing price of the Units on the TSX on the distribution date.

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

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

	December 31, 2013			December 31, 2012		
	Weighted Avg Issue Price	Fair Value per Unit	Number of Units	Weighted Avg Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the year	\$ 18.50	\$ 24.90	139,907	\$ 16.94	\$ 22.31	108,639
Granted during the year	22.27	–	34,499	23.98	–	25,667
Additional Unit Distributions	22.74	–	6,870	23.64	–	5,601
Net settled during the year	18.67	–	(30,015)	–	–	–
Outstanding, end of the year	\$ 19.52	\$ 21.25	151,261	\$ 18.50	\$ 24.90	139,907

d) RUR Plan

In 2010, CAPREIT adopted the RUR Plan as the primary plan through which long-term incentive compensation will be awarded. The RUR Plan was approved by Unitholders on May 19, 2010. The Compensation and Governance Committee of the Board of Trustees may award RURs, subject to the attainment of specified performance objectives to certain officers and key employees, collectively the “Participants”. The purpose of the RUR Plan is to provide its Participants with additional incentive and to further align the interest of its Participants with Unitholders through the use of RURs which, on vesting, are exercisable for Units. RUR Plan

Units will be issued from treasury on vesting. The RURs vest in their entirety on the third anniversary of the grant date. The RURs earn notional distributions in respect of each distribution paid on RURs commencing from the grant date and such notional distributions are used to calculate additional RURs (“Distribution RURs”), which are accrued for the benefit of the Participant. The Distribution RURs are credited to the Participants only when the underlying RURs on which the Distribution RURs are earned become vested. The fair value of the Distribution RURs is based on the closing price of the Units on the TSX on the distribution date.

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

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

	December 31, 2013			December 31, 2012		
	Weighted Avg Issue Price	Fair Value per Unit	Number of Units	Weighted Avg Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the year	\$ 18.86	\$ 24.90	268,397	\$ 16.67	\$ 22.31	170,555
Granted during the year	25.27	–	92,966	22.37	–	89,098
Additional Unit Distributions	22.57	–	16,925	23.56	–	11,472
Cancelled during the year	17.97	–	(19,864)	16.77	–	(2,728)
Outstanding, end of the year	\$ 20.75	\$ 21.25	358,424	\$ 18.86	\$ 24.90	268,397

e) EUPP

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

13. Unitholders' Equity

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

By virtue of CAPREIT being an open-ended mutual fund trust, Unitholders of Trust Units are entitled to redeem their Units at any time at prices determined and payable in accordance with the conditions specified in the DOT. As a result, under IFRS, Trust Units are defined as financial liabilities; however, for the purposes of financial statement classification and presentation, the Trust Units may be presented as equity instruments as they meet the puttable instrument exemption under IAS 32, Financial Instruments: Presentation. For the purposes

of presenting earnings on a per Unit basis as well as for Unit-based compensation plans, CAPREIT's Trust Units are not treated as equity instruments.

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

For the Year Ended December 31,	2013	2012
	Ref	
Units outstanding, beginning of the year	99,412,550	82,754,453
Issued or granted during the year in connection with the following:		
New Units Issued	(a) 7,276,050	15,455,000
Exchangeable Units	(b) 100,000	150,000
Distribution Reinvestment Plan ("DRIP")	(c) 1,263,844	897,117
EUPP	(d) 20,938	17,480
DUP	(e) 16,553	–
RUR Plan	(f) 4,727	–
UOP	(g) –	138,500
LTIP	(h) 92,744	–
Units outstanding, end of the year	108,187,406	99,412,550

a) *New Units Issued*

	Price Per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
October 2013 (the "October 2013 Equity Offering")					
Bought-Deal (October 10, 2013)	\$ 20.55	\$ 130,020	\$ 5,870	\$ 124,150	6,327,000
Over-allotment (October 22, 2013)	\$ 20.55	19,503	911	18,592	949,050
Total		\$ 149,523	\$ 6,781	\$ 142,742	7,276,050
December 2012 (the "December 2012 Equity Offering")					
Bought-Deal (December 4, 2012)	\$ 24.00	\$ 160,800	\$ 7,232	\$ 153,568	6,700,000
Over-allotment (December 13, 2012)	\$ 24.00	24,120	965	23,155	1,005,000
Total		\$ 184,920	\$ 8,197	\$ 176,723	7,705,000
May 2012 (the "May 2012 Equity Offering")					
Bought-Deal (May 17, 2012)	\$ 22.75	\$ 155,838	\$ 6,897	\$ 148,941	6,850,000
Over-allotment (May 17, 2012)	\$ 22.75	20,475	819	19,656	900,000
Total		\$ 176,313	\$ 7,716	\$ 168,597	7,750,000

b) *Exchangeable Units*

In 2013, pursuant to the terms of the Exchangeable Units, 100,000 Exchangeable Units were exchanged for 100,000 Trust Units. During 2012, 150,000 Exchangeable Units were exchanged for 150,000 Trust Units.

c) *Distribution Reinvestment Plan ("DRIP")*

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

d) *Employee Unit Purchase Plan ("EUPP")*

The EUPP grants employees the right to receive an additional amount equal to 10% of the Units they acquire, paid in the form of additional Units.

e) *Deferred Unit Plan ("DUP")*

In 2013, in accordance with the DUP, one retired trustee exercised 30,015 Deferred Units, out of which 16,553 DUP Units were settled for an equivalent number of Trust Units, and the remaining DUP Units were cancelled in consideration for withholding taxes owed on the Trust Units issued.

f) *Restricted Unit Rights Plan ("RUR Plan")*

In 2013, 9,504 RUR Units were exercised, out of which 4,727 RUR Units were settled for an equivalent number of Trust Units, and the remaining RUR Units were cancelled in consideration for withholding taxes owed on the Trust Units issued.

g) *Unit Option Plan ("UOP")*

Under the terms of the UOP, options are granted to trustees, officers and employees based on performance incentive for improved service and enhancing profitability and vest on the date of grant.

h) *Long-Term Incentive Plan ("LTIP")*

In 2013, 92,744 Units previously issued were settled at a value of \$2,024 to settle instalment receipts owing on such Units.

14. Distributions on Trust Units

CAPREIT paid distributions to its Unitholders in accordance with its DOT. Distributions declared by its Board of Trustees were paid monthly, on or about the 15th day of each month. Effective June 2013, monthly cash distributions declared to Unitholders increased to \$0.096 per Unit (\$1.15 annually), compared to \$0.093 per Unit (\$1.12 annually) since September 2012 and \$0.090 per Unit (\$1.08 annually), previously.

Year Ended December 31,	2013	2012
Distributions declared on Trust Units	\$ 116,056	\$ 97,903
Distributions per Unit	\$ 1.138	\$ 1.097

15. Financial Instruments and Risk Management

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As at December 31, 2013, the fair value of CAPREIT's mortgages payable is estimated to be \$2,475,000 (December 31, 2012 – \$2,316,000) due to changes in interest rates since the dates the individual mortgages were financed and the impact of the passage of time on the primarily fixed rate nature of CAPREIT's mortgages. The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions, which are considered Level 2 inputs (as described below).

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

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

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

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

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

The following table presents CAPREIT's estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as at December 31, 2013, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts CAPREIT could ultimately realize.

	Level 1 Quoted prices in active markets for identical assets and liabilities	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Total
<i>Recurring Measurements</i>				
Assets				
Investment Properties				
Fee simple and MHC land lease sites	\$ –	\$ –	\$ 4,770,095 ⁽¹⁾	\$ 4,770,095
Operating leasehold interests	–	–	497,913 ⁽¹⁾	497,913
Land leasehold interests	–	–	191,210 ⁽¹⁾	191,210
Investments	22,676 ⁽²⁾	–	–	22,676
Derivative financial instruments – interest	–	3,699 ⁽³⁾	–	3,699
Liabilities				
Derivative financial instruments – interest	–	(1,121) ⁽³⁾	–	(1,121)
Derivative financial instruments – foreign currency	–	(232) ⁽⁴⁾	–	(232)
Total	\$ 22,676	\$ 2,346	\$ 5,459,218	\$ 5,484,240

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

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

(3) The valuation of the interest rate swap instrument is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. The fair value is determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. CAPREIT considers the impact of credit valuation adjustments to reflect both its risk and the counterparty's risk in the fair value measurement of the interest rate swap agreement.

(4) The valuation of the foreign currency derivatives is determined using forward exchange rates at the measurement date, with the resulting value discounted back to present value.

Although CAPREIT has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by CAPREIT itself. As at December 31, 2013, CAPREIT has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of the derivative. As a result, CAPREIT has determined that the derivative valuations in their entirety should be classified in Level 2 of the fair value hierarchy.

B) RISK MANAGEMENT

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

Interest rate risk

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

For the year ended December 31, 2013 and 2012, a 100 basis point change in interest rates would have the following effect:

	Change in interest rates (basis points)	Increase (decrease) in net income		Increase (decrease) in OCI	
		2013	2012	2013	2012
Floating rate debt	+100	\$ (1,497)	\$ (1,275)	\$ -	\$ -
Floating rate debt	-100	\$ 1,497	\$ 1,275	\$ -	\$ -
Forward interest rate hedge	+100	\$ -	\$ -	\$ -	\$ 3,469
Forward interest rate hedge	-100	\$ -	\$ -	\$ -	\$ (3,793)
Interest rate swap agreements	+100	\$ -	\$ -	\$ 5,437	\$ 5,445
Interest rate swap agreements	-100	\$ -	\$ -	\$ (5,033)	\$ (5,985)
Euro interest rate swap agreements	+100	\$ -	\$ -	\$ 2,941	\$ -
Euro interest rate swap agreements	-100	\$ -	\$ -	\$ (2,008)	\$ -

CAPREIT's objective in managing interest rate risk is to minimize the volatility of earnings. As at December 31, 2013, interest rate risk has been minimized as all but \$28,160 or 1.2% of mortgages payable is financed at fixed interest rates, with maturities staggered over a number of years.

Liquidity risk

Liquidity risk is the risk that CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 93.9% of CAPREIT's mortgages are

CMHC-insured (excluding \$170,786 of mortgages on the MHC and Ireland portfolios), 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 to 35 years. To mitigate the risk associated with the refinancing of maturing debt, CAPREIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAPREIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments, distributions to Unitholders, and provide future growth in its business. As at December 31, 2013, CAPREIT had undrawn lines of credit in the amount of \$86,443 (December 31, 2012 – \$126,296). The contractual maturities and repayment obligations of CAPREIT’s financial liabilities as at December 31, 2013 are as follows:

	2014	2015-2016	2017-2018	2019 onward
Mortgages payable	\$ 441,105	\$ 352,599	\$ 434,668	\$ 1,226,947
Bank indebtedness	–	187,030	–	–
Mortgage interest ⁽¹⁾	81,765	134,265	104,599	136,541
Bank indebtedness interest ⁽¹⁾	5,656	8,468	–	–
Other liabilities	85,803	–	–	–
Security deposits	24,892	–	–	–
Exchangeable Units	3,428	–	–	–
Distributions payable	10,366	–	–	–
	\$ 653,015	\$ 682,362	\$ 539,267	\$ 1,363,488

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

Credit risk

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

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

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

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

Foreign currency risk

Foreign currency risk is the financial risk exposure to unanticipated changes in the exchange rate between two currencies. CAPREIT is exposed to foreign currency risk as CAPREIT’s functional and presentation currency is the Canadian dollar while the functional currency of CAPREIT’s wholly-owned operating subsidiary in Dublin, Ireland is the Euro. Accordingly, the assets and liabilities are translated at the prevailing rate at period end, and comprehensive income is translated at the average rate for the period.

CAPREIT manages and mitigates the exposure to foreign currency risk by hedging the investment in the Dublin foreign operations against the €45,000 Euro-denominated debt and entering into foreign exchange forward contracts. The effective portion of foreign exchange gains and losses on the €45,000 Euro-denominated debt is recognized in OCI, offset by the foreign currency gains and losses arising from the Dublin investment. The ineffective portion of foreign exchange and losses on the Euro-denominated debt is recognized in the statement of income. In addition, CAPREIT currently has quarterly foreign exchange forward contracts aggregating to €2,800 commencing December 2013 and maturing quarterly until September 2015 which fix the exchange rate between the Euro and the Canadian dollar.

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

a) Contracts for which hedge accounting is no longer effective
During 2005, CAPREIT entered into interest rate forward contracts aggregating to \$145,740 (the "Interest Rate Forward Contracts") to hedge its exposure to the potential rise in interest rates for refinancings of mortgages maturing in 2009.

CAPREIT settled these Interest Rate Forward Contracts in 2009. The associated cumulative unamortized loss of \$9,908 included in AOCL at September 30, 2008 is being amortized to mortgage interest expense over the original terms of the hedged contracts. For the year ended December 31, 2013, \$1,071 (December 31, 2012 – \$1,071) was amortized from AOCL to mortgage interest expense.

b) Contracts for which hedge accounting is being applied

(i) As at December 31, 2013, CAPREIT has a \$65,000 interest rate swap agreement fixing the bankers' acceptance rate at 2.20%, which matures in September 2022, for which hedge accounting is being applied. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a 10-year term (see note 9 for further details). The related floating rate credit facility is for a five-year non-revolving term with an effective interest rate of 3.60%, and any principal that is repaid may not be reborrowed. On expiry of the term, it is expected to be refinanced for an additional five-year term. The mark-to-market gain of \$3,699 has been set up in other assets as at December 31, 2013.

The interest rate swap agreement has been summarized as follows:

As at	December 31, 2013	December 31, 2012
Hedge liability, beginning of the year	\$ (418)	\$ –
Change in intrinsic value	4,117	(418)
Hedge asset (liability), end of the year	\$ 3,699	\$ (418)
Hedge liability in AOCL, beginning of the year	\$ (418)	\$ –
Change in intrinsic value in OCI	4,117	(418)
Hedge asset (liability) in AOCL, end of the year	\$ 3,699	\$ (418)

(ii) As CAPREIT is operating the Dublin acquisition in a foreign jurisdiction, it is exposed to foreign currency fluctuations arising between the functional currency of the foreign operation (that is, Euros) and the functional currency of CAPREIT (that is, Canadian dollars). As such, CAPREIT entered into a hedge effective at the date of the

Dublin acquisition (September 10, 2013). CAPREIT has hedged the investment in the Dublin foreign operations against the €45,000 Euro-denominated debt on CAPREIT's balance sheet. Any foreign currency gain/losses arising from the Euro-denominated debt will be offset by the foreign currency gain/loss arising from the investment in the Dublin foreign operations. The effective portion of foreign exchange gains and losses on the €45,000 Euro-denominated debt is recognized in OCI and the ineffective portion is recognized in net earnings. The fair value of the Euro-denominated debt is €45,120 as at December 31, 2013.

(iii) As at December 31, 2013, CAPREIT has a €45,000 interest rate swap agreement fixing the EURIBOR rate at 1.22%, which matures in September 2018, for which hedge accounting is being applied. The agreement effectively converts borrowings on a EURIBOR-based floating rate credit facility to a fixed rate facility for a five-year term (see note 9 for further details). The related floating rate credit facility is for a five-year, non-revolving term with an effective interest rate of 3.22%, and any principal that is repaid may not be reborrowed. The mark-to-market loss of \$1,121 has been set up in other liabilities as at December 31, 2013.

The interest rate swap agreement has been summarized as follows:

As at	December 31, 2013	December 31, 2012
Hedge liability, beginning of the year	\$ –	\$ –
Change in intrinsic value	(1,121)	–
Hedge liability, end of the year	\$ (1,121)	\$ –
Hedge liability in AOCL, beginning of the year	\$ –	\$ –
Change in intrinsic value in OCI	(936)	–
Hedge liability in AOCL, end of the year	\$ (936)	\$ –

(iv) In June 2011, CAPREIT entered into a hedging program, which effectively hedged interest rates on approximately \$312,000 of mortgages maturing between September 2011 and June 2013. The maturing mortgages have been refinanced for 10-year terms and as a result bear interest rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before the credit spread. The change in the intrinsic value of the forward interest rate hedge has been included in OCI (see note 19). The hedging program matured in June 2013, for which hedge accounting was being applied. The ineffective portion and the difference between the settled amount and the mark-to-market has been recognized in net income. As at December 31, 2013 and 2012, the mark-to-market cumulative unrealized losses of \$nil and \$3,934, respectively, have been set up in other liabilities. All contracts have been settled as at December 31, 2013.

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

As at	December 31, 2013	December 31, 2012
Hedge liability, beginning of the year	\$ (3,934)	\$ (16,349)
Change in intrinsic value included in OCI	520	(2,831)
Loss on derivative financial instruments	(78)	(3,131)
Cash settlement of derivatives	3,492	18,377
Hedge liability, end of the year	\$ -	\$ (3,934)
Hedge liability in AOCL, beginning of the year	\$ (22,422)	\$ (20,540)
Change in intrinsic value included in OCI	520	(2,831)
Amortization from AOCL to interest and other financing costs	2,207	949
Hedge liability in AOCL, end of the year	\$ 19,695	\$ (22,422)

- (v) CAPREIT had a \$55,000 interest rate swap agreement fixing the interest rate at 5.706%, which matured in July 2012, for which hedge accounting was being applied. Mark-to-market losses of \$nil were set up in other liabilities as at December 31, 2013 and December 31, 2012.

As at	December 31, 2013	December 31, 2012
Hedge liability, beginning of the year	\$ -	\$ (1,568)
Settlement of previously unrealized losses included in OCI	-	1,031
Change in ineffective portion included in loss on derivative financial instruments	-	61
Change in accrued mortgage interest included in interest and other financing costs	-	476
Hedge liability, end of the year	\$ -	\$ -
Hedge liability in AOCL, beginning of the year	\$ -	\$ (1,031)
Settlement of previously unrealized losses included in OCI	-	1,031
Hedge liability in AOCL, end of the year	\$ -	\$ -

- c) Contracts for which hedge accounting is not being applied
 As at December 31, 2013, CAPREIT has quarterly foreign currency exchange contracts aggregating to €2,800 commencing December 2013 and maturing quarterly until September 2015 which fix the exchange rate between the Euro and the Canadian dollar, for which hedge accounting is not being applied. The mark-to-market loss of \$232 has been set up in other liabilities as at December 31, 2013, and is recognized in net income for the year ended December 31, 2013.

17. Capital Management

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

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

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

CAPREIT is in compliance with all its investment and debt restrictions and financial covenants contained in the DOT, the Large Borrowers Agreement ("LBA") and the Credit Facilities.

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

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

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

As at		December 31, 2013	December 31, 2012
Mortgages payable		\$ 2,457,182	\$ 2,189,556
Bank indebtedness		187,030	147,316
Unit-based compensation financial liabilities		32,764	40,844
Exchangeable Units		3,428	6,507
Unitholders' equity		2,757,469	2,429,214
Total capital		\$ 5,437,873	\$ 4,813,437
	Threshold		
Total debt to gross book value ⁽¹⁾	Maximum 70.00%	47.32%	47.25%
Tangible net worth ⁽³⁾	Minimum \$1,200,000	\$ 2,793,661	\$ 2,476,565
Debt service coverage ratio (times) ^{(2),(4)}	Minimum 1.20	1.54	1.52
Interest coverage ratio (times) ^{(2),(5)}	Minimum 1.50	2.62	2.51

(1) CAPREIT's DOT limits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAPREIT's total assets. GBV is defined as the gross book value of CAPREIT's assets as per CAPREIT's financial statements, determined on a fair value basis for the investment properties, plus accumulated amortization on property, plant and equipment, CMHC fees and deferred loan costs. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments.

(2) Based on the trailing four quarters.

(3) As per the Credit Facilities agreement, the tangible net worth is generally represented by Unitholders' Equity and Unit-based rights and compensation liabilities or assets, including Exchangeable Units added back.

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

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

18. Deferred Income Taxes

For fiscal 2012 and 2013, CAPREIT is a "mutual fund trust" as defined under the Income Tax Act (Canada) (the "Tax Act") and as a Real Estate Investment Trust ("REIT") eligible for the "REIT Exemption" in accordance with the rules affecting the tax treatment of publicly traded trusts. Accordingly, CAPREIT is not subject to income tax provided all of its taxable income is distributed to its Unitholders.

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

- (i) amounts distributed to a REIT by an entity in which the REIT has a significant interest will retain the source character of income earned by the subsidiary entity, and
- (ii) the revenue requirements in the definition of a REIT will be amended by replacing the term "revenues" with the term "gross REIT revenue".

The proposed changes outlined above in their current form will allow CAPREIT, with greater certainty, to qualify as a REIT for Canadian income tax purposes. On October 24, 2012, legislation was tabled by the Government of Canada which, among other changes, implemented the December 16, 2010 technical amendments. In accordance with IAS 12 – Income Taxes, the December 16, 2010 technical amendments were considered substantively enacted, effective November 21, 2012, when the legislation was introduced for First Reading by the Government of Canada. The amendments tabled by the Department of Finance on October 24, 2012 received Royal Assent and were enacted on June 26, 2013.

CAPREIT is not subject to income tax and, accordingly, no current income taxes have been recorded for 2013 (2012 – \$nil).

19. Accumulated Other Comprehensive Loss

Year Ended December 31,	2013	2012
AOCL balance, beginning of the year	\$ (22,511)	\$ (24,010)
Other comprehensive (loss) income:		
Amortization from AOCL to interest and other financing costs ^{(1),(2)}	3,265	2,000
Change in fair value of derivative financial instruments (note 16(b))	3,701	(2,218)
Change in fair value of investments	(4,393)	3,168
Gain on foreign currency translation	124	-
Realized gain on sale of investments	(1,380)	(1,451)
Other comprehensive income	1,317	1,499
AOCL balance, end of the year	\$ (21,194)	\$ (22,511)

As at	December 31, 2013	December 31, 2012
<i>AOCL comprises:</i>		
Loss on derivative financial instruments		
Cumulative realized loss ⁽¹⁾	\$ (9,908)	\$ (9,908)
Accumulated amortization to interest and other financing costs	5,079	4,008
Unamortized balance of loss on cash flow hedges previously settled	(176)	(163)
Gain (Loss) on interest rate swap agreements	2,763	(418)
Loss on forward interest rate hedge ⁽²⁾	(22,884)	(23,404)
Accumulated amortization to interest and other financing costs	3,189	982
Change in fair value of investments	3,450	7,843
Cumulative gain on foreign currency translation	124	-
Realized gain on sale of investments	(2,831)	(1,451)
AOCL balance, end of the year	\$ (21,194)	\$ (22,511)

(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 2014 to September 2022, being the original terms of the hedged contracts. The estimated amount of the amortization that is expected to be reclassified to net income from AOCL in the next 12 months is \$1,070.

(2) The realized loss component of the \$22,884 OCI loss on forward interest rate hedge is \$22,585, which will be amortized to net income as mortgage interest expense over the original 10-year term of the hedged contracts. The estimated amount of the amortization expected to be reclassified to net income from AOCL in the next 12 months is \$2,294.

20. Interest and Other Financing Costs

Year Ended December 31,	2013	2012
Interest on mortgages payable ⁽¹⁾	\$ 93,072	\$ 83,503
Amortization of CMHC premiums and fees	2,124	1,770
Interest on bank indebtedness and deferred loan costs ⁽²⁾	6,072	6,954
Interest on Exchangeable Units	197	354
	\$ 101,465	\$ 92,581

(1) Includes amortization of deferred financing costs, fair value adjustments and OCI hedge interest of (\$836) (December 31, 2012 – \$575).

(2) Includes amortization of deferred loan costs of \$982 (December 31, 2012 – \$1,151).

21. Joint Arrangements

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

Year Ended December 31,	2013	2012
Assets	\$ 173,778	\$ 167,408
Liabilities	75,752	71,716
Revenues	15,142	14,780
Expenses	7,226	(10,487)
Net Income	7,916	25,267

Cash Provided By (Used In):

Operating Activities	\$ 6,275	\$ 7,125
Financing Activities	\$ (4,238)	\$ (4,088)
Investing Activities	\$ (2,455)	\$ (3,382)

22. Supplemental Cash Flow Information

a) Net income items related to investing and financing activities

Year Ended December 31,	2013	2012
Dividend and interest income on investments	\$ (1,298)	\$ (3,334)
Interest paid on Exchangeable Units	206	367
Interest paid on mortgages payable	89,631	82,490
Interest paid on bank indebtedness	5,068	5,865
Net disbursement	\$ 93,607	\$ 85,388

b) Changes in non-cash operating assets and liabilities

Year Ended December 31,	2013	2012
Prepaid expenses	\$ (569)	\$ (604)
Tenant inducements and direct leasing costs	(3,689)	(887)
Other receivables	(3,438)	(1,430)
Deferred loan costs	(1,014)	(1,313)
Deposits on purchases	(1,931)	(2,442)
Deposits	(36)	(39)
Accounts payable and other liabilities	16,544	10,220
Security deposits	2,112	2,877
Net proceeds	\$ 7,979	\$ 6,382

c) Net cash distributions to Unitholders

Year Ended December 31,	2013	2012
Distributions declared to Unitholders	\$ (116,056)	\$ (97,903)
Add: Distributions payable at beginning of year	(9,279)	(7,448)
Less: Distributions payable at end of year	10,366	9,279
Less: Distributions to participants in the DRIP	27,003	20,122
Net disbursement	\$ (87,966)	\$ (75,950)

d) Capital investments

Year Ended December 31,	2013	2012
Capital investments	\$ (162,659)	\$ (136,315)
Change in capital investments included in accounts payable and other liabilities	4,292	5,035
Net disbursement	\$ (158,367)	\$ (131,280)

e) Acquisition of investment properties

Year Ended December 31,	2013	2012
Acquired properties	\$ (456,523)	\$ (791,268)
Fair value adjustment of assumed debt	1,987	10,638
Assumed debt	37,971	334,948
Net disbursement	\$ (416,565)	\$ (445,682)

f) Disposition of investment properties

Year Ended December 31,	2013	2012
Proceeds	\$ 94,250	\$ 111,700
Closing costs	(1,806)	(2,523)
Mortgages assumed by purchasers and discharged	(34,772)	(53,533)
Net proceeds	\$ 57,672	\$ 55,644

g) Issuance of Trust Units

Year Ended December 31,	2013	2012
Issuance of Trust Units	\$ 148,313	\$ 352,570
Conversion of Exchangeable Units to Trust Units	(2,542)	(3,573)
Settlement of Unit-based Compensation Awards for Trust Units	(1,602)	(1,427)
Net proceeds	\$ 144,169	\$ 347,570

23. Related Party Transactions

a) CAPREIT incurred the following transactions with key management personnel and trustees. The loans outstanding from key management personnel and trustees for indebtedness relating to the SELTIP and LTIP as at December 31, 2013 were \$8,040 and \$11,834, respectively (December 31, 2012 – \$8,264 and \$13,214, respectively). These amounts are taken into consideration when calculating the fair value of the Unit-based compensation financial liabilities. Key management personnel are eligible to participate in the EUPP. In addition, certain key management personnel also participate in the RUR, and trustees currently participate in the DUP. Pursuant to employee contracts, key management personnel are subject to termination benefits that entitle them to payments of up to 36 months of benefits (based on base salary, bonus and other benefits) depending on cause.

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

Year Ended December 31,	2013	2012
Short-term employee benefits	\$ 3,439	\$ 3,170
Unit-based compensation		
– grant date amortization	2,050	2,819
	5,489	5,989
Unit-based compensation		
– fair value remeasurement	(6,491)	7,367
Total	\$ (1,002)	\$ 13,356

b) Previously, CAPREIT had entered into a construction management agreement with a company that was owned by two trustees and officers (Thomas Schwartz, President and CEO and Michael Stein, Chairman) of CAPREIT to provide construction management services (based on 4.5% of construction costs up to \$20,000, 3% for the next \$15,000 and 1% thereafter) to carry out the capital improvements for the properties. Effective January 1, 2012, CAPREIT terminated its construction management agreement and entered into a new construction management agreement with a non-related party on

substantially similar terms. CAPREIT continued to incur related party management fees until the balance of the work on the previous contract was completed. All previous contracts were completed as at December 31, 2012. The total construction management fees for the year ended December 31, 2012 (excluding reimbursable expenses of \$nil and HST/GST) of \$107 were capitalized to income properties. As at December 31, 2013, there were construction management fees outstanding of \$nil (December 31, 2012 – \$nil) in accounts payable and other liabilities.

CAPREIT has a lease for office space with a company in which Thomas Schwartz has an 18% beneficial interest. The rent paid for the office space for the year ended December 31, 2013 and 2012 was \$868 and \$868, respectively, excluding property operating costs, and has been expensed as trust expenses. During the third quarter of 2011, the above lease was amended for additional office space, resulting in minimum annual rental payments increasing by \$51. There is no change to the lease expiry date. The lease agreement expires on October 31, 2014. Minimum annual rental payment for the next year is as follows:

	2014
Minimum annual rent	\$ 382

24. Commitments

NATURAL GAS

Through the combination of fixed and variable price contracts, CAPREIT is committed as at December 31, 2013, in the aggregate amount of \$2,610 for its natural gas and transport requirements. These commitments, which range from one to three years, fix the price of natural gas and transport for a portion of CAPREIT's requirements as summarized below.

As at December 31,	2014	2015
Fixed Average Weighted Cost per GJ ⁽¹⁾	\$ 3.19	\$ –
Total of CAPREIT's		
Estimated Requirements	24.71%	–

(1) Fixed weighted average cost per gigajoule ("GJ") excludes estimated transportation costs of \$1.20 and \$1.03 per GJ for 2014 and 2015, respectively, and other administrative costs.

LAND LEASEHOLD INTERESTS

Four of the investment properties have ground leases with various expiry dates (subject to revisions at periodic intervals) between March 31, 2045 and March 31, 2070. One land lease matures in 2045, two mature in 2068 and another matures in 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. During the years ended December 31, 2013 and 2012, total expenses under these four leases were \$2,858 and \$2,430, respectively.

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

	2014	2015	2016	2017	2018	Thereafter
Minimum annual rent	\$ 1,325	\$ 1,323	\$ 1,323	\$ 1,323	\$ 1,323	\$ 42,646

PROPERTY CAPITAL INVESTMENTS

Commitments primarily related to capital investments in investment properties of \$44,620 were outstanding as at December 31, 2013 (December 31, 2012 – \$21,171).

25. Contingencies

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

26. Subsequent Events

On January 31, 2014, the third party U.S. external management agreements for the performance of certain asset and property management services concluded. The 16 manufactured home communities in Colorado, Texas, Arizona and Michigan, which were managed by CAPREIT for a third party real estate owner, have been sold. The agreements were entered into on December 5, 2012.

Five-Year Review

(\$ Thousands, except per Unit amounts)

Year Ended December 31,	Reporting Under IFRS				Reporting Under
	2013	2012	2011	2010	Canadian GAAP
					2009
Operating Revenues ⁽¹⁾	\$ 477,023	\$ 412,421	\$ 361,955	\$ 338,959	\$ 321,159
Net Operating Income ("NOI") ⁽¹⁾	\$ 273,854	\$ 237,916	\$ 206,157	\$ 190,339	\$ 174,432
Net Operating Income Margin (%) ⁽¹⁾	57.4	57.7	57.0	56.2	54.3
Net Income ⁽²⁾	\$ 267,678	\$ 412,263	\$ 316,172	\$ 529,048	\$ 15,716
Income from Discontinued Operations	–	–	–	–	705
Normalized Funds from Operations ("NFFO")	\$ 159,375	\$ 132,553	\$ 103,875	\$ 92,026	\$ 83,380
Cash Distributions	\$ 119,256	\$ 101,210	\$ 86,054	\$ 75,526	\$ 73,805
NFFO Payout Ratio (%)	74.8	76.4	82.8	82.1	88.5
Non-taxable Distributions (%)	89.0	74.2	86.9	72.5	99.9
Normalized Funds From Operations					
NFFO Per Unit – Basic	\$ 1.562	\$ 1.486	\$ 1.357	\$ 1.371	\$ 1.263
Cash Distributions Per Unit	\$ 1.138	\$ 1.097	\$ 1.080	\$ 1.080	\$ 1.080
Weighted Average Number of Units (000s)	102,064	89,215	76,538	67,130	66,016
Number of Suites and Sites – total	41,552	37,225	31,014	28,947	28,916
Number of Suites and Sites – CAPREIT's share	40,397	36,070	29,859	27,792	27,761
Investment Properties ⁽³⁾	\$ 5,459,218	\$ 4,826,355	\$ 3,713,737	\$ 3,049,980	\$ 2,148,761
Unitholders' Equity	\$ 2,757,469	\$ 2,429,214	\$ 1,740,663	\$ 1,355,445	\$ 457,184
Overall Portfolio Occupancy (%) ⁽¹⁾	98.0	97.9	98.5	98.4	98.1
Mortgage Debt to Gross Book Value (%)	44.0	44.3	48.3	51.8	57.3
Interest Coverage (times)	2.62	2.51	2.20	2.07	2.06
Weighted Average Mortgage Interest Rate (%) ⁽⁴⁾	3.76	3.87	4.48	4.82	5.07
Weighted Average Mortgage Term (years)	6.0	5.4	5.7	4.9	5.1
Cumulative Compounded Return Since Inception (%)	652	736	614	417	294
Unit Price at End of Year	\$ 21.25	\$ 24.90	\$ 22.31	\$ 17.14	\$ 14.06

(1) 2009 has been restated for discontinued operations.

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

(3) 2009 has been restated to exclude assets held for sale.

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

Unitholder Information

BOARD OF TRUSTEES

Thomas Schwartz

*President and
Chief Executive Officer*

Michael Stein

*Chairman and Chief Executive
Officer of MPI Group Inc.*

Paul Harris ⁽²⁾

*Partner, Davies, Ward,
Phillips & Vineberg LLP
(a law firm)*

Harold Burke ⁽²⁾

*Principal, Dundee Real Estate
Asset Management (a real
estate management firm)*

Stanley Swartzman ^{(1) (2) (3)}

Corporate Director

Edwin F. Hawken ^{(1) (2)}

Corporate Director

David Ehrlich ^{(1) (3)}

Corporate Director

Elaine Todres ⁽³⁾

*President, Todres Leadership
Counsel*

⁽¹⁾ Investment Committee

⁽²⁾ Audit Committee

⁽³⁾ Compensation and
Governance Committee

OFFICERS

Thomas Schwartz

*President and
Chief Executive Officer*

Michael Stein

Chairman

Scott Cryer

Chief Financial Officer

Mark Kenney

Chief Operating Officer

Maria Amaral

Chief Accounting Officer

Corinne Pruzanski

*General Counsel and
Corporate Secretary*

HEAD OFFICE

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Fax: 416.861.9209
website: www.capreit.net

INVESTOR INFORMATION

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

Thomas Schwartz

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

Registrar and Transfer Agent

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

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Stikeman Elliott LLP

Stock Exchange Listing

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

Monthly Distribution per Unit

January 2013 –
May 2013: \$0.093
(\$1.12 annually)

June 2013 –
December 2013: \$0.096
(\$1.15 annually)

ANNUAL MEETING OF UNITHOLDERS

The Annual Meeting of
Unitholders will be held at
4:30 p.m. EDT on
Tuesday, May 27, 2014 at
One King West Hotel
1 King Street West
Toronto, Ontario M5H 1A1

www.capreit.net



2013 marks the first year that CAPREIT has been recognized as one of Canada's 50 Best Employers.

The Best Employers list, compiled by Aon Hewitt, a global HR consulting firm, is determined in large part by surveying employees. Their engagement is measured by their views on areas such as leadership excellence, manager effectiveness, supporting productivity, career development and recognition. The list was published in Maclean's magazine.