

CAPREIT 2014 ANNUAL REPORT

BEST OPERATIONS = BEST RETURNS

CAPREIT is achieving organic
growth by building the best operating
company in the business



CAPREIT

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 life safety of residents and maximize earnings and cash flow potential.

Highlights

- Revenues, NOI, FFO and AFFO at record levels, driven by strong occupancies, increased average monthly rents and acquisitions
- Average monthly rents on stabilized residential properties up 2.1%, with strong 98.0% occupancy
- Same property NOI up 7.5%, our ninth consecutive year of strong organic growth
- NFFO up 15.0% for the year ended December 31, 2014
- Continued accretive growth as NFFO per Unit up 7.2%
- One of Canada’s 50 Best Employers for the second year in a row

FINANCIAL HIGHLIGHTS

Year Ended December 31,	2014	2013
Portfolio Performance		
Overall Portfolio Occupancy ¹	97.9%	98.0%
Overall Portfolio Average Monthly Rents ¹	\$ 964	\$ 951
Operating Revenues (000s)	\$ 506,411	\$ 477,023
NOI (000s)	\$ 303,885	\$ 273,854
NOI Margin	60.0%	57.4%
Operating Performance²		
FFO Per Unit – Basic	\$ 1.644	\$ 1.529
NFFO Per Unit – Basic	\$ 1.675	\$ 1.562
Weighted Average Number of Units – Basic (000s)	109,456	102,064
Cash Distributions Per Unit	\$ 1.168	\$ 1.138
FFO Payout Ratio	72.8%	76.4%
NFFO Payout Ratio	71.5%	74.8%
Liquidity and Leverage		
Total Debt to Gross Book Value ¹	46.49%	47.32%
Total Debt to Gross Historical Cost ^{1,3}	56.73%	56.74%
Weighted Average Mortgage Interest Rate ¹	3.66%	3.76%
Weighted Average Mortgage Term (years) ¹	6.3	6.0
Debt Service Coverage (times) ⁴	1.61	1.54
Interest Coverage (times) ⁴	2.82	2.62
Available Liquidity – Acquisition and Operating Facility (000s) ¹	\$ 152,043	\$ 86,443
Other		
Number of Suites and Sites Acquired	474	4,931
Number of Suites Disposed	338	604
Closing Price of Trust Units ¹	\$ 25.13	\$ 21.25
Market Capitalization (millions) ⁵	\$ 2,844	\$ 2,361

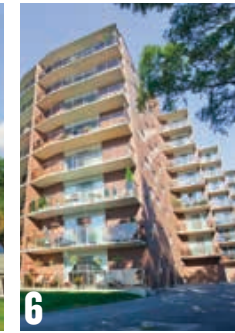
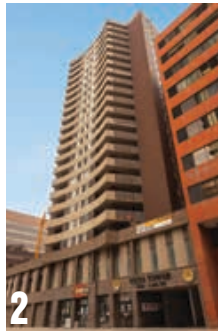
1 As at December 31.

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.

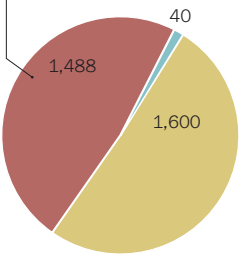
4 Based on the trailing four quarters.

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 in the Liquidity and Financial Condition section).



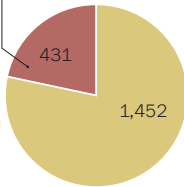
GREATER VANCOUVER AREA AND VICTORIA

Total Suites **3,128**
Occupancy **99.5%**
Average Monthly Rents **\$1,052**



CALGARY

Total Suites **1,883**
Occupancy **96.5%**
Average Monthly Rents **\$1,211**



EDMONTON

Total Suites **310**
Occupancy **98.1%**
Average Monthly Rents **\$1,201**



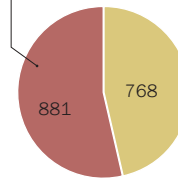
REGINA AND SASKATOON

Total Suites **367**
Occupancy **96.2%**
Average Monthly Rents **\$1,000**



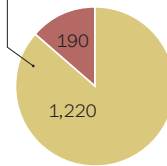
KITCHENER, WATERLOO AND LONDON

Total Suites **1,649**
Occupancy **97.9%**
Average Monthly Rents **\$883**



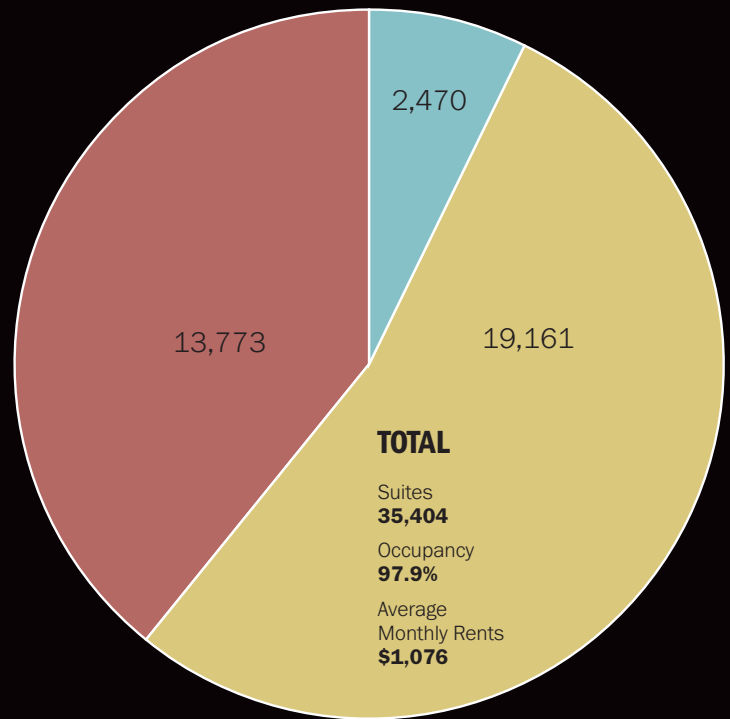
OUTSIDE GREATER TORONTO AREA

Total Suites **1,410**
Occupancy **99.1%**
Average Monthly Rents **\$1,095**



HIGH-QUALITY PORTFOLIO

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.



Affordable Mid-Tier Luxury



GREATER TORONTO AREA (GTA)

Total Suites
15,780
Occupancy
98.8%
Average Monthly Rents
\$1,181

OTTAWA

Total Suites
1,527
Occupancy
100%
Average Monthly Rents
\$937

GREATER MONTRÉAL REGION

Total Suites
4,581
Occupancy
97.0%
Average Monthly Rents
\$895

QUÉBEC CITY

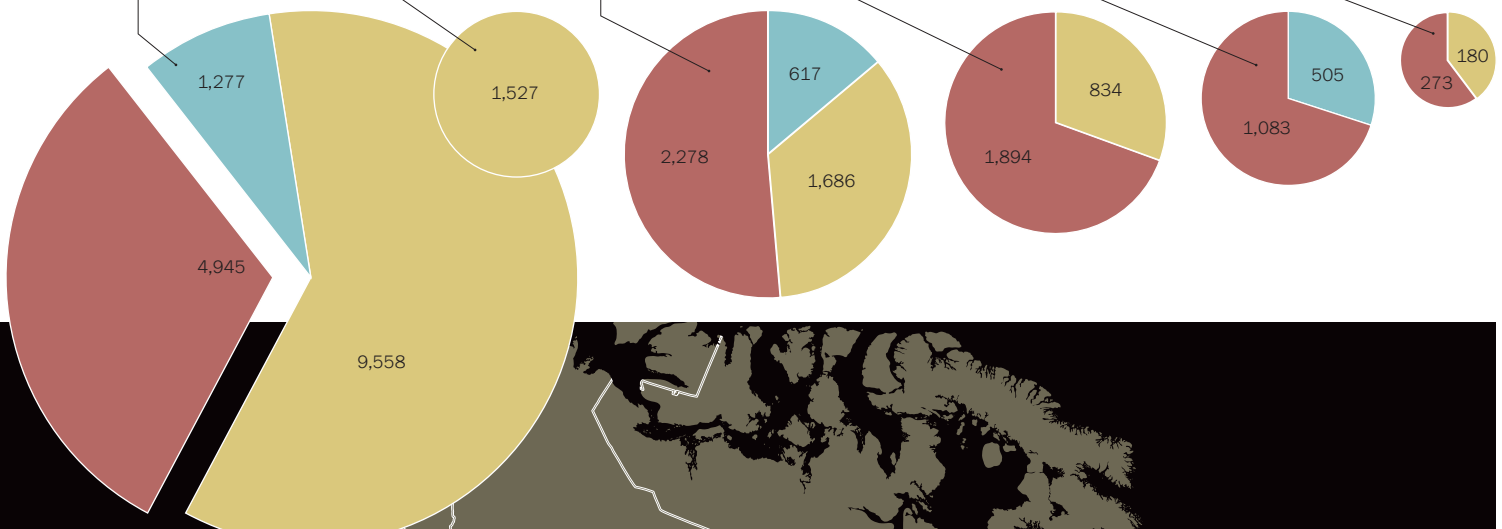
Total Suites
2,728
Occupancy
96.8%
Average Monthly Rents
\$938

HALIFAX

Total Suites
1,588
Occupancy
90.8%
Average Monthly Rents
\$995

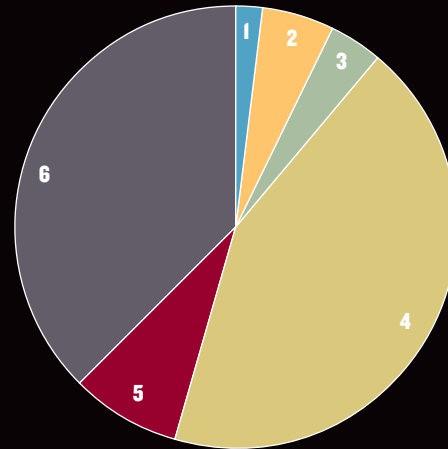
CHARLOTTETOWN

Total Suites
453
Occupancy
94.9%
Average Monthly Rents
\$930



MANUFACTURED HOME COMMUNITIES

Our growing MHC portfolio continues to deliver strong Unitholder returns and stable, sustainable cash flows



TOTAL

Units
6,284

Occupancy
97.5%

Average
Monthly Rents
\$356

1

BRITISH COLUMBIA

Total Suites
130

Occupancy
99.2%

Average
Monthly Rents
\$409

Gibson
The Poplars

2

ALBERTA

Total Suites
415

Occupancy
98.6%

Average
Monthly Rents
\$381

Slave Lake
Lynwood Gardens
Whitecourt
Evergreen Village
Hillpark Estates
Brooks
Greenbrook Estates

3

SASKATCHEWAN

Total Suites
246

Occupancy
100.0%

Average
Monthly Rents
\$335

Saskatoon
Sunset Estates

4

ONTARIO

Total Suites
2,685

Occupancy
99.6%

Average
Monthly Rents
\$489

Beamsville
Golden Horseshoe Estates
Grand Bend
Grand Cove
Newcastle
Wilmot Creek
Orillia
Fergushill Estates
Parkside Estates
Silver Creek Estates
Sarnia
Green Haven Estates
Trenton
Bayview Estates
Sunny Creek Estates

5

PRINCE EDWARD ISLAND

Total Suites
500

Occupancy
95.6%

Average
Monthly Rents
\$138

Charlottetown
Parkwood Estates
River Ridge Estates
Riverview Estates
Cornwall
Chateau Estates

6

NEW BRUNSWICK

Total Suites
2,308

Occupancy
94.8%

Average
Monthly Rents
\$244

Bathurst
Bayview Park & Kent Estates
Beresford
Bayview Park & Kent Estates
Burton
Burton Estates
Edmundston
Park P'Tiso Estates
Lincoln
Tamarack Estates
Moncton
Pine Tree Village
White Frost Estates
Quispamsis
Parkside Estates
Riverview
River East Estates
Saint John
Milford Estates
Waqsis
Crown & Currie Estates



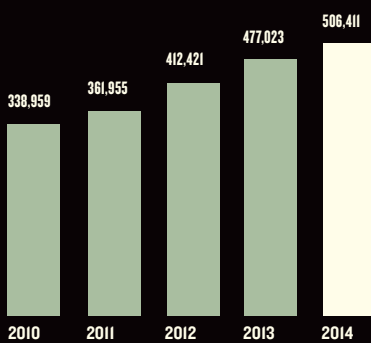


From left to right: **Maria Amaral**, Chief Accounting Officer; **Corinne Pruzanski**, General Counsel and Corporate Secretary; **Scott Cryer**, Chief Financial Officer; **Thomas Schwartz**, President and Chief Executive Officer; **Mark Kenney**, Chief Operating Officer

REPORT TO UNITHOLDERS: 2014 was another year of record performance for CAPREIT. Prudent portfolio expansion combined with strong organic growth generated solid increases in revenues, net operating income and Normalized Funds From Operations. Our record results also clearly demonstrate that our industry-leading operating platform and property management initiatives are generating significant benefits for our Unitholders.

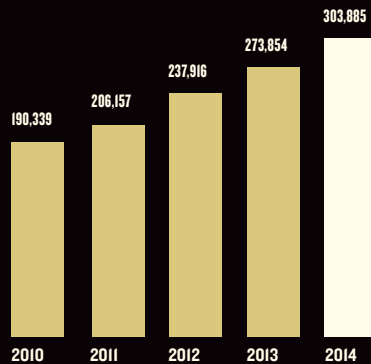
OPERATING REVENUES (\$ Thousands)

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



NET OPERATING INCOME (\$ Thousands)

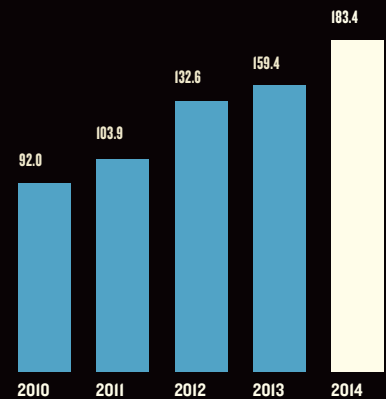
Strong revenue growth combined with proven management programs generated stable NOI growth with industry-leading NOI margins



NORMALIZED FUNDS FROM OPERATIONS

(\$ Millions)

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



RECORD PERFORMANCE

The past four years have been a period of significant growth for CAPREIT as we made a total of approximately \$1.5 billion of acquisitions (excluding capital expenditures), representing 13,837 apartments, townhomes and manufactured housing community (“MHC”) sites owned as at December 31, 2014. Since January 1, 2011, CAPREIT has increased the size and scale of its portfolio by 46.2% through net acquisitions. With this significant growth, combined with the positive impact of our property management programs and continuing strong fundamentals in the Canadian multi-residential rental business, we generated another record year in 2014.

Operating revenues rose by 6.2% to \$506.4 million as a result of contributions from our acquisitions, continuing high stable occupancies, and increased average monthly rents compared to 2013. Ancillary revenues, including parking, laundry, communications services and antenna rentals, continue to make a strong contribution to our revenues, rising 8.8% to \$26.7 million compared to the prior year.

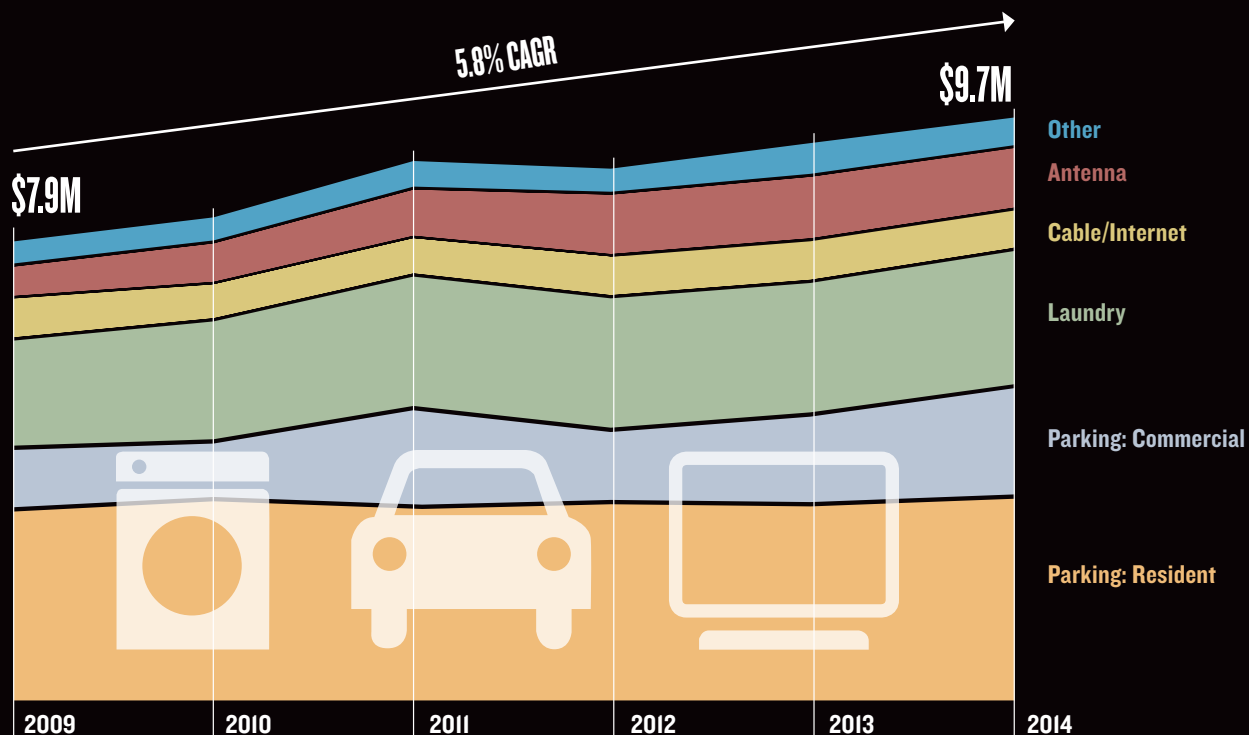
With this increase in operating revenues, combined with our relentless focus on managing our costs, our Net Operating Income (NOI) margin remained very strong at 60.0%, with Normalized Funds From Operations (NFFO), our key performance

benchmark, up 15.0% for the year to \$183.4 million. Importantly, our growth was significantly accretive as NFFO per Unit rose a solid 7.2% to \$1.675 per Unit over 2013. Our payout ratio of distributions declared to NFFO also remained very strong, improving to 71.5% from 74.8% last year.

Despite our record growth over the past few years, we continue to maintain one of the strongest financial positions in our business. Total debt to gross book value ratio was a conservative 46.5% at year-end, well within our guidelines. Our mortgage portfolio remained balanced, with the weighted average interest rate declining

ANCILLARY REVENUES CONTINUE TO GROW

Growth in Ancillary Revenues for Stabilized Property Portfolio



Despite our record growth over the past few years, we continue to maintain one of the strongest financial positions in our business

to 3.66% at December 31, 2014, while we extended the average term to maturity to 6.3 years, adding greater stability to our financial position.

PRUDENT AND RESPONSIBLE PORTFOLIO GROWTH

2014 was a year of more muted portfolio growth as we acquired 474 apartment suites and MHC sites for total acquisition costs of approximately \$61.5 million. We have stated many times that CAPREIT will not simply grow for growth's sake; that every potential acquisition must be immediately accretive to our NFFO, among other rigorous criteria. Many of the potential property purchases we evaluated during the year did not meet these criteria, and we will maintain this strategy of prudent portfolio growth in the coming years.

INDUSTRY-LEADING ORGANIC GROWTH

Our record performance in 2014, in addition to contributions from our acquisitions over the past four years, was largely driven by very solid growth in our stabilized property portfolio. Defined as all properties owned continuously since December 31, 2012, the performance of our stabilized portfolio clearly demonstrates the very positive impact our property management programs and capital investments are generating for our Unitholders. For the year ended December 31, 2014, stabilized net operating income rose a significant 7.5% following a 3.0% increase in 2013. Stabilized properties represented 87.5% of our total portfolio at December 31, 2014.

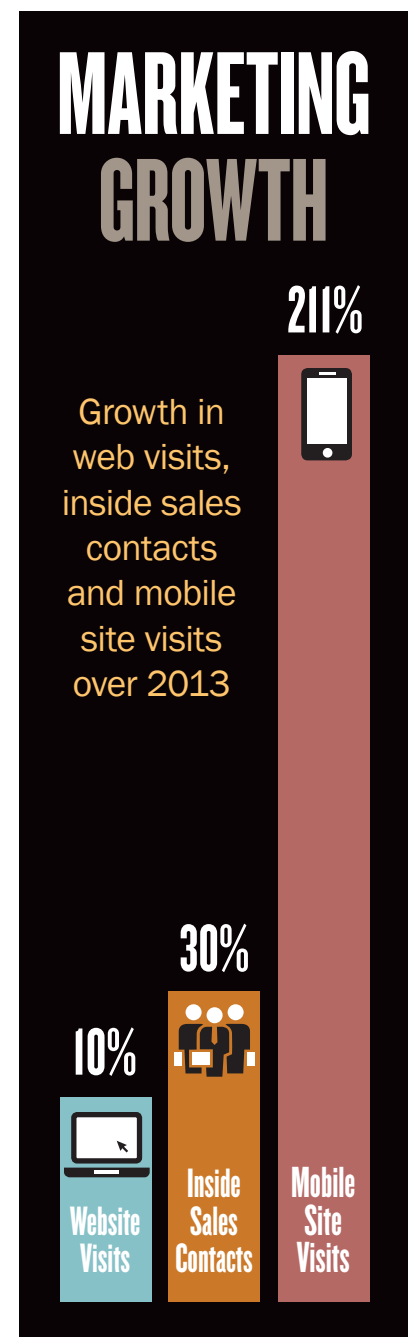
This stellar growth in our same property NOI is the result of a number of unique and successful sales and marketing, cost

control, purchasing and energy management programs that together not only generate solid gains in cash flows, but also enhance the lives of our residents in all our properties across Canada.

PROVEN SALES AND MARKETING PROGRAMS

At CAPREIT we are employing the latest technologies to maintain high occupancies and maximize revenues in each of our chosen markets. We have invested in numerous initiatives to drive increased visits to our innovative Internet portals, including the use of high-quality videos and enhanced content to showcase our properties. We are also employing sophisticated search engine optimization programs to ensure Canadians looking for high-quality rental accommodation visit our website first. As a result of these initiatives, visits to our website have increased significantly, generating very strong sales leads and conversion rates. Our innovative mobile applications are also proving successful as more people looking for rental accommodation visit properties of interest and then use their mobile devices to find details of their chosen new home prior to applying for a rental suite.

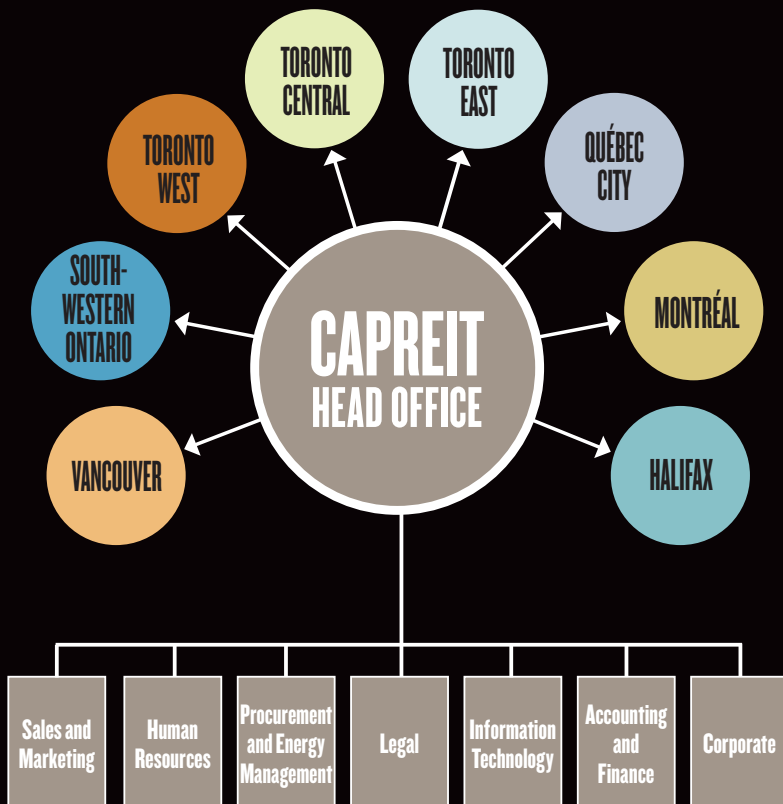
To ensure we retain residents in our buildings – a key objective in generating stable and consistent cash flows – we work hard to meet their needs and answer their questions. We recently launched “CAP CARES”, a toll-free number residents can use to obtain information, and we strive to answer their questions as quickly as possible. Comprehensive resident surveys, conducted by an independent third party, are another key tool we are utilizing to ensure we deliver the best possible experience for our residents.



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REGIONAL OFFICE STRUCTURE

CAPREIT's well-developed regional office structure ensures we can effectively manage costs locally, supported by cost-effective national programs



These and other innovative sales and marketing programs are generating tangible benefits for our Unitholders. Occupancy in 2014 remained at near-full levels of 97.9%, while residential average monthly rents on stabilized properties increased 2.1% compared to 2013. Maximizing revenues at our properties while meeting the needs of our residents is a key driver of our performance, and we are continuing to employ the latest and most sophisticated strategies to meet these objectives.

EFFECTIVE PORTFOLIO-WIDE COST MANAGEMENT INITIATIVES

While maximizing property revenues is a key goal, controlling operating costs also contributed to our record performance in 2014.

Portfolio-wide purchasing contracts for such items as elevator maintenance, landscaping and snow removal are improving service at our properties and reducing costs. Recently-introduced new tendering procedures, volume rebates and prompt-payment discounts with approved vendors are also generating substantial savings. Energy management and environmental enhancement programs, including the installation of energy-efficient lighting solutions and state-of-the-art heating boilers, as well as low-flow taps and toilets to reduce water consumption, are contributing to solid operating returns, while capitalizing on all available government energy rebate programs to reduce costs. In addition, our program to sub-meter individual suites is allowing residents control over their own energy costs while producing significant savings for CAPREIT.

We have also invested in a new state-of-the-art enterprise resource planning (“ERP”) and accounting systems platform to ensure our head office is as cost effective as possible. In addition to increased efficiency in information processing, more timely operational and financial decision-making, and operational efficiencies through more streamlined business processes, we are managing our growth without a commensurate increase in employment. As an example, since January 1, 2011, we have seen a 46% increase in our suite count, but only a 14% rise in our headcount. We are confident the scalability of our new ERP systems will help to manage our growth while enhancing our bottom line.

CAPITAL INVESTMENTS ENHANCE PORTFOLIO VALUE

Over the past four years CAPREIT has invested more than \$550 million in capital improvements to our properties, extending their useful economic life, enhancing resident life safety and improving our portfolio’s long-term cash flow potential. Investments in our building envelopes, common area and suite improvements, energy saving initiatives and new heating boilers, elevators and appliances all contribute to resident satisfaction and improved cost performance, and enhance the overall value of the CAPREIT property portfolio.

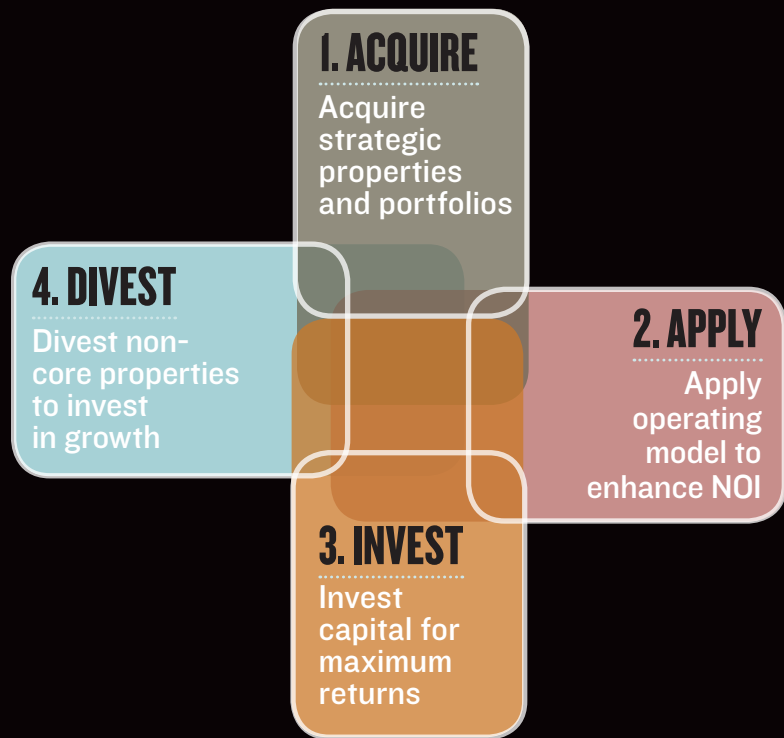
Our emphasis on targeted property capital investment programs is yielding very positive results. As an example, for the 32 properties with the highest capital investment averaged over the past five years, representing approximately 50.4% of total capital expenditures over the period, average NOI growth was just over 5.8%, clearly demonstrating that our investment programs are generating solid growth in cash flows.

AN EXPERIENCED AND ENGAGED TEAM

At CAPREIT we know we could not have generated such strong growth and record operating performance without an engaged and dedicated team. We recognize that our greatest asset is our people, and we have initiated a number of programs to ensure we maintain what we believe is one of the

PROVEN BUSINESS MODEL

CAPREIT’s proven business model has generated a track record of significant growth, industry-leading operating performance and enhanced Unitholder value



2014 RESIDENTIAL AVERAGE MONTHLY RENTS – CMHC VS CAPREIT

CAPREIT’s sophisticated sales and marketing programs, combined with a focus on meeting resident needs, have resulted in average monthly rents that consistently exceed the market.

Province	CMHC ¹	CAPREIT	% Higher
Québec	\$ 729	\$ 911	25.0%
Prince Edward Island	\$ 788	\$ 930	18.0%
Ontario	\$ 1,109	\$ 1,140	2.8%
British Columbia	\$ 1,031	\$ 1,052	2.1%
Alberta	\$ 1,197	\$ 1,209	1.0%
Saskatchewan	\$ 992	\$ 1,000	0.8%

¹ Weighted average based on CAPREIT’s proportion of residential suites in each province.

As a testament to the success of our human resources strategies, we are proud to have been recognized as one of Canada's 50 Best Employers in both 2014 and 2015

best management and operating teams in our business. New mentoring and training programs are developing best-in-industry operational expertise, while our focus on the "CAPREIT WAY" – our emphasis on stability, quality and growth – is the foundation of our corporate culture and the core of everything we do at CAPREIT.

These programs are resulting in a very engaged workforce, one that brings solid benefits through reduced absenteeism, higher productivity, enhanced resident service and increased accountability.

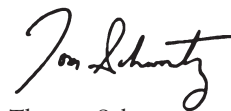
As a testament to the success of our human resources strategies, we are proud to have been recognized as one of Canada's 50 Best Employers in both 2014 and 2015.

Our human resources initiatives are also helping to contain costs as we grow. Trained and certified in-house recruiters and legal expertise are generating substantial savings compared to using external agencies and legal firms, while our proprietary education and training programs ensure the "CAPREIT WAY" is instilled in all our employees more cost-effectively.

A "DEVELOPING" NEW GROWTH STRATEGY

In addition to increasing the size and scale of our property portfolio and generating solid organic growth through our proven property and asset management programs, we have recently begun investigating the opportunity to develop new residential rental properties internally or in partnership with other REITs and real estate corporations. At CAPREIT we have developable land at a number of our current locations that could be used to build new rental properties, and we are currently investigating zoning changes and hiring development talent to capitalize on this potential to generate very strong returns on investment. We look forward to further "developing" this new opportunity to build Unitholder value.

In closing, we are very proud of everything our team has accomplished in 2014, and we are confident we have the right people in the right places, the best operating platform in the business and proven value-enhancing strategies to maintain our track record of growth and building Unitholder value for years to come.



Thomas Schwartz
PRESIDENT AND CHIEF EXECUTIVE OFFICER



Michael Stein
CHAIRMAN

THE "CAPREIT WAY"

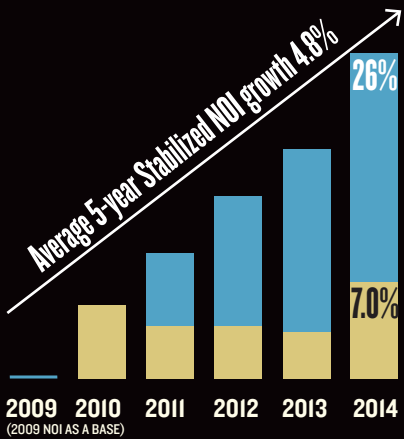
The CAPREIT Way is the foundation of our corporate culture and defines everything we do at CAPREIT



NOI GROWTH

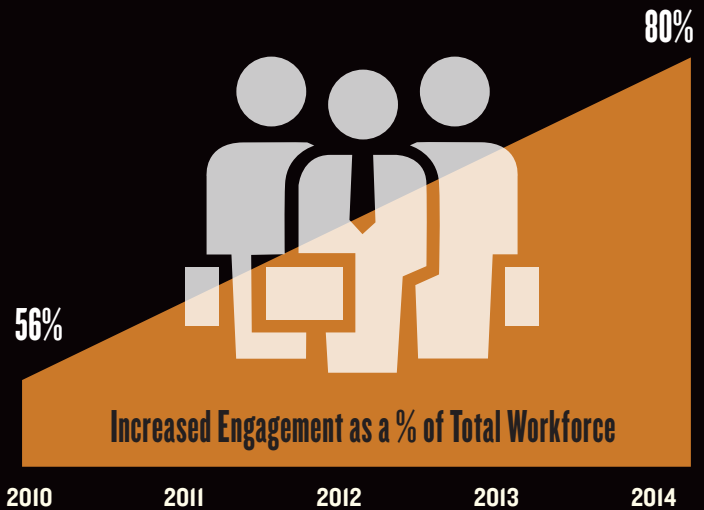
Superior same property NOI growth has contributed to our record performance over the past five years

- Cumulative Stabilized NOI Growth **26%**
- Annual Stabilized NOI Growth **4.8%**



EMPLOYEE ENGAGEMENT

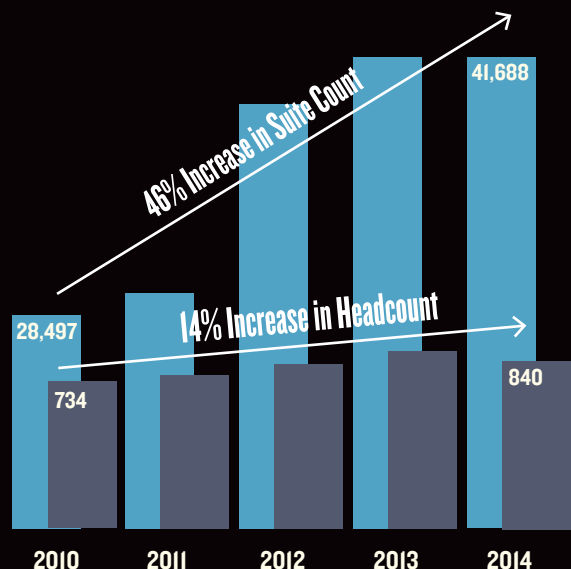
An engaged workforce brings solid benefits such as reduced absenteeism, higher productivity, enhanced resident service and increased accountability



EFFICIENT GROWTH

While CAPREIT has generated strong portfolio growth since 2010, operational efficiencies and scalable technology platforms ensure we can manage future growth without a commensurate growth in headcount

- Suite Count
- Headcount



CSR AND FINANCIAL REPORTING

CSR REPORTING

- 13** Strengthening Performance – Strengthening Environmental and Sustainability Practices
- 14** Corporate Social Responsibility and Sustainability

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECTION I

- 19** Forward-Looking Disclaimer
- 20** Non-IFRS Financial Measures
- 20** Overview
- 20** IRES Transaction
- 22** Objectives
- 22** Business Strategy
- 23** Key Performance Indicators
- 24** Performance Measures
- 25** Property Portfolio
- 28** Investment Properties

SECTION II

- 30** Average Monthly Rents and Occupancy
- 34** Results of Operations
- 35** Net Operating Income
- 37** Stabilized Portfolio Performance
- 39** Net Income and Other Comprehensive (Loss) Income

SECTION III

- 42** Non-IFRS Financial Measures
- 42** Per Unit Calculations

SECTION IV

- 46** Property Capital Investments
- 47** Productive Capacity
- 48** Capital Structure
- 49** Liquidity and Financial Condition
- 53** Unitholder Taxation

SECTION V

- 54** Selected Consolidated Quarterly Information
- 55** Selected Consolidated Financial Information

SECTION VI

- 55** Accounting Policies and Critical Estimates, Assumptions, and Judgements
- 57** Controls and Procedures

SECTION VII

- 57** Risks and Uncertainties
- 65** Related Party Transactions
- 66** Commitments and Contingencies

SECTION VIII

- 66** Subsequent Events
- 66** Future Outlook

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

- 68** Management's Responsibility for Financial Reporting
- 69** Independent Auditor's Report
- 70** Consolidated Balance Sheets
- 71** Consolidated Statements of Income and Comprehensive Income
- 72** Consolidated Statements of Unitholders' Equity
- 73** Consolidated Statements of Cash Flows
- 74** Notes to Consolidated Financial Statements
- 104** Five-Year Review

STRENGTHENING PERFORMANCE

Strengthening Environmental and Sustainability Practices

IN 2014 WE CELEBRATED SEVENTEEN YEARS of providing our residents with high-quality, safe and secure homes and our employees with an engaging place to work, 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 showcase these objectives, we are pleased to present CAPREIT's second annual report on key initiatives to enhance social responsibility and sustainability within our business.

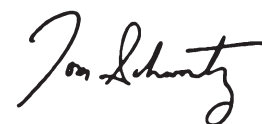
Since CAPREIT's inception in 1997, we have implemented numerous programs to enhance our environmental performance, including investments in energy-efficient heating boilers, energy-saving lighting, high-efficiency toilets, low-flow faucets and showers, and many others. We continue to reduce energy and water consumption in a cost effective manner, thereby minimizing our impact on the environment and contributing to better financial performance. 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 are very proud to have been selected as one of Canada's 50 Best Employers in 2015 for a second consecutive year. Our ranking significantly improved in 2015 compared to 2014 as one of Canada's 50 Best Employers, 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. We continue to bring greater diversity and a broader wealth of knowledge to the Board; in 2014 we added a trustee who brings a wealth of experience in risk management, internal audit and finance.

At CAPREIT we also believe in giving back to the communities where we operate. In 2012 we instituted a breakfast program for

underprivileged schoolchildren and 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 past 15 years we have partnered with government agencies to provide approximately 2,000 suites across our portfolio as affordable homes for less fortunate families.

Each year we continue to share with you our progress toward meeting our goals in various aspects of our corporate social 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 CHIEF EXECUTIVE OFFICER

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, located predominantly in or near 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 their replacement cost, primarily in large urban rental markets close to public amenities 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 the principles of sustainability into CAPREIT's long-term business strategy, corporate culture and operations. The goals of this focus are to operate the business safely and 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 practices in 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 methods as economic hedges related to utility costs and interest rate volatility, programs to reduce the consumption of natural resources, targeted capital investments to enhance the comfort and life safety of residents, philanthropic and charitable efforts, and tenant satisfaction and employee engagement initiatives. CAPREIT was able to meet and exceed many of the key targets it set for 2014 affecting several key stakeholders.

CAPREIT ACHIEVED THE FOLLOWING GOALS IN 2014:

EMPLOYMENT PRACTICES:

- > Improved ranking as one of Canada's 50 Best and Quebec's Best Employers
- > Increased employee and employer contributions under the Employee Unit Purchase Plan ("EUPP")
- > Enhanced workplace design and ergonomics for improved employee satisfaction and productivity
- > Established a new Human Resources and Compensation Committee mandated to provide oversight for key human resource priorities
- > Established the Leadership Excellence and Development ("LEAD") program to mentor staff, provide cross-functional exposure and groom future leaders

RESIDENT SATISFACTION:

- > \$59.5 million in structural capital investments for enhanced life safety and property improvement
- > \$74.0 million in suite improvements, common areas and other enhancements for the greater comfort of residents
- > \$11.2 million in repairs and maintenance, including for reconditioning and improved curb appeal of properties

- > Information systems upgrades and enhancements for quicker suite turnover and cost reduction
- > Enhanced website with mobile integration and fully responsive site search for improved customer service

AFFORDABLE HOUSING AND PHILANTHROPIC EFFORTS:

- > Provided over 2,000 affordable suites to families in need in partnership with multiple government agencies
- > Increased the number of free breakfasts served to schoolchildren at CAPREIT properties
- > Continued commitment with the TFSS in support of serving nutritious meals at a school near CAPREIT properties

ENVIRONMENTAL CONSERVATION:

- > Invested \$8.8 million in energy-efficiency capital investments to reduce resource consumption
- > Implemented better tracking and visibility of resource consumption for identification of underperforming properties
- > Awarded by Toronto Hydro for electricity savings
- > Continued to expand electricity sub-metering and launched water sub-metering projects

CORPORATE GOVERNANCE:

- > Added a new trustee to bring greater diversity and a broader wealth of knowledge to the Board, including experience in risk management, internal audit and finance

INVESTORS:

- > Sixteenth increase in cash distributions since IPO to \$1.18 per Unit annually
- > Extended weighted average term to maturity for the mortgage portfolio
- > 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 five consecutive years
- > Diversified revenue streams by providing asset management duties and property services for Irish Residential Properties REIT plc
- > Stabilized net operating income growth of 4.8% over the past six years
- > Sustained overall portfolio occupancy above 97% over five years

FUTURE TARGETS 2015

EMPLOYMENT PRACTICES:

- > Further improve employee engagement levels and maintain “Canada’s 50 Best Employers” ranking
- > Begin roll-out of phase 1 of 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
- > Begin implementation of the Accounting Modernization Project to increase efficiencies and enhance processes while improving employee engagement
- > Implement information technology enhancements to permit flexibility and broaden mobility for employees while reducing operating costs

RESIDENT SATISFACTION:

- > Continue to upgrade suites and common areas to increase the quality of life for our residents
- > Focus on conversion of space into amenities for resident use where feasible

AFFORDABLE HOUSING AND PHILANTHROPIC EFFORTS:

- > Expand CAPREIT’s breakfast club to three additional locations across the country
- > Expand breakfast programs to allow both staff and residents to donate and volunteer

ENVIRONMENTAL CONSERVATION:

- > Invest \$2.5 million in energy-efficient and environment-friendly projects
- > Expand water sub-metering projects across 1,500–2,000 suites in an effort to reduce impact on the environment

INVESTORS:

- > Acquire between 1,500 and 2,000 suites and sites on an annualized basis
- > Raise between \$280 million and \$320 million in total mortgage refinancings
- > Deliver year over year stabilized net operating income growth
- > Sustain overall portfolio occupancy above 97% while increasing average monthly rents

IN THE MEDIUM TERM:

- > Continue to improve CAPREIT’s ranking as one of Canada’s 50 Best Employers
- > Complete implementation of Human Resource Information System
- > Continue to increase efficiencies and streamline processes
- > Expand charitable efforts to improve the livelihood of underprivileged families and further engage the community
- > Align executive performance incentives with key sustainability performance indicators
- > Reduce average energy use and water consumption intensity on a per suite basis
- > Investigate opportunities to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT or other vacant land

ULTIMATELY, THESE WILL HELP CAPREIT ACHIEVE ITS GOAL TO:

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

SUSTAINABILITY PERFORMANCE

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 drivers of success. 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 2014 was proud to have been ranked in the top 15 as one of the 50 Best Employers in Canada as evaluated by human resource firm Aon Hewitt. Management is committed to further improving the work environment, and to increase productivity and improve efficiency through key technological initiatives that are focused on streamlining processes. CAPREIT employees are provided with the

opportunity to own CAPREIT’s Trust Units through a highly beneficial Employee Unit Purchase Plan to align their interests with those of all Unitholders, with an increase in employee and employer contributions in 2014. Looking forward, CAPREIT is committed to providing opportunities to its employees with a focus on attracting new talent and keeping current employees engaged.

CAPREIT has also taken a leadership role in achieving gender balance. As of December 31, 2014, CAPREIT is proud that 17 of the 28 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. Additional investments in technologies to improve resident experience are currently being explored.

Happy and satisfied residents mean lower lease turnover, lower vacancy loss, fewer repairs and maintenance, higher average monthly rents, more resident referrals and a better resident community. Therefore, Management ensures resident engagement initiatives are in place at every building focused on strengthening these relationships.

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 potentially costly repairs. Feedback to CAPREIT helps identify areas for 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 in 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. Conscious efforts are underway for opportunities within the current portfolio to convert unused space to provide more amenities to tenants for greater resident satisfaction.

To help working families in need of assistance, CAPREIT has formed long-term partnerships over the past 15 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 help to integrate 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 2014, CAPREIT provides over 2,000 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's breakfast club is in its second year of a three-year commitment to a partnership with a local Toronto breakfast program to provide children with a hot breakfast every morning at a school close to some of the properties. The breakfast program is funded mostly through staff and vendor donations; only a third is paid for by CAPREIT.

Due to the success of the existing breakfast club location, this effort will be expanded to three additional locations across the country. In 2015, the breakfast program will be expanded to allow both staff and residents the opportunity to donate and volunteer.

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 determine 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 improved overall 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

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 amount to \$34.2 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 past 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 2011–2013 calculated by an independent consulting firm in accordance with GHG Protocol (including Scopes 1 to 3):

ENERGY USE INTENSITY PERFORMANCE OVER PRIOR YEAR

	2013	2012	2011
In Accordance with GHG Protocol	4.5%	(7.9%)	0.2%
In Accordance with GHG Protocol Adjusted for Impact of Weather and Occupancy	(1.8%)	(2.6%)	(1.8%)

Based on stabilized properties

In addition, to optimize electricity consumption, as of December 31, 2014, CAPREIT had installed tenant sub-metering systems at 89 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 benefits 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 OVER PRIOR YEAR

	2013	2012	2011
Sub-metered Properties	(6.4%)	(2.6%)	(1.5%)
Overall Portfolio	(3.1%)	(0.6%)	0.2%

Based on stabilized properties

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 also contributed to the improved performance.

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

	2013	2012	2011
In Accordance with GHG Protocol	(2.8%)	(1.0%)	(7.1%)

Based on stabilized properties

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

CAPREIT's operations have little or 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. Revitalization adds to the useful economic life of properties while modernizing them for changing demographic needs and adding to the beautification of the neighbourhood through contemporary landscaping and other improvements.

Over the past seventeen 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, 2014 should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2014.

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 which Management believes 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. 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 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.

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 June 12, 2014. As at December 31, 2014, CAPREIT owned interests in 41,688 residential units, comprised of 35,404 residential suites and 30 manufactured home communities ("MHC"), comprised of 6,284 land lease sites. As at December 31, 2014, CAPREIT had 840 employees (892 employees as at December 31, 2013).

IRES Transaction

On March 20, 2014, Irish Residential Apartments REIT Limited (formerly, CAPREIT Ireland Limited, a wholly owned subsidiary of CAPREIT) registered as a public limited company and changed its name to Irish Residential Properties REIT public limited company ("IRES"). It comprised a portfolio of 338 apartment suites in four residential properties located in Dublin, Ireland. It was listed on the Irish Stock Exchange on April 16, 2014, and on admission, IRES issued 200,000,000 shares to the public on top of the existing 2,000,000 shares owned by CAPREIT LP, which resulted in dilution of CAPREIT LP's beneficial interest in IRES by 79.2%. On dilution, CAPREIT LP had a loss of control of its subsidiary, resulting in CAPREIT no longer consolidating IRES but rather equity accounting for its retained investment. As a result of the disposition, CAPREIT recognized a gain of \$717 thousand relating to the consideration received in lieu of the net asset value of the properties in IRES on the disposition date, which is recorded in other income. As at December 31, 2014, CAPREIT LP holds a beneficial interest in 42.0 million Ordinary Shares, representing 20.8% of the issued share capital of IRES (See Subsequent Events section for further details).

The tables below summarize property acquisitions and dispositions for the years ended December 31, 2014 and 2013:

Acquisitions Completed During the Year Ended December 31, 2014

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

1 Weighted average stated interest rate on mortgage funding.

2 Weighted average term to maturity on mortgage funding.

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

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

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

Acquisitions Completed During the Year Ended December 31, 2013

(\$ Thousands)	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.

Dispositions Completed During the Year Ended December 31, 2014

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

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

Dispositions Completed During the Year Ended December 31, 2013

(\$ Thousands)	Demographic Sector	Suite Count	Region	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.

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 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 environment-friendly and energy-saving initiatives that improve overall net operating income. CAPREIT completes a review of its portfolio and revises its long-term capital investment plan on an annual basis, which allows Management to ensure capital investments extend the useful economic life of CAPREIT's properties, enhance life safety, maximize earnings and improve the long-term cash flow potential of its portfolio.

PORTFOLIO GROWTH

CAPREIT 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. In addition, Management has recently begun prudently investigating the opportunity to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT or other vacant land.

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 anticipates a long-term annual NFFO payout ratio of between 70% and 80%.

PORTFOLIO GROWTH

Management's objective is to pursue 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. In addition, Management has recently begun prudently investigating the opportunity to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT or other vacant land.

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 the financial covenants in its credit agreement comprised of an acquisition and operating facility, which includes a Euro LIBOR borrowing ("Acquisition and Operating Facility") and a five-year non-revolving term credit facility (collectively, the "Credit Facilities"), as described under Liquidity and Financial Condition in Section IV.

Performance Measures

The following table presents an overview of certain key IFRS and non-IFRS financial measures and operational results of CAPREIT for the years ended December 31, 2014 and 2013. Management believes that these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. Effective June 2014, monthly cash distributions declared to Unitholders increased to \$0.098 per Unit (\$1.18 annually), compared to \$0.096 per Unit (\$1.15 annually) since June 2013 and \$0.093 per Unit (\$1.12 annually) previously.

Year Ended December 31,	2014	2013
Portfolio Performance		
Overall Portfolio Occupancy ¹	97.9%	98.0%
Overall Portfolio Average Monthly Rents ¹	\$ 964	\$ 951
Operating Revenues (000s)	\$ 506,411	\$ 477,023
NOI (000s)	\$ 303,885	\$ 273,854
NOI Margin	60.0%	57.4%
Operating Performance²		
FFO Per Unit – Basic	\$ 1.644	\$ 1.529
NFFO Per Unit – Basic	\$ 1.675	\$ 1.562
Weighted Average Number of Units – Basic (000s)	109,456	102,064
Cash Distributions Per Unit	\$ 1.168	\$ 1.138
FFO Payout Ratio	72.8%	76.4%
NFFO Payout Ratio	71.5%	74.8%
Liquidity and Leverage		
Total Debt to Gross Book Value ¹	46.49%	47.32%
Total Debt to Gross Historical Cost ^{1,3}	56.73%	56.74%
Weighted Average Mortgage Interest Rate ¹	3.66%	3.76%
Weighted Average Mortgage Term (years) ¹	6.3	6.0
Debt Service Coverage (times) ⁴	1.61	1.54
Interest Coverage (times) ⁴	2.82	2.62
Available Liquidity – Acquisition and Operating Facility (000s) ¹	\$ 152,043	\$ 86,443
Other		
Number of Suites and Sites Acquired	474	4,931
Number of Suites Disposed	338	604
Closing Price of Trust Units ¹	\$ 25.13	\$ 21.25
Market Capitalization (millions) ⁵	\$ 2,844	\$ 2,361

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 in 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 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 30 MHCs, whereby CAPREIT owns the sites, which it rents to residents.

Portfolio by Type of Property Interest

As at December 31,	2014	%	2013	%
Fee Simple Interests – Apartments and Townhomes	30,538	73.3	30,506	73.4
Operating Leasehold Interests	3,815	9.2	3,815	9.2
Land Leasehold Interests	1,051	2.5	1,051	2.5
Total Residential Suites	35,404	85.0	35,372	85.1
Fee Simple Interests – MHC Land Lease Sites	6,284	15.0	6,180	14.9
Total Suites and Sites	41,688	100.0	41,552	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,	2014	%	2013	%
Affordable	2,470	5.9	2,470	5.9
Mid-tier	19,161	46.1	18,956	45.6
Luxury	13,773	33.0	13,946	33.6
Total Residential Suites	35,404	85.0	35,372	85.1
MHC Land Lease Sites	6,284	15.0	6,180	14.9
Total Suites and Sites	41,688	100.0	41,552	100.0

Portfolio by Geography

As at December 31,	2014	%	2013	%
RESIDENTIAL SUITES				
Ontario				
Greater Toronto Area	15,780	37.9	15,780	38.0
Ottawa	1,527	3.7	1,527	3.7
London / Kitchener / Waterloo	1,649	3.9	1,649	4.0
Other Ontario	1,410	3.4	1,410	3.4
	20,366	48.9	20,366	49.1
Québec				
Greater Montréal Region	4,581	11.0	4,581	11.0
Québec City	2,728	6.6	2,728	6.6
	7,309	17.6	7,309	17.6
British Columbia				
Greater Vancouver Region	1,948	4.7	1,948	4.7
Victoria	1,180	2.8	1,180	2.8
	3,128	7.5	3,128	7.5
Alberta				
Edmonton	310	0.7	310	0.7
Calgary	1,883	4.5	1,852	4.4
	2,193	5.2	2,162	5.1
Nova Scotia				
Halifax	1,588	3.8	1,588	3.8
Saskatchewan				
Saskatoon	133	0.3	133	0.3
Regina	234	0.6	108	0.3
	367	0.9	241	0.6
Prince Edward Island				
Charlottetown	453	1.1	240	0.6
Ireland				
Dublin	–	–	338	0.8
Total Residential Suites	35,404	85.0	35,372	85.1
MHC LAND LEASE SITES				
Ontario	2,685	6.4	2,678	6.4
British Columbia	130	0.3	130	0.3
Alberta	415	1.0	318	0.8
Saskatchewan	246	0.6	246	0.6
Prince Edward Island	500	1.2	500	1.2
New Brunswick	2,308	5.5	2,308	5.6
Total MHC Land Lease Sites	6,284	15.0	6,180	14.9
Total Suites and Sites	41,688	100.0	41,552	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 stronger 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.

While CAPREIT's portfolio growth was muted in 2014 due to a lack of accretive acquisition opportunities, CAPREIT will continue to target acquisitions of between 1,500 and 2,000 suites and sites on an annualized basis over the long term.

PORTFOLIO OF OPERATING LEASEHOLD INTERESTS

CAPREIT has the option to acquire fee simple interests in 14 of the properties, which are exercisable between the 26th and 35th years of the respective leases. In the case of a 15th property, comprised of 327 suites, CAPREIT's option entitles it to acquire a prepaid operating leasehold interest in the property maturing in 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, 2014 and 2013

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

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

PORTFOLIO OF LAND LEASEHOLD INTERESTS

In the absence of any new arrangements negotiated between CAPREIT and the landowners of the four parcels on which CAPREIT has land leasehold interests, CAPREIT's interests in one property mature in 2045, 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	
			2014	2013
2045	473	45.0	\$ 1,000	\$ 1,000
2068	306	29.1	621	579
2070	272	25.9	1,280	1,279
Total Land Leasehold Interests Portfolio	1,051	100.0	\$ 2,901	\$ 2,858

Investment Properties

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

Management values each investment property based on the most probable price that a property could be sold for in a competitive and open market as of the specified date under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. This does not contemplate the potential for general declines in real estate markets or the sale of assets by CAPREIT under financial 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, 2014 contained in CAPREIT's 2014 Annual Report.

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

(\$ Thousands)	2014	2013
As at December 31,		
Balance, Beginning of the Year	\$ 5,459,218	\$ 4,826,355
<i>Add:</i>		
Acquisitions	61,545	456,523
Property Capital Investments ¹	145,601	160,220
Capitalized Leasing Costs ²	597	692
Unrealized Gain on		
Remeasurement at Fair Value	150,897	106,470
Foreign Currency Translation	2,653	3,208
<i>Less:</i>		
Dispositions	(70,871)	(93,439)
Realized Loss on Dispositions	-	(811)
Investment Properties at Fair Value,		
End of the Year	\$ 5,749,640	\$ 5,459,218

¹ See Property Capital Investments section.

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

For the years ended December 31, 2014 and 2013, 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 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 December 31,	2013	Changes Due to Change in				2014	2013	2014
(\$ Millions)	Fair Value	Rates ¹	Stabilized NOI	Forex Translation	Net Acquisitions	Fair Value	Rates ¹	Rates ¹
Greater Toronto Area	\$ 2,436	\$ 129	\$ 50	\$ –	\$ –	\$ 2,615	4.86%	4.67%
Other Ontario	482	12	8	–	10	512	5.22%	5.12%
Québec	902	24	11	–	–	937	5.36%	5.24%
British Columbia	589	1	20	–	–	610	4.30%	4.28%
Alberta	434	–	35	–	7	476	4.84%	4.79%
Nova Scotia	232	–	–	–	–	232	5.75%	5.75%
Saskatchewan	27	1	2	–	18	48	6.19%	5.84%
Prince Edward Island	27	2	(1)	–	19	47	6.28%	6.04%
Dublin, Ireland	67	–	1	3	(71)	–	6.37%	–
MHC Land Lease Sites	263	(4)	10	–	4	273	6.07%	6.18%
Total	\$ 5,459	\$ 165	\$ 136	\$ 3	\$ (13)	\$ 5,750		

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, 2014 for Operating and Land Leasehold Interests.

As at December 31, 2014, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of investment properties:

(\$ Millions)	Change (basis points) ¹	Estimated (Decrease) Increase
As at December 31, 2014		
Weighted Average Capitalization Rate	+25	\$ (272)
Weighted Average Capitalization Rate	–25	\$ 300

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, 2013				Properties Acquired Since December 31, 2013	
	2014		2013		2014		2013 ¹		2014	
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %
Affordable	\$ 869	94.9	\$ 870	96.6	\$ 869	94.9	\$ 870	96.6	\$ –	–
Mid-tier	\$ 1,033	98.6	\$ 1,009	98.2	\$ 1,034	98.6	\$ 1,009	98.2	\$ 992	95.1
Luxury	\$ 1,170	97.6	\$ 1,160	98.0	\$ 1,174	97.7	\$ 1,152	98.0	\$ 875	90.3
Average Residential Suites	\$ 1,076	97.9	\$ 1,060	98.0	\$ 1,078	98.0	\$ 1,056	98.0	\$ 940	93.0
Average MHC Land Lease Sites	\$ 356	97.5	\$ 348	97.6	\$ 355	97.4	\$ 348	97.6	\$ 402	100.0
Overall Portfolio Average	\$ 964	97.9	\$ 951	98.0	\$ 966	97.9	\$ 947	98.0	\$ 822	94.5

1 Prior year comparable AMR and occupancy have been restated for properties disposed of since December 31, 2013.

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 or remained stable in all demographic sectors of the residential suite portfolio, resulting in a 1.5% increase in overall average monthly rent as at December 31, 2014 compared to last year while occupancy remained strong at 97.9% compared to 98.0% for last year. The increases in average monthly rents were due to strong rental growth, 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.

Average monthly rents for residential properties owned prior to December 31, 2013 also increased as at December 31, 2014 to \$1,078 from \$1,056 as at December 31, 2013, an increase of 2.1% from last year. As at December 31, 2014, occupancy has remained stable at 98.0%, similar to December 31, 2013.

For the MHC land lease portfolio, average monthly rents increased to \$356 as at December 31, 2014 compared to \$348 as at December 31, 2013, while occupancy for MHC properties remained strong at 97.5% as at December 31, 2014. 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,	2014			2013		
	Change in AMR \$	%	% Turnovers & Renewals ¹	Change in AMR \$	%	% Turnovers & Renewals ¹
Suite Turnovers	32.6	3.0	28.1	23.5	2.2	28.7
Lease Renewals	17.4	1.6	79.7	28.7	2.7	77.9
Weighted Average of Turnovers and Renewals	21.4	2.0		27.3	2.6	

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, 2014 resulted in average monthly rent increasing by approximately \$33 or 3.0%, compared to an increase of approximately \$24 or 2.2% for last year.

Pursuant to Management's focus on increasing overall portfolio rents for the year ended December 31, 2014, average monthly rents on lease renewals increased by approximately \$17 or 1.6%, compared to an increase of approximately \$29 or 2.7% 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 2014 (Ontario – 0.8%, British Columbia – 2.2%), compared to the permitted guideline increases in 2013 (Ontario – 2.5%, British Columbia – 3.8%), partially offset by increases due to above guideline increases ("AGI") achieved in Ontario. Increased portfolio diversification helped mitigate the lower guideline increases. Management continues to pursue applications in Ontario for AGIs where it believes increases above the annual guideline are supported by market conditions to raise average monthly rents on lease renewals (see discussion in the Future Outlook section). For 2015, the permitted guideline increase in Ontario and British Columbia has been set at 1.6% and 2.5%, respectively.

Portfolio Average Monthly Rents and Occupancy by Geography

As at December 31,	Total Portfolio				Properties Owned Prior to December 31, 2013				Properties Acquired Since December 31, 2013	
	2014		2013		2014		2013 ¹		2014	
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %
RESIDENTIAL SUITES										
Ontario										
Greater Toronto Area	\$ 1,181	98.8	\$ 1,159	98.3	\$ 1,181	98.8	\$ 1,159	98.3	\$ -	-
Ottawa	937	100.0	927	99.7	937	100.0	927	99.7	-	-
London / Kitchener / Waterloo	883	97.9	873	97.5	883	97.9	873	97.5	-	-
Other Ontario	1,095	99.1	1,079	99.1	1,095	99.1	1,079	99.1	-	-
	\$ 1,140	98.8	\$ 1,119	98.4	\$ 1,140	98.8	\$ 1,119	98.4	\$ -	-
Québec										
Greater Montréal Region	\$ 895	97.0	\$ 881	98.0	\$ 895	97.0	\$ 881	98.0	\$ -	-
Québec City	938	96.8	925	97.4	938	96.8	925	97.4	-	-
	\$ 911	96.9	\$ 898	97.8	\$ 911	96.9	\$ 898	97.8	\$ -	-
British Columbia										
Greater Vancouver Region	\$ 1,100	99.6	\$ 1,075	99.5	\$ 1,100	99.6	\$ 1,075	99.5	\$ -	-
Victoria	972	99.3	922	97.1	972	99.3	922	97.1	-	-
	\$ 1,052	99.5	\$ 1,017	98.6	\$ 1,052	99.5	\$ 1,017	98.6	\$ -	-
Alberta										
Edmonton	\$ 1,201	98.1	\$ 1,128	99.0	\$ 1,201	98.1	\$ 1,128	99.0	\$ -	-
Calgary	1,211	96.5	1,154	98.2	1,208	96.4	1,154	98.2	1,332	100.0
	\$ 1,209	96.7	\$ 1,150	98.3	\$ 1,207	96.7	\$ 1,150	98.3	\$ 1,332	100.0
Nova Scotia										
Halifax	\$ 995	90.8	\$ 1,018	94.5	\$ 995	90.8	\$ 1,018	94.5	\$ -	-
Saskatchewan										
Saskatoon	\$ 965	97.7	\$ 921	98.5	\$ 965	97.7	\$ 921	98.5	\$ -	-
Regina	1,021	95.3	1,010	100.0	1,006	95.4	1,010	100.0	1,034	95.2
	\$ 1,000	96.2	\$ 961	99.2	\$ 983	96.7	\$ 961	99.2	\$ 1,034	95.2
Prince Edward Island										
Charlottetown	\$ 930	94.9	\$ 853	83.8	\$ 1,022	98.8	\$ 853	83.8	\$ 827	90.6
Ireland										
Dublin	\$ -	-	\$ 1,449	99.4	\$ -	-	\$ -	-	\$ -	-
Total Residential Suites	\$ 1,076	97.9	\$ 1,060	98.0	\$ 1,078	98.0	\$ 1,056	98.0	\$ 940	93.0
MHC LAND LEASE SITES										
Ontario	\$ 489	99.6	\$ 480	99.5	\$ 488	99.6	\$ 480	99.5	\$ 620	100.0
British Columbia	409	99.2	401	100.0	409	99.2	401	100.0	-	-
Alberta	381	98.6	363	98.4	379	98.1	363	98.4	386	100.0
Saskatchewan	335	100.0	317	100.0	335	100.0	317	100.0	-	-
Prince Edward Island	138	95.6	133	95.2	138	95.6	133	95.2	-	-
New Brunswick	244	94.8	240	95.5	244	94.8	240	95.5	-	-
Total MHC Land Lease Sites	\$ 356	97.5	\$ 348	97.6	\$ 355	97.4	\$ 348	97.6	\$ 402	100.0
Total Suites and Sites	\$ 964	97.9	\$ 951	98.0	\$ 966	97.9	\$ 947	98.0	\$ 822	94.5

1 Prior year comparable AMR and occupancy have been restated for properties disposed of since December 31, 2013.

Overall average monthly rents for the residential suite portfolio as at December 31, 2014 increased by approximately 1.5%, as compared to December 31, 2013, while occupancies remained strong at 97.9%. 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, 2014 and 2013 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,	2014	% ¹	2013	% ¹
New Tenant Inducements Incurred ²	\$ 1,732		\$ 1,813	
Tenant Inducements Amortized	\$ 1,317	0.3	\$ 1,575	0.3
Vacancy Loss Incurred	10,711	2.1	9,837	2.1
Total Amortization and Loss	\$ 12,028	2.4	\$ 11,412	2.4
Bad Debt Expense	\$ 1,624	0.3	\$ 1,545	0.3

1 As a percentage of total operating revenues.

2 Includes tenant inducements for commercial leases.

Results of Operations

Total Operating Revenues by Geography

(\$ Thousands)		
For the Year Ended December 31,	2014	2013
RESIDENTIAL SUITES		
Ontario		
Greater Toronto Area	\$ 231,831	\$ 227,517
Ottawa	9,088	9,019
London / Kitchener / Waterloo	17,783	17,332
Other Ontario	20,549	19,200
	\$ 279,251	\$ 273,068
Québec		
Greater Montréal Region	\$ 56,673	\$ 53,771
Québec City	34,724	33,914
	\$ 91,397	\$ 87,685
British Columbia		
Greater Vancouver Region	\$ 27,979	\$ 26,941
Victoria	15,275	10,830
	\$ 43,254	\$ 37,771
Alberta		
Edmonton	\$ 5,013	\$ 4,603
Calgary	32,135	29,478
	\$ 37,148	\$ 34,081
Nova Scotia		
Halifax	\$ 20,397	\$ 20,238
Saskatchewan		
Saskatoon	\$ 1,510	\$ 1,467
Regina	1,764	1,309
	\$ 3,274	\$ 2,776
Prince Edward Island		
Charlottetown	\$ 3,654	\$ 468
Ireland		
Dublin	\$ 1,615	\$ 1,860
Total Residential Suites	\$ 479,990	\$ 457,947
MHC LAND LEASE SITES		
Ontario	\$ 15,830	\$ 15,438
British Columbia	633	620
Alberta	1,447	1,367
Saskatchewan	971	905
Prince Edward Island	822	154
New Brunswick	6,718	592
Total MHC Land Lease Sites	\$ 26,421	\$ 19,076
Total Residential Suites and MHC Land Lease Sites	\$ 506,411	\$ 477,023

Results of Operations

(\$ Thousands)				
For the Year Ended				
December 31,	2014	% ¹	2013	% ¹
Operating Revenues				
Net Rental Revenues	\$ 479,664	94.7	\$ 452,429	94.8
Other ²	26,747	5.3	24,594	5.2
Total Operating Revenues	\$ 506,411	100.0	\$ 477,023	100.0
Operating Expenses				
Realty Taxes	56,591	11.2	55,546	11.7
Utilities	51,753	10.2	48,207	10.1
Other ³	94,182	18.6	99,416	20.8
Total Operating Expenses	\$ 202,526	40.0	\$ 203,169	42.6
NOI	\$ 303,885	60.0	\$ 273,854	57.4

1 As a percentage of total operating revenues.

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

3 Comprises repairs and maintenance, wages, general and administrative, insurance, advertising, and legal costs.

OPERATING REVENUES

For the year ended December 31, 2014, total operating revenues increased by 6.2% compared to last year, due to the contributions from acquisitions, increased average monthly rents, 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 8.8% for the year ended December 31, 2014, primarily from acquisitions.

Estimated Net Rental Revenue Run-Rate

(\$ Thousands)		
As at December 31,	2014	2013
Residential Rent Roll ^{1,2}	\$ 465,958	\$ 457,944
Commercial Rent Roll ^{1,2}	20,545	18,446
Annualized Net Rental Revenue Run-Rate	\$ 486,503	\$ 476,390

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, 2014 and 2013, net of average historical vacancy loss, tenant inducements and bad debt. The estimated annualized Net Rental Revenue Run-Rate improved by 2.1% to \$486.5 million from \$476.4 million, primarily

as a result of new acquisitions over the past 12 months. Net rental revenue net of dispositions for the 12 months ended December 31, 2014 was \$478.1 million (2013 – \$447.5 million).

OPERATING EXPENSES

Overall operating expenses as a percentage of operating revenues decreased in the year ended December 31, 2014, compared to last year, partially due to lower realty taxes, repairs and maintenance (“R&M”) offset partially by higher utility costs.

Realty Taxes

For the year ended December 31, 2014, realty taxes as a percentage of operating revenues decreased slightly to 11.2% compared to 11.7% last year.

Utilities

As a percentage of operating revenues, utility costs for the year ended December 31, 2014 remained stable at 10.2% compared to 10.1% for last year, despite the harsh winter conditions experienced in the first quarter of 2014.

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

(\$ Thousands)				
Year Ended December 31,	2014	% ¹	2013	% ¹
Electricity	\$ 22,262	4.4	\$ 21,818	4.6
Natural Gas	15,227	3.0	13,569	2.8
Water	14,264	2.8	12,820	2.7
Total	\$ 51,753	10.2	\$ 48,207	10.1

1 As a percentage of total operating revenues.

For the year ended December 31, 2014, electricity costs as a percentage of total operating revenues decreased to 4.4% compared to 4.6% for last year. In dollar terms, electricity costs for the year ended December 31, 2014 increased in all regions of CAPREIT’s portfolio except for Alberta compared to last year due to increased electricity rates in 2014, partially offset by lower consumption partly due to the increase in sub-metered units in Ontario and Alberta. As at December 31, 2014, tenants who pay their hydro charges directly represent 51.6% of the total 14,690 recently sub-metered suites in Ontario and Alberta.

For the year ended December 31, 2014, natural gas costs as a percentage of total operating revenues increased to 3.0% compared to 2.8% for last year, primarily due to higher rates partially offset by lower consumption in 2014.

The table below provides information on CAPREIT’s fixed natural gas contracts for the fiscal years 2015 and 2016:

	2015	2016
Fixed Weighted		
Average Cost per GJ ¹	\$ 3.77	\$ 3.79
Total of CAPREIT’s		
Estimated Requirements	63.3%	50.7%

1 Fixed weighted average cost per gigajoule (“GJ”) excludes expected transportation costs of \$1.99 per GJ for 2015 and other administrative costs.

Other Operating Expenses

Other operating expenses, which include R&M costs, wages and benefits, insurance and advertising, decreased as a percentage of operating revenues for the year ended December 31, 2014 to 18.6% from 20.8% for last year, primarily due to R&M costs trending lower to a more normalized run-rate compared to 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 and other related ancillary income 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, 2014 and 2013.

(\$ Thousands) For the Year Ended December 31,	2014		2013		Increase (Decrease)		
	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
RESIDENTIAL SUITES							
Ontario							
Greater Toronto Area	\$ 139,528	60.2	\$ 130,251	57.2	1.9	(5.1)	7.1
Ottawa	4,783	52.6	4,819	53.4	0.8	2.5	(0.7)
London / Kitchener / Waterloo	10,819	60.8	9,544	55.1	2.6	(10.6)	13.4
Other Ontario	12,225	59.5	11,136	58.0	7.0	3.2	9.8
	\$ 167,355	59.9	\$ 155,750	57.0	2.3	(4.6)	7.5
Québec							
Greater Montréal Region	\$ 31,690	55.9	\$ 28,415	52.8	5.4	(1.5)	11.5
Québec City	19,316	55.6	19,013	56.1	2.4	3.4	1.6
	\$ 51,006	55.8	\$ 47,428	54.1	4.2	0.3	7.5
British Columbia							
Greater Vancouver Region	\$ 18,153	64.9	\$ 16,547	61.4	3.9	(5.5)	9.7
Victoria	10,093	66.1	6,978	64.4	41.0	34.5	44.6
	\$ 28,246	65.3	\$ 23,525	62.3	14.5	5.3	20.1
Alberta							
Edmonton	\$ 3,429	68.4	\$ 3,065	66.6	8.9	3.0	11.9
Calgary	19,847	61.8	17,366	58.9	9.0	1.5	14.3
	\$ 23,276	62.7	\$ 20,431	59.9	9.0	1.6	13.9
Nova Scotia							
Halifax	\$ 12,988	63.7	\$ 12,550	62.0	0.8	(3.6)	3.5
Saskatchewan							
Saskatoon	\$ 725	48.0	\$ 735	50.1	2.9	7.2	(1.4)
Regina	1,106	62.7	796	60.8	34.8	28.3	38.9
	\$ 1,831	55.9	\$ 1,531	55.2	17.9	15.9	19.6
Prince Edward Island							
Charlottetown	\$ 1,671	45.7	\$ 166	35.5	680.8	556.6	906.6
Ireland							
Dublin	\$ 1,268	78.5	\$ 1,311	70.5	(13.2)	(36.8)	(3.3)
Total Residential Suites	\$ 287,641	59.9	\$ 262,692	57.4	4.8	(1.5)	9.5
MHC LAND LEASE SITES							
Ontario	\$ 10,267	64.9	\$ 9,001	58.3	2.5	(13.6)	14.1
British Columbia	435	68.7	419	67.6	2.1	(1.5)	3.8
Alberta	910	62.9	822	60.1	5.9	(1.5)	10.7
Saskatchewan	541	55.7	500	55.2	7.3	6.2	8.2
Prince Edward Island	312	38.0	44	28.6	433.8	363.6	609.1
New Brunswick	3,779	56.3	376	63.5	1,034.8	1,260.6	905.1
Total MHC Land Lease Sites	\$ 16,244	61.5	\$ 11,162	58.5	38.5	28.6	45.5
Total Suites and Sites	\$ 303,885	60.0	\$ 273,854	57.4	6.2	(0.3)	11.0

For the year ended December 31, 2014, NOI increased by 11.0% and the NOI margin increased to 60.0% from 57.4% for last year due to higher rental revenues. 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

(\$ Thousands)

For the Year Ended December 31,	2014		2013		Increase (Decrease)		
	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
RESIDENTIAL SUITES							
Ontario							
Greater Toronto Area	\$ 134,550	60.1	\$ 125,250	57.4	2.6	(3.8)	7.4
Ottawa	4,783	52.6	4,819	53.4	0.8	2.5	(0.7)
London / Kitchener / Waterloo	10,819	60.8	9,544	55.1	2.6	(10.6)	13.4
Other Ontario	11,655	60.0	11,109	57.9	1.3	(3.7)	4.9
	\$ 161,807	59.9	\$ 150,722	57.2	2.5	(4.1)	7.4
Québec							
Greater Montréal Region	\$ 30,594	55.6	\$ 28,057	52.7	3.3	(3.0)	9.0
Québec City	19,316	55.6	19,013	56.1	2.4	3.4	1.6
	\$ 49,910	55.6	\$ 47,070	54.0	3.0	(0.6)	6.0
British Columbia							
Greater Vancouver Region	\$ 18,153	64.9	\$ 16,547	61.4	3.8	(5.5)	9.7
Victoria	6,129	66.8	5,761	65.3	4.0	(0.4)	6.4
	\$ 24,282	65.4	\$ 22,308	62.4	3.9	(4.3)	8.8
Alberta							
Edmonton	\$ 3,429	68.4	\$ 3,065	66.6	8.9	3.0	11.9
Calgary	16,191	60.8	14,636	57.7	5.0	(2.8)	10.6
	\$ 19,620	62.0	\$ 17,701	59.1	5.6	(2.1)	10.8
Nova Scotia							
Halifax	\$ 12,988	63.7	\$ 12,550	62.0	0.8	(3.6)	3.5
Saskatchewan							
Saskatoon	\$ 725	48.0	\$ 735	50.1	2.9	7.2	(1.4)
Regina	847	62.6	796	60.8	3.4	(1.2)	6.4
	\$ 1,572	54.9	\$ 1,531	55.2	3.2	3.8	2.7
Total Residential Suites	\$ 270,179	59.8	\$ 251,882	57.3	2.8	(3.1)	7.3
MHC LAND LEASE SITES							
Ontario	\$ 10,267	64.9	\$ 9,001	58.3	2.5	(13.6)	14.1
British Columbia	435	68.7	419	67.6	2.1	(1.5)	3.8
Alberta	910	62.9	822	60.1	5.9	(1.5)	10.7
Saskatchewan	541	55.7	500	55.2	7.3	6.2	8.2
Total MHC Land Lease Sites	\$ 12,153	64.4	\$ 10,742	58.6	3.0	(11.3)	13.1
Total Suites and Sites	\$ 282,332	60.0	\$ 262,624	57.4	2.8	(3.5)	7.5
Stabilized Suites and Sites	35,466		35,466				

Stabilized properties for the year ended December 31, 2014 are defined as all properties owned by CAPREIT continuously since December 31, 2012, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2014 and 2013. As at December 31, 2014, stabilized suites and sites represent 87.5% of CAPREIT's overall portfolio (excluding co-ownerships).

For the year ended December 31, 2014, operating revenues increased by 2.8% and operating costs decreased by 3.5% compared to last year. As a result, stabilized NOI increased by 7.5% for the year ended December 31, 2014.

For the year ended December 31, 2014, the NOI margin for properties acquired since December 31, 2012 was 60.0%.

Ontario:

NOI for the stabilized Ontario portfolio increased by 7.4% during the year ended December 31, 2014 compared to last year, primarily due to higher operating and parking revenues and lower R&M costs offset by higher utility costs. The NOI margin improved to 59.9% for the year ended December 31, 2014 compared to 57.2% 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 2015 is 1.6% compared to 0.8% in 2014.

Québec:

NOI for the stabilized Québec portfolio increased by 6.0% during the year ended December 31, 2014 compared to last year, primarily due to higher operating revenues and lower R&M and realty tax expenses, partially offset by higher wage costs. For the year ended December 31, 2014, the NOI margin increased to 55.6% compared to 54.0% 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 8.8% during the year ended December 31, 2014 compared to last year, primarily due to higher operating revenues, lower vacancies, lower R&M costs and lower wage expenses. For the year ended December 31, 2014, the NOI margin increased to 65.4% from 62.4% for last year. Management believes the British Columbia portfolio will continue to generate steady returns in the medium term. The rent guideline increase for 2015 is 2.5% compared to 2.2% in 2014.

Alberta:

NOI for the stabilized Alberta portfolio increased by 10.8% during the year ended December 31, 2014 compared to last year, primarily due to higher operating revenues, lower wage expenses and lower utility costs, partially offset by higher R&M costs. For the year ended December 31, 2014, the NOI margin increased to 62.0% compared to 59.1% for last year. Despite recent declines in the price of oil on international markets, Management believes its well-located properties in key Calgary and Edmonton markets should continue to perform well due to CAPREIT's proven property management programs. In addition, with Alberta representing only 7.7% of CAPREIT's total NOI in 2014, it is not overly exposed to any unanticipated significant downturn in the Alberta multi-unit residential rental business.

Nova Scotia:

NOI for the stabilized Nova Scotia portfolio increased by 3.5% for the year ended December 31, 2014 compared to last year, primarily due to higher operating and parking revenues and lower R&M costs, partially offset by higher vacancy costs. For the year ended December 31, 2014, the NOI margin increased to 63.7% from 62.0% 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 13.1% for the year ended December 31, 2014 compared to last year, primarily due to higher operating revenues, lower wage costs and lower R&M costs. For the year ended December 31, 2014, the NOI margin increased to 64.4% from 58.6% for last year. Management believes its MHC land lease portfolio will provide accretive growth in the long term.

Net Income and Other Comprehensive (Loss) Income

(\$ Thousands) Year Ended December 31,	2014	2013
Net Operating Income	\$ 303,885	\$ 273,854
(Less) Plus:		
Trust Expenses	(20,944)	(19,280)
Unrealized Gain on Remeasurement of Investment Properties	150,897	106,470
Realized Loss on Disposition of Investment Properties	-	(811)
Remeasurement of Exchangeable Units	(626)	537
Unit-based Compensation (Expenses) Recoveries	(16,478)	5,968
Interest on Mortgages Payable and Other Financing Costs	(99,931)	(95,197)
Interest on Bank Indebtedness	(5,326)	(6,071)
Interest on Exchangeable Units	(188)	(197)
Other Income	6,942	5,280
Amortization	(2,400)	(2,178)
Unrealized and Realized Loss on Derivative Financial Instruments	(2,810)	(680)
Gain (Loss) on Foreign Currency Translation	4,954	(17)
Net Income	\$ 317,975	\$ 267,678
Other Comprehensive (Loss) Income		
Items That May Be Reclassified Subsequently to Net Income		
Amortization of Losses from AOCL to Interest and Other Financing Costs	\$ 3,333	\$ 3,265
Change in Fair Value of Derivative Financial Instruments	(3,649)	3,701
Change in Fair Value of Investments	(478)	(4,392)
Realized Gain on Sale of Investments	-	(1,381)
(Loss) Gain on Foreign Currency Translation	(5,296)	124
Other Comprehensive (Loss) Income	(6,090)	1,317
Comprehensive Income	\$ 311,885	\$ 268,995

TRUST EXPENSES

Trust expenses include costs directly attributable to third party property and asset management services and 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 net of amounts allocated to property operating expenses for properties owned by CAPREIT. Trust expenses increased for the year ended December 31, 2014 to \$20.9 million from \$19.3 million for last year mainly due to one-time non-recurring corporate taxes of \$1.4 million relating to the former wholly-owned subsidiary, CAPREIT Ireland Ltd, as well as higher compensation, information technology, and consulting costs, partially offset by lower legal costs resulting from a reversal of a legal provision of approximately \$0.5 million.

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.

REMEASUREMENT OF EXCHANGEABLE UNITS

CAPREIT accounts for its Exchangeable Units as a financial liability, remeasures such liability at each reporting period, and includes this remeasurement in the consolidated statements of income and comprehensive income. During 2013, pursuant to the terms of the Exchangeable Units, 100,000 Exchangeable Units were exchanged for 100,000 Trust Units. The increase in the market price of the underlying CAPREIT Trust Units since the last reporting date resulted in a loss on remeasurement of \$0.6 million for the year ended December 31, 2014 compared to a gain of \$0.5 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, 2014 contained in CAPREIT's 2014 Annual Report.

UNIT-BASED COMPENSATION EXPENSES (RECOVERIES)

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, 2014 contained in CAPREIT's 2014 Annual Report).

As a result of CAPREIT being an open-ended mutual fund trust, whereby each Unitholder of 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.

As at December 31, 2014, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 9,500,000 Units (December 31, 2013 – 7,000,000). The maximum number of Units available for future issuance under all Unit incentive plans as at December 31, 2014 is 2,380,445 Units (December 31, 2013 – 362,583 Units).

A description of the key components of the market-based rates and assumptions used to determine the fair values of the awards is included in notes 11 and 12 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2014 contained in CAPREIT's 2014 Annual Report.

CAPREIT's Unit-based compensation expense for the year ended December 31, 2014 resulted in a loss of \$16.5 million compared to a gain of \$6.0 million for last year due to the increase in the market price of the underlying CAPREIT Trust Units compared to the same period last year and higher grant date amortization expense due to issuance of UOP awards granted to the President and CEO and higher DUP and RUR awards.

The table below demonstrates the impact of each component of CAPREIT's benefit plans on the total compensation expense.

(\$ Thousands)		
Year Ended December 31,	2014	2013
Remeasurement of Unit-based Compensation Liabilities	\$ 12,131	\$ (8,493)
Amortization of Fair Value on Grant Date of Unit-based Compensation	4,347	2,525
Total	\$ 16,478	\$ (5,968)

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, 2014 to \$99.9 million from \$95.2 million for last year due to increased mortgage top-ups. However, as a percentage of operating revenues, mortgage interest expense decreased to 19.7% for the year ended December 31, 2014 compared to 20.0% 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 20 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 section).

OTHER INCOME

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

(\$ Thousands)		
For the Year Ended December 31,	2014	2013
Recurring		
Investment Income ¹	\$ 3,305	\$ 1,289
Asset and Property Management Fees	1,177	–
Non Recurring²		
Total	\$ 6,942	\$ 5,280

1 Comprised of the income from equity pick-up of IRES including the unrealized gain on remeasurement of investment properties for the period April 16, 2014 to December 31, 2014.

2 Includes gain on sale of investments, termination fee income relating to U.S. property and asset management agreements, reversal of legal provision, and other interest 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 owned and operated 16 manufactured home communities in Colorado, Texas, Arizona, and Michigan. The external management agreements relating to the asset management and property management services concluded effective January 31, 2014. Included in non-recurring other income is \$1.3 million for the year ended December 31, 2014, compared to \$2.2 million for the same period last year, from asset and property management fees and a one-time termination fee income recorded in 2014. Expenses related to the asset management and property management services are included in trust expenses for the year ended December 31, 2014.

Effective April 11, 2014, CAPREIT entered into an external management agreement to perform certain asset management duties and property services for IRES (formerly CAPREIT's Irish subsidiary), which owns properties in Dublin, Ireland. Included in other income is \$1.2 million for the year ended December 31, 2014 from asset management and property management fees. Expenses related to asset management and property management services are included in trust expenses for the year ended December 31, 2014.

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) *Interest rate contracts for which hedge accounting is being applied:*
As at December 31, 2014, CAPREIT has two interest rate swap agreements which include:
- a. The \$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, 2014).

- b. The €45 million credit facility agreement and interest rate swap agreement fixing the interest rate at 3.22%, which matures in August 2018, was partially paid down by €5.0 million on April 21, 2014, and therefore the entire hedge was deemed ineffective and the marked-to-market loss of approximately \$2.0 million on the date of repayment was recognized in net income.
- ii) *Interest rate contracts for which hedge accounting is not being applied:* The new €40 million interest rate swap agreement effective April 21, 2014 fixes the interest rate at 2.92% and matures in August 2018. This agreement effectively converts the Euro LIBOR borrowings to a fixed rate for the remaining four years of the original five-year term. At each reporting date, the hedging derivative will be marked-to-market in net income (\$1.0 million loss for the year ended December 31, 2014).
- 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 gain of \$0.2 million has been recognized in net income for the year ended December 31, 2014.

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
	2014	2013	Number of Units
Trust Units	109,122	101,748	110,088
Exchangeable Units ^{1,5}	161	177	161
Units under the DUP ²	173	139	207
Basic Weighted Average Number of Units	109,456	102,064	110,456
Plus:			
Dilutive Units under the LTIP ^{2,3}	689	671	1,408
Dilutive Units under the SELTIP ^{2,3}	315	295	818
Units Rights under the RUR Plan ²	474	339	506
Dilutive Unexercised Options under the UOP ^{2,4}	93	88	— ⁶
Diluted Weighted Average Number of Units	111,027	103,457	113,188

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

2 See notes 11 and 12 to the accompanying audited consolidated annual financial statements for the year ended December 31, 2014 contained in CAPREIT's 2014 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 In 2013, pursuant to the terms of the Exchangeable Units, 100,000 Exchangeable Units were exchanged for 100,000 Trust Units.

6 There are 1,134,182 unexercised options outstanding under the UOP.

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

(\$ Thousands)

Year Ended December 31,	2014	2013
Distributions Declared on Trust Units	\$ 127,496	\$ 116,056
Distributions Declared on Exchangeable Units	188	197
Distributions Declared on Awards Outstanding under Unit-based Compensation Plans ¹	3,360	3,003
Total Distributions Declared	131,044	119,256
Less:		
Distributions on Trust Units Reinvested	(40,633)	(27,988)
Distributions on Unit Awards Reinvested ¹	(3,360)	(3,003)
Net Distributions Paid	\$ 87,051	\$ 88,265
Percentage of Distributions Reinvested	33.6%	26.0%

1 Comprises: (i) non-cash distributions related to the DUP and the RUR Plan, and (ii) retained distributions on LTIP and SELTIP Units (see notes 11 and 12 to the accompanying audited consolidated annual financial statements for the year ended December 31, 2014 contained in CAPREIT's 2014 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, 2014 to 33.6%, from 26.0% 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,	2014	2013
Net Income	\$ 317,975	\$ 267,678
Adjustments:		
Unrealized Gain on Remeasurement of Investment Properties	(150,897)	(106,470)
Realized Loss on Disposition of Investment Properties	–	811
Remeasurement of Exchangeable Units	626	(537)
Remeasurement of Unit-based Compensation Liabilities	12,131	(8,493)
Interest on Exchangeable Units	188	197
Corporate Income Taxes	1,405	–
(Gain) Loss on Foreign Currency Translation	(4,954)	17
FFO Adjustment for Income from Equity Accounted Investments ¹	(1,710)	–
Unrealized and Realized Loss on Derivative Financial Instruments	2,810	680
Amortization of Property, Plant and Equipment	2,400	2,178
FFO	\$ 179,974	\$ 156,061
FFO per Unit – Basic	\$ 1.644	\$ 1.529
FFO per Unit – Diluted	\$ 1.621	\$ 1.508
Total Distributions Declared	\$ 131,044	\$ 119,256
FFO Payout Ratio	72.8%	76.4%
Net Distributions Paid	\$ 87,051	\$ 88,265
Excess FFO over Net Distributions Paid	\$ 92,923	\$ 67,796
FFO Effective Payout Ratio	48.4%	56.6%

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

NORMALIZED FUNDS FROM OPERATIONS

Management considers NFFO to be the key measure of CAPREIT's operating performance 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 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,	2014	2013
FFO	\$ 179,974	\$ 156,061
Adjustments:		
Amortization of losses from AOCL to interest and other financing costs	3,333	3,265
Net Mortgage Prepayment Cost ¹	763	1,786
Realized Gain on Sale of Investments ²	(717)	(1,737)
NFFO	\$ 183,353	\$ 159,375
NFFO per Unit – Basic	\$ 1.675	\$ 1.562
NFFO per Unit – Diluted	\$ 1.651	\$ 1.540
Total Distributions Declared	\$ 131,044	\$ 119,256
NFFO Payout Ratio	71.5%	74.8%
Net Distributions Paid	\$ 87,051	\$ 88,265
Excess NFFO over Net Distributions Paid	\$ 96,302	\$ 71,110
Effective NFFO Payout Ratio	47.5%	55.4%

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 (Loss) Income section.

NFFO for the year ended December 31, 2014 increased by 15.0% compared to last year, primarily due to the contributions from acquisitions and higher net operating income for properties owned prior to December 31, 2013.

For the year ended December 31, 2014, basic NFFO per Unit increased by 7.2% compared to last year due to strong organic NOI growth and one-time items despite an approximate 7% 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 ratio for the year ended December 31, 2014 improved to 71.5% compared to 74.8% for last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the year ended December 31, 2014 to 47.5% from 55.4% for last year, primarily due to a higher percentage of distributions reinvested

and 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 maintenance, 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,	2014	2013
NFFO	\$ 183,353	\$ 159,375
Adjustments:		
Provision for Maintenance Property Capital Investments ¹	(15,466)	(15,097)
Amortization of Fair Value on Grant Date of Unit-based Compensation	4,347	2,525
AFFO	\$ 172,234	\$ 146,803
AFFO per Unit – Basic	\$ 1.574	\$ 1.438
AFFO per Unit – Diluted	\$ 1.551	\$ 1.419
Distributions Declared	\$ 131,044	\$ 119,256
AFFO Payout Ratio	76.1%	81.2%
Net Distributions Paid	\$ 87,051	\$ 88,265
Excess AFFO over Net Distributions Paid	\$ 85,183	\$ 58,538
Effective AFFO Payout Ratio	50.5%	60.1%

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).

CASH GENERATED FROM OPERATING ACTIVITIES TO AFFO RECONCILIATION

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), “Non-GAAP Financial Measures”, the table below reconciles cash generated from operating activities to AFFO.

A reconciliation of cash generated from operating activities to AFFO is as follows:

(\$ Thousands, except per Unit amounts)		
Year Ended December 31,	2014	2013
Cash Generated from Operating Activities	\$ 283,982	\$ 260,280
Adjustments:		
Net Income Items Related to Financing and Investing Activities	(94,338)	(93,607)
Changes in Non-Cash Operating Assets and Liabilities	19	(7,962)
Amortization of Other Financing Costs	(2,751)	995
Straight-line Rent Adjustment	142	211
Interest on Exchangeable Units	188	197
Corporate Income Taxes	1,405	–
Net Mortgage Prepayment Costs	763	1,786
FFO Adjustment for Income from Equity Accounted Investments ¹	(1,710)	–
Provision for Maintenance Property Capital Investments	(15,466)	(15,097)
AFFO	\$ 172,234	\$ 146,803

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

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 at that time, in 2009 CAPREIT formulated and embarked on a multi-year capital investment plan that accelerates spending on planned building improvement programs, including upgrading parking garages, balconies and other structural improvements. These investments are closely connected to CAPREIT's property acquisitions, many of which were anticipated at the time of such acquisitions and were included in the acquisition analysis, to ensure such transactions are accretive. Management believes these investments will increase the productive capacity, the useful economic life and the operating capabilities of CAPREIT's properties and enhance their future cash flow generating potential. Management also believes these building improvement programs, combined with existing suite improvement, common area and environment-friendly and energy-saving initiatives, will enable CAPREIT to reposition its portfolio and maintain 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, 2014, CAPREIT made property capital investments (excluding disposed properties) of \$145.2 million, compared to \$157.8 million for last year. Property capital investments were lower compared to the prior year primarily due to reduced building improvement costs partially offset by higher investments in suite improvements and common areas, 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 potential increases in utility and R&M costs and have improved overall portfolio NOI significantly, as discussed in the Results of Operations section.

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

Property Capital Investments by Category

(\$ Thousands)					
Year Ended December 31,	2014	%	2013	%	
Building Improvements	\$ 59,518	41.0	\$ 80,728	51.2	
Suite Improvements	33,613	23.1	31,659	20.1	
Common Area	21,272	14.7	16,166	10.2	
Energy-saving Initiatives	1,291	0.9	2,604	1.7	
Equipment	11,625	8.0	10,139	6.4	
Boilers and Elevators	15,408	10.6	14,549	9.2	
Appliances	2,449	1.7	1,961	1.2	
Total	\$ 145,176	100.0	\$ 157,806	100.0	

The significant portfolio growth generated since 2011 has led CAPREIT to adjust its multi-year capital investment programs. Based on a revised multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments of approximately \$145 million to \$155 million during 2015, including approximately \$44 million targeted at acquisitions completed since January 1, 2011 and approximately \$15 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 2015 through 2018 for properties owned as of December 31, 2014. Building improvements represent the most significant category of property capital investment at present, but are expected to decline significantly in the coming years.

Future Investments in Building Improvements

(\$ Thousands)	Properties Held As At	Acquisitions
	December 31, 2014 Excluding Acquisitions Since 2012	
	Estimated Range	Estimate
2015	\$ 38,000 – \$ 42,000	\$ 12,000
2016	\$ 15,000 – \$ 19,000	\$ 6,000
2017	\$ 10,000 – \$ 14,000	\$ 3,000
2018	\$ 13,000 – \$ 17,000	\$ 3,000

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 in the business. To date, \$6.6 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 stable 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 \$800 to \$850 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 divide 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,	2014	2013
Total Property Capital Investments ¹	\$ 145,176	\$ 157,806
Less: Estimated Maintenance		
Property Capital Investments ²	(15,466)	(15,097)
Stabilizing and Value-enhancing		
Property Capital Investments	\$ 129,710	\$ 142,709

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 2010 through 2014, 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 2010 and held as at December 31, 2014 (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	5,834	50.4%	5.8%
2nd	33	6,750	28.4%	5.1%
3rd	32	6,155	14.2%	5.2%
4th	33	6,910	7.0%	3.9%
	130	25,649	100.0%	5.0%

1 As a percentage of total property capital investments over the five-year period to December 31, 2014.

The analysis indicates a 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 and any risks, among other considerations. Capital adequacy is monitored against investment and debt restrictions contained in CAPREIT's DOT and the Credit Facilities agreement.

CAPREIT's Credit Facilities (see Liquidity and Financial Condition section) require compliance with the financial covenants shown in

the table below. In addition, borrowings must not exceed the borrowing base, calculated as a predefined percentage of the fair value of the investment properties determined on an annual basis.

In addition, CAPREIT requires compliance with all investment and debt restrictions and financial covenants under the agreement with CMHC. Refer to the Liquidity and Financial Condition section of this report for further details.

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

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

(\$ Thousands)		December 31, 2014	December 31, 2013
As at			
Mortgages Payable		\$ 2,658,454	\$ 2,457,182
Bank Indebtedness		113,167	187,030
Unit-based Compensation Liabilities		48,686	32,764
Exchangeable Units		4,054	3,428
Unitholders' Equity		2,983,105	2,757,469
Total Capital		\$ 5,807,466	\$ 5,437,873
Threshold			
Total Debt to Gross Book Value ¹	Maximum 70.00%	46.49%	47.32%
Total Debt to Gross Historical Cost ³		56.73%	56.74%
Tangible Net Worth ⁴	Minimum \$1,200,000	\$ 3,035,845	\$ 2,793,661
For the four quarters ended			
Debt Service Coverage Ratio (times) ^{2,5}	Minimum 1.20	1.61	1.54
Interest Coverage Ratio (times) ^{2,6}	Minimum 1.50	2.82	2.62

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 the 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 to be sufficient to fund its ongoing property capital investments. For the year ended December 31, 2014, CAPREIT's NFFO payout ratio improved to 71.5% compared to 74.8% for last year, and the effective NFFO payout ratio improved to 47.5% compared to 55.4% for last year, which demonstrated a greater retained portion of annual NFFO. CAPREIT anticipates a long-term annual NFFO payout ratio in the 70% to 80% range.
- ii) Management believes CAPREIT is well-positioned to meet its mortgage renewals and refinancing goals for 2015 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages maturing during 2015 of approximately \$209.8 million, which have an effective interest rate of approximately 3.78%, and refinancing approximately \$78.7 million of principal repayments through 2015 with new mortgages.
- iii) Investment properties with a fair value of \$5.5 billion have been pledged as security as at December 31, 2014. In addition, CAPREIT has investment properties with a fair value of approximately \$217 million as at December 31, 2014 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. Unencumbered investment properties with a fair value of approximately \$52 million are expected to be financed, reducing the total unencumbered investment properties to approximately \$165 million.
- iv) On August 29, 2014, CAPREIT renewed and amended the existing \$280 million acquisition and operating facility and €40 million five-year non-revolving Euro-denominated term credit facility by combining the two facilities into a \$340 million revolving credit facility ("Acquisition and Operating Facility"). The aggregate amount of Euro LIBOR borrowings at any time shall not exceed €40.0 million while the Canadian Dollar Equivalent of the aggregate principal amount of all advances (including the Euro LIBOR borrowings) under the Revolving Facility shall not exceed \$340 million. Effective November 21, 2014, the aggregate amount of Euro LIBOR borrowings was amended to €49.0 million that shall not be exceeded. Subsequent to year end, effective January 16, 2015, the aggregate amount of Euro LIBOR borrowings was amended to (a) €210.0 million until the earlier of (i) October 31, 2015 and (ii) fifteen days after the issuance of any equity or debt by IRES; and (b) €60.0 million thereafter.
- 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) As at December 31, 2014, the Euro LIBOR borrowings of €48.9 million bear interest at the Euro LIBOR rate plus a margin of 1.70% per annum. The margin is renegotiated annually. There is an interest rate swap agreement on the Euro LIBOR borrowings of €40.0 million, fixing the Euro LIBOR rate to 1.22%, maturing in August 2018. The swap agreement fixes the all-in rate of the loan at 2.92% (assuming a constant margin of 1.70%) for the remaining four years of the original five-year term.
- vii) On July 4, 2014, 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, 2014 to July 7, 2015. 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 10,659,524 Units, representing 10% of the public float. As at December 31, 2014, no Units have been purchased under the current approved normal course issuer bid.

viii) 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, 2014, no Units have been purchased under the current approved normal course issuer bid.

ix) 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.

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 requirements under its DOT and existing credit and mortgage facilities;
- iii) The posting of a revolving letter of credit with respect to certain capital expenditures on a portfolio basis, rather than an individual property basis; and
- iv) Cross-collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

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

The working capital deficiency, as presented on CAPREIT's consolidated balance sheets as at December 31, 2014, 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, 2014 and December 31, 2013:

(\$ Thousands)	
As at December 31, 2014	Acquisition and Operating Facility
Facility	\$ 340,000
Less:	
Euro LIBOR Borrowings ¹	(68,646)
Bank Indebtedness	(113,167)
Letters of Credit	(6,144)
Available Borrowing Capacity	\$ 152,043
Weighted Average Floating Interest Rate	3.09%

(\$ Thousands)	
As at December 31, 2013	Acquisition and Operating Facility
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%

¹ Included in mortgages payable.

CAPREIT's key liquidity metrics are summarized as follows:

As at December 31,	2014	2013
Mortgage Debt to Gross Book Value	44.60%	43.97%
Total Debt to Gross Book Value	46.49%	47.32%
Total Debt to Gross Historical Cost ¹	56.73%	56.74%
Total Debt to Total Capitalization	49.35%	52.83%
Debt Service Coverage Ratio (times) ²	1.61	1.54
Interest Coverage Ratio (times) ²	2.82	2.62
Weighted Average Mortgage Interest Rate ³	3.66%	3.76%
Weighted Average Mortgage Term to Maturity (years)	6.3	6.0

¹ Based on the historical cost of investment properties.

² Based on the trailing four quarters ended December 31, 2014.

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, 2014 would be 3.81% (December 31, 2013 – 3.94%).

As at December 31, 2014, the overall leverage represented by the ratio of total debt to gross book value improved to 46.49% compared to 47.32% for last year. As at December 31, 2014, CAPREIT's total debt improved to 49.35% of total market capitalization compared to 52.83% for last year.

The effective portfolio weighted average interest rate has declined from 3.76% as at December 31, 2013 to 3.66% as at December 31, 2014, 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,	2014	2013
Percentage of CMHC-Insured Mortgages ¹	95.70%	93.90%
Percentage of Fixed-Rate Mortgages	100.00%	98.85%

1 Excludes the mortgages on the MHC land lease sites and the Irish portfolio.

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

(\$ Thousands)		
As at December 31,	2014	2013
Balance, Beginning of the Year	\$ 2,457,182	\$ 2,189,556
Add:		
New Borrowings	12,650	161,019
Assumed	26,122	37,971
Refinanced	576,457	514,990
Foreign Currency Translation	(1,121)	3,308
Less:		
Mortgage Repayments	(76,821)	(69,169)
Mortgages Matured	(324,915)	(340,831)
Mortgages Repaid on Dispositions of Investment Properties	(7,599)	(34,772)
Change in Deferred Financing Costs, Fair Value Adjustments, Net	(3,501)	(4,890)
Balance, End of the Year	\$ 2,658,454	\$ 2,457,182

The following table presents the refinancings for the year ended December 31, 2014, and the weighted average interest rates obtained.

(\$ Thousands)	Original Mortgage Amount	Original Stated Interest Rate ¹	New Mortgage Amount	New Stated Interest Rate ^{1,2}	Weighted Average Term on New Mortgages (Yrs)	Top-Up Amount
First Quarter	\$ 98,542	3.85%	\$ 139,951	3.69%	11.5	\$ 41,409
Second Quarter	149,695	4.01%	273,839	3.22%	9.2	124,144
Third Quarter	70,190	3.42%	150,057	2.75%	5.5	79,867
Fourth Quarter	6,488	3.96%	12,610	2.94%	10.3	6,122
Total and Weighted Average	\$ 324,915	3.83%	\$ 576,457	3.20%	8.8	\$ 251,542

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 \$280 million and \$330 million in total mortgage renewals and refinancings for 2015.

(\$ Thousands)

As at December 31, 2014

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}
2015	\$ 209,838	\$ 41,347	\$ 251,185	\$ 38,084
2016	81,181	55,392	136,573	19,551
2017	239,808	24,095	263,903	25,537
2018	97,416	15,240	112,656	15,048
2019	240,250	(43,310)	196,940	27,494
2020 Onward	1,194,508	(92,764)	1,101,744	167,660
Total	\$ 2,063,002	\$ -	\$ 2,063,002	\$ 293,374

1 Mortgage balance due upon maturity.

2 NOI for the twelve months ended December 31, 2014.

3 Projected NOI included for acquisitions since December 31, 2013.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2014 is as follows:

(\$ Thousands)

Year	Principal Repayments	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) ^{1,2}
2015	\$ 78,662	\$ 209,838	\$ 288,500	10.8	3.78
2016	74,385	81,181	155,566	5.8	3.93
2017 ^{3,4}	72,301	239,808	312,109	11.7	3.86
2018	72,706	97,416	170,122	6.4	3.48
2019	68,750	240,250	309,000	11.6	3.53
2020	64,286	54,648	118,934	4.5	4.66
2021	58,462	255,335	313,797	11.8	4.12
2022	48,526	318,225	366,751	13.8	3.11
2023	30,105	249,786	279,891	10.5	3.23
2024	14,729	246,302	261,031	9.8	3.84
2025 – 2029	14,178	70,213	84,391	3.3	4.06
Total	\$ 597,090	\$ 2,063,002	\$ 2,660,092	100.0	3.66²
Deferred Financing Costs, Fair Value Adjustments, Net			(1,638)		
Total			\$ 2,658,454		

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, 2014 would be 3.81% (December 31, 2013 – 3.94%).

3 Included in mortgages payable is a €48.9 million non-amortizing Euro LIBOR borrowing.

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

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

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

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

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

Equity offerings and over-allotments as at December 31, 2014:

(\$ Thousands, except per Unit amounts)

Period	Price Per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
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

Year Ended December 31,	2014
Market Capitalization (\$ thousands)	\$ 2,844,408
Number of Units Outstanding	113,187,753
LTIP and SELTIP Units	2,225,597
Deferred Units	206,726
RUR Plan Units	506,041
Exchangeable Units	161,311
Number of Unit Options Outstanding and Exercisable	1,134,182
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 governing NCIBs, CAPREIT will receive approval to purchase and cancel a specified number of Trust Units, representing 10% of the public float of its Trust Units at the time of the TSX approval. The NCIB will terminate on the earlier of the termination date or at such time as the purchases under the bid are completed. CAPREIT believes the purchase of its outstanding Trust Units from time to time may be an appropriate use of its resources.

The table below summarizes the NCIB programs in place since January 1, 2013. 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
July 8, 2014 to July 7, 2015	10,659,524

Unitholder Taxation

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

Year Ended December 31,	2014	2013
Taxable to Unitholders as Other Income	23.42%	6.82%
Taxable to Unitholders as		
Eligible Dividend Income	1.00%	1.06%
Taxable to Unitholders as Capital Gain Income	2.58%	6.25%
Income Tax Deferral	73.00%	85.87%
Total	100.00%	100.00%
Total Effective Non-taxable Portion of Distributions	74.29%	88.99%

The portion of CAPREIT's distributions to Canadian resident Unitholders treated as taxable for the year ended December 31, 2014 increased over the prior year primarily due to higher earnings from operations in the current year, partially offset by higher capital cost allowance and lower capital gains and recapture compared to the prior year.

SECTION V

Selected Consolidated Quarterly Information

	Q4 14	Q3 14	Q2 14	Q1 14	Q4 13	Q3 13	Q2 13	Q1 13
Overall Portfolio AMR	\$ 964	\$ 969	\$ 958	\$ 954	\$ 951	\$ 1,003	\$ 989	\$ 978
Operating								
Revenues (000s) ¹	\$ 128,111	\$ 126,356	\$ 125,411	\$ 126,533	\$ 124,018	\$ 119,995	\$ 117,686	\$ 115,324
NOI (000s) ¹	\$ 76,806	\$ 77,615	\$ 78,089	\$ 71,375	\$ 66,033	\$ 72,855	\$ 71,475	\$ 63,491
NOI Margin ¹	60.0%	61.4%	62.3%	56.4%	53.2%	60.7%	60.7%	55.1%
Net Income (000s)	\$ 82,759	\$ 117,601	\$ 72,282	\$ 45,333	\$ 88,389	\$ 53,669	\$ 58,174	\$ 67,446
FFO (000s)	\$ 45,774	\$ 45,756	\$ 46,325	\$ 42,036	\$ 35,329	\$ 42,852	\$ 41,467	\$ 35,716
NFFO (000s)	\$ 46,620	\$ 46,707	\$ 47,113	\$ 42,913	\$ 36,344	\$ 44,263	\$ 42,582	\$ 36,186
Total Debt to								
Gross Book Value	46.49%	46.80%	47.22%	47.63%	47.32%	49.42%	48.42%	47.62%
FFO Per Unit – Basic	\$ 0.415	\$ 0.417	\$ 0.424	\$ 0.387	\$ 0.329	\$ 0.426	\$ 0.414	\$ 0.357
NFFO Per Unit – Basic	\$ 0.423	\$ 0.426	\$ 0.431	\$ 0.395	\$ 0.338	\$ 0.440	\$ 0.425	\$ 0.362
Weighted Average								
Number of Units (000s)								
– Basic	110,193	109,684	109,211	108,714	107,443	100,576	100,230	99,942
– Diluted	111,962	111,333	110,726	110,063	108,704	101,832	101,718	101,512

¹ Includes the results of investment properties owned as at the 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 2014 increased by 3.3% over the same quarter in 2013, while NOI increased by a significant 16.3%, driven by higher operating revenues and lower R&M costs, realty taxes and utility costs as a percentage of total operating revenues compared to the same period last year. Net income in the fourth quarter of 2014 decreased over the same period last year to \$82.8 million, mainly due to a lower unrealized gain on remeasurement of investment properties of \$42.0 million compared to \$56.4 million for the same period last year, and higher Unit-based compensation expenses of \$2.2 million and interest on mortgage payable and other financing costs of \$1.0 million, offset by higher NOI of \$10.8 million. Higher NFFO was primarily due to strong organic growth on stabilized properties and 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,	2014	2013	2012
Income Statement			
Operating Revenues	\$ 506,411	\$ 477,023	\$ 412,421
Net Income	\$ 317,975	\$ 267,678	\$ 412,263
Distributions			
Distributions Declared	\$ 127,496	\$ 116,056	\$ 97,903
Distributions per Unit	\$ 1.168	\$ 1.138	\$ 1.097
Balance Sheet			
Investment Properties	\$ 5,749,640	\$ 5,459,218	\$ 4,826,355
Total Assets	\$ 5,926,161	\$ 5,558,934	\$ 4,921,546
Mortgages Payable	\$ 2,658,454	\$ 2,457,182	\$ 2,189,556
Bank Indebtedness	\$ 113,167	\$ 187,030	\$ 147,316

SECTION VI

Accounting Policies and Critical Estimates, Assumptions, and Judgements

NEW ACCOUNTING POLICIES AND ACCOUNTING STANDARDS

The following new or amended IFRS have been applied in 2014:

IFRIC 21, Levies ("IFRIC 21")

CAPREIT has applied IFRIC 21 as at January 1, 2014.

As at February 17, 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, 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.

The final amendment of IFRS 9 as at July 2014 included: (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward looking "expected loss" impairment model, and (iii) a mandatory effective date for IFRS 9 of annual periods beginning on or after January 1, 2018.

IFRS 7, Financial Instruments – Disclosure

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

IFRS 10 and IAS 28, Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

The amendment clarifies an inconsistency between the two standards, and establishes that a gain or loss is fully recognized when the transaction involves a business, and a partial gain or loss is recognized when the transaction involves assets that do not constitute a business. This amendment will come into effect on January 1, 2016.

IFRS 11, Accounting for Acquisitions of Interests in Joint Operations

This amendment provides specific guidance for the acquisition of an interest in a joint operation that is a business. This amendment will come into effect on January 1, 2016.

IFRS 15, Revenue from Contracts with Customers

This new standard on revenue recognition supersedes IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The new standard provides a single, comprehensive revenue recognition model. While early adoption is permitted for IFRS reporters, this standard is effective beginning January 1, 2017.

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.

CRITICAL ESTIMATES, ASSUMPTIONS, AND JUDGEMENTS

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

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

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

Valuation of Investment Properties

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

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

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

Valuation of Unit-based Compensation Liabilities

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

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

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

Interest Classification in the Consolidated Statements of Cash Flows

IFRS permits the classification of interest paid as operating cash flows because they enter into the determination of profit or loss, or alternatively as financing cash flows because they are costs of obtaining financial resources. CAPREIT has applied its judgement and concluded that debt financing, which is used to provide leveraged

returns to its Unitholders, is an integral part of its capital structure and not directly associated with its principal revenue-producing activities. Therefore interest paid is classified as a financing activity in CAPREIT's consolidated statements of cash flows.

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, 2014, 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 2013, CAPREIT's President and Chief Executive Officer and its Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as at December 31, 2014.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. Management assessed the effectiveness of the internal controls over financial reporting as at December 31, 2014 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 in 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 the 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 2014 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, at their discretion, determine that the maximum amount of indebtedness shall be based on the appraised value of the real properties of CAPREIT. As CAPREIT reports gross book value at fair market value under IFRS, these amounts are not expected to be materially different.

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 55.3% of the overall portfolio (by number of suites and sites)

in Ontario (38% in the GTA), making CAPREIT's performance particularly sensitive to economic conditions in and changes affecting Ontario and, in particular, the GTA.

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

Energy Costs 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 pay fixed prices on all or certain of its energy requirements (principally natural gas and electricity in certain markets) to offset the risk of rising expenditures 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.

CAPREIT enters 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 more restrictive, in recent years. Under various laws, CAPREIT could be liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially

also result in regulatory enforcement proceedings and/or private claims against the owner. 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 and 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 that 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 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 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 \$340 million matures on June 30, 2017. CAPREIT's Acquisition and Operating Facility is at a floating interest rate and, accordingly, changes in short-term borrowing rates will affect CAPREIT's costs of borrowing. CAPREIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing or cost-effective financing. As at the date hereof, it is difficult to forecast the future state of the commercial loan market. If, because

of CAPREIT's level of indebtedness, the level of cash flows, lenders' perceptions of CAPREIT's creditworthiness or other reasons, Management is unable to renew, replace or extend the Credit Facilities on acceptable terms, or to arrange for alternative financing, CAPREIT may be required to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding can be arranged, if such financing is available on acceptable terms, or at all. Such measures could include deferring property capital investments, dispositions of one or more properties on unfavourable terms, reducing or eliminating future cash distributions or other discretionary uses of cash, or other more severe actions. Also, disruptions in the credit markets and uncertainty in the economy could adversely affect the banks that currently provide the Credit Facilities, could cause the banks or a bank to elect not to participate in any new Credit Facilities sought, or could cause other banks that are not currently participants in the Credit Facilities to be unwilling or unable to participate in any such new facility.

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

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 it is therefore generally not subject to tax on such amount. In order to maintain its current mutual fund trust status, CAPREIT is required to comply with specific restrictions regarding its activities and the investments held by it. If CAPREIT were to cease to qualify as a mutual fund trust, the consequences could be adverse.

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

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) will be taxed 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 2013 and 2014, 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. These notable 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) of the definition "qualified investment" in section 204, or a deposit with a credit union; and
- v) investments in the trust are, at any time in the taxation year, listed or traded on a stock exchange or other public market.
- For this purpose, "real or immovable property" includes a security of any trust, corporation or partnership that itself satisfies the above criteria in (i)–(iv) above, but does not include any depreciable property of a prescribed class for which the rate of capital cost allowance exceeds 5%.

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

CAPREIT 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, requires the landlord to give tenants sufficient notice prior to an increase in rent or restricts the frequency of rent increases permitted during the year. The annual rent increase guidelines as per applicable legislation attempt to link the annual rent increases to some measure of changes in the cost of living index over the previous year. The legislation also, in most cases, provides for a mechanism to ensure rents can be increased above the guideline increases for extraordinary costs. As a result of rent controls, CAPREIT may incur property capital investments in the future that will not be fully recoverable from rents charged to the tenants.

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

Liquidity and Price Fluctuation of Units

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

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. The prices at which Units will trade cannot be predicted. The market price of the Units could be subject to significant fluctuations in response to variations in quarterly

operating results, distributions and other factors beyond the control of CAPREIT. One of the factors that may influence the market price of the Units is the annual yield on the Units. Accordingly, an increase in market interest rates may lead purchasers of Units to demand a higher annual yield, which could adversely affect the market price of the Units. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Units. Accordingly, the Units may trade at a premium or a discount to the value of CAPREIT's underlying assets.

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

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

Dilution

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

Distributions

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

Distribution Reinvestment Plan ("DRIP") Participation

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

Potential Conflicts of Interest

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

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

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

Dependence on Key Personnel

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

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

RELATED TO THE REAL ESTATE INDUSTRY**General Economic Conditions and Competition for Residents**

All real property investments are subject to elements of risk. The real value of real property and any improvements thereto depends on the credit and financial stability of residents and upon the vacancy rates of such properties. The properties generate revenue through rental payments made by residents. CAPREIT is affected by changes in general economic conditions (such as the availability and cost of mortgage funds), local real estate markets (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available rental premises, including new developments, and various other factors. If a significant number of residents are unable to meet their obligations under their leases or

if a significant amount of available space in the properties becomes vacant and cannot be leased on economically favourable lease terms, cash available for distribution may be adversely affected.

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

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

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 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.

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 or financing on reasonable terms, consummating acquisitions (including obtaining necessary consents) and effectively integrating and operating the acquired properties. Acquired properties may not meet financial or operational expectations due to unexpected costs associated with acquiring the property, as well as the general investment risks inherent in any real estate investment or acquisition, including future refinancing risks. Moreover, newly acquired properties may require significant Management attention or property capital investments that would otherwise be allocated to other properties. If CAPREIT is unable to manage its growth and integrate its acquisitions effectively, its business, operating results and financial condition could be adversely affected.

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

FOREIGN OPERATION AND CURRENCY RISKS

Effective April 11, 2014, CAPREIT entered into an external management agreement to perform certain asset management and property services for IRES (formerly CAPREIT's Irish subsidiary), which owns properties in Dublin, Ireland. The Irish real estate market differs from the Canadian environment and CAPREIT's experience and expertise in managing Canadian properties may not apply perfectly to a foreign operation. In an effort to reduce its risk exposure CAPREIT aligns with experienced Irish operating companies and hires locally-based employees with real estate experience. There can be no certainty, however, that CAPREIT's operation will be successful. Additionally, it is possible that CAPREIT's subsidiaries will expose CAPREIT to foreign currency risk as CAPREIT's functional and presentation currency is the Canadian dollar, while the functional currency of CAPREIT's fund management subsidiary in Dublin, Ireland and the investment in IRES is the Euro. CAPREIT will in part mitigate this risk through the use of Euro-denominated debt and a foreign currency hedging program.

Related Party Transactions

CAPREIT has a 20.8% beneficial interest in IRES and has determined that it has significant influence over IRES. The beneficial interest is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. For a more detailed description, see note 5 to the accompanying audited consolidated annual financial statements. In addition, effective April 11, 2014, CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited, entered into an external management agreement to perform certain property and asset management services for IRES. Included in other income is \$1.2 million for the nine months ended December 31, 2014 from asset management and property management fees.

David Ehrlich is the CEO and a director of the IRES board. He is also a trustee of CAPREIT. Thomas Schwartz is a director (non-executive) of the IRES board. He is also a trustee and the President and Chief Executive Officer of CAPREIT and each of its subsidiaries. Officers and key management personnel of CAPREIT were granted options of IRES.

CAPREIT has entered into an agreement (the "Pipeline Agreement") with IRES to make available up to €150 million for a period of up to one year to acquire high quality properties in Ireland, and to subsequently permit IRES to acquire such properties from CAPREIT once IRES has sourced additional funding. In addition to CAPREIT receiving the purchase price and related acquisition cost, CAPREIT will receive an underwriting fee of 1.0% of the purchase price of any assets acquired by CAPREIT under the Pipeline Agreement at such time as the assets are acquired by IRES. The portfolio is intended to be transferred to IRES conditional on, among other things, IRES shareholder approval of the Pipeline Agreement and IRES having sufficient funds available.

CAPREIT incurred the following transactions with key management personnel and trustees. The loans outstanding to key management personnel and trustees for indebtedness relating to the SELTIP and LTIP at December 31, 2014 were \$7.8 million and \$11.2 million, respectively (December 31, 2013 – \$8.0 million and \$11.8 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 Plan 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:

(\$ Thousands)		
Year Ended December 31,	2014	2013
Short-term employee benefits	\$ 3,583	\$ 3,439
Unit-based compensation		
– grant date amortization	3,306	2,050
	6,889	5,489
Unit-based compensation		
– fair value remeasurement	6,997	(6,491)
Total	\$ 13,886	\$ (1,002)

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, 2014 was \$0.9 million (2013 – \$0.9 million) excluding property operating costs, and has been expensed as trust expenses. In 2012, the lease was amended to extend for an additional three years, expiring on October 31, 2017, and the minimum annual rental payments for the extended period are \$0.5 million, before HST, per year.

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 28, 2015, CAPREIT announced that it had, through a wholly-owned Irish subsidiary, completed the acquisition of the Rockbrook Portfolio, consisting of 270 residential suites and approximately 50,214 square feet of mixed-use commercial space located in Dublin, Ireland for a purchase price (including VAT) of approximately €87.3 million and other acquisition costs of approximately €2.5 million. The purchase was funded through CAPREIT's Acquisition and Operating Facility.

The Rockbrook Portfolio is the first portfolio CAPREIT is acquiring for IRES under the previously announced agreement entered into between IRES and CAPREIT on November 21, 2014 and amended on February 9, 2015 (the "Pipeline Agreement"). The Pipeline Agreement was amended on February 9, 2015 to remove the proposed 2.5 year extension to be made to the investment management agreement but to include an underwriting fee of 1.0% of the purchase price of each property investment acquired under the Pipeline Agreement. CAPREIT will receive the purchase price and related acquisition cost and an underwriting fee of 1.0% of the purchase price of any assets acquired by CAPREIT under the Pipeline Agreement at such time as the assets are acquired by IRES. The portfolio is intended to be transferred to IRES conditional on, among other things, IRES shareholder approval of the Pipeline Agreement and IRES having sufficient funds available.

Future Outlook

Despite the potential adverse impact of global economic uncertainty, 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.

CAPREIT believes the strong defensive characteristics of its property portfolio, due to diversification by both geography and demographic sector, will serve to mitigate the negative impact of any future unfavourable economic conditions that certain regions may experience. CAPREIT intends to continue to seek opportunities to further diversify its property portfolio. While CAPREIT's strategy is to remain principally focused on its core Canadian markets, CAPREIT continues to consider select opportunities in other markets. In addition, despite having entered into a forward interest rate hedge, CAPREIT may experience difficulty in securing 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 component of CAPREIT's ability to manage annual rental increases is determined by the annual guideline increases established by certain provincial governments, currently in Ontario and British Columbia, under rent control legislation that CAPREIT must adhere to in setting annual rental rates for renewing tenants. In the Province of Ontario, the guideline increase for 2015 has been set at 1.6%. 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, 2014 and December 31, 2013:

December 31,	2014	2013
Number of Suites and Sites Filed	19,868	12,368
Applications Settled		
Number of Applications	91	73
Term Weighted Average Total Increase ¹	3.51%	3.44%
Weighted Average Term (years) ^{1,2}	1.69	1.67
Applications Outstanding		
Number of Applications	49	8
Term Weighted Average Total Increase ¹	4.50%	3.99%
Weighted Average Term (years) ^{1,2}	1.89	1.79

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. In addition, Management has recently begun prudently investigating the opportunity to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT or other vacant land.

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 2013. The internal controls are designed to ensure that our financial records are reliable for preparing financial statements; other financial information, transactions are properly authorized and recorded; and assets are safeguarded.

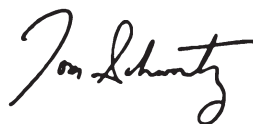
As at December 31, 2014, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' 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 17, 2015



Thomas Schwartz
PRESIDENT AND CHIEF EXECUTIVE OFFICER



Scott Cryer
CHIEF FINANCIAL OFFICER

INDEPENDENT AUDITOR'S REPORT

February 17, 2015

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, 2014 and December 31, 2013 and the consolidated statements of income and comprehensive income, unitholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE 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, 2014 and December 31, 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

CHARTERED PROFESSIONAL ACCOUNTANTS,
LICENSED PUBLIC ACCOUNTANTS

Toronto, Ontario

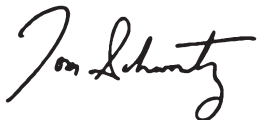
CONSOLIDATED BALANCE SHEETS

(CA\$ Thousands)

As at		December 31, 2014	December 31, 2013
	Note		
Non-Current Assets			
Investment properties	6	\$ 5,749,640	\$ 5,459,218
Other non-current assets	7	146,512	82,263
		5,896,152	5,541,481
Current Assets			
Other current assets	7	30,009	17,453
		\$ 5,926,161	\$ 5,558,934
Non-Current Liabilities			
Mortgages payable	9	\$ 2,369,954	\$ 2,016,077
Bank indebtedness	10	113,167	187,030
Unit-based compensation financial liabilities	11, 12	5,406	1,772
Other non-current liabilities	8	3,393	1,121
		2,491,920	2,206,000
Current Liabilities			
Mortgages payable	9	288,500	441,105
Unit-based compensation financial liabilities	11, 12	43,280	30,992
Accounts payable and accrued liabilities		70,941	77,432
Other current liabilities	8	7,547	7,250
Security deposits		25,769	24,892
Exchangeable Units	11	4,054	3,428
Distributions payable		11,045	10,366
		451,136	595,465
		\$ 2,943,056	\$ 2,801,465
Unitholders' Equity			
Unit Capital		\$ 1,761,313	\$ 1,720,066
Accumulated other comprehensive loss ("AOCL")	19	(27,284)	(21,194)
Retained earnings		1,249,076	1,058,597
		\$ 2,983,105	\$ 2,757,469
		\$ 5,926,161	\$ 5,558,934

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

(CA\$ Thousands)

For the Year Ended December 31,

	Note	2014	2013
Operating Revenues			
Revenue from investment properties		\$ 506,411	\$ 477,023
Operating Expenses			
Realty taxes		56,591	55,546
Property operating costs		145,935	147,623
		202,526	203,169
Net Rental Income			
Trust expenses		20,944	19,280
Unit-based compensation expenses (recoveries)	12	16,478	(5,968)
Fair value adjustments of investment properties	6	(150,897)	(106,470)
Realized loss on disposition of investment properties	5	–	811
Amortization of property, plant and equipment		2,400	2,178
Operating Income			
		414,960	364,023
Fair value adjustments of Exchangeable Units	11	626	(537)
Loss on derivative financial instruments	16	2,810	680
Interest and other financing costs	20	105,445	101,465
Foreign currency translation		(4,954)	17
Other income		(6,942)	(5,280)
Net Income			
		\$ 317,975	\$ 267,678
Other Comprehensive (Loss) Income			
Items That May Be Reclassified Subsequently to Net Income			
Amortization of losses from AOCL to interest and other financing costs	19	\$ 3,333	\$ 3,265
Change in fair value of derivative financial instruments	16	(3,649)	3,701
Change in fair value of investments	19	(478)	(4,392)
Realized gain on sale of investments	19	–	(1,381)
(Loss) Gain on foreign currency translation		(5,296)	124
Other Comprehensive (Loss) Income			
		\$ (6,090)	\$ 1,317
Comprehensive Income			
		\$ 311,885	\$ 268,995

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(CA\$ Thousands)	Unit Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	
	Note				
Unitholders' Equity, January 1, 2014		\$ 1,720,066	\$ 1,058,597	\$ (21,194)	\$ 2,757,469
Unit Capital					
Distribution Reinvestment Plan	13	39,897	-	-	39,897
RUR Plan	12, 13	94	-	-	94
Long-Term Incentive Plan	12, 13	373	-	-	373
Employee Unit Purchase Plan	12	883	-	-	883
		41,247	-	-	41,247
Retained Earnings and Other Comprehensive Loss					
Net income		-	317,975	-	317,975
Other comprehensive loss		-	-	(6,090)	(6,090)
		-	317,975	(6,090)	311,885
Distributions on Trust Units					
Distributions declared and paid	14	-	(116,451)	-	(116,451)
Distributions payable	14	-	(11,045)	-	(11,045)
		-	(127,496)	-	(127,496)
Unitholders' Equity, December 31, 2014		\$ 1,761,313	\$ 1,249,076	\$ (27,284)	\$ 2,983,105
		Unit Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	Note				
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
RUR 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

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(CA\$ Thousands)

For the Year Ended December 31,

	Note	2014	2013
<i>Cash Provided By (Used In):</i>			
Operating Activities			
Net income		\$ 317,975	\$ 267,678
Items related to operating activities not affecting cash:			
Fair value adjustment – investment properties		(150,897)	(106,470)
Fair value adjustment – Exchangeable Units		626	(537)
Gain on sale of investments		(717)	(1,737)
Loss on disposition of investment properties	5	–	811
Loss on derivative financial instruments	16	2,810	680
Amortization	19, 20	8,484	4,448
Unit-based compensation expenses (recoveries)		16,478	(5,968)
Straight-line rent adjustment		(142)	(211)
Foreign currency adjustment		(4,954)	17
		189,663	158,711
Net income items related to financing and investing activities	22	94,338	93,607
Changes in non-cash operating assets and liabilities	22	(19)	7,962
Cash Provided by Operating Activities		283,982	260,280
Investing Activities			
Acquisition of investment properties	22	(34,964)	(416,565)
Capital investments	22	(164,898)	(158,367)
Disposition of investments		7,599	7,815
Disposition of investment properties	22	–	57,672
Change in restricted cash		(684)	(1,108)
Investment income received		3,786	1,298
Cash Used in Investing Activities		(189,161)	(509,255)
Financing Activities			
Mortgage financings		589,107	676,009
Mortgage principal repayments		(84,421)	(69,169)
Mortgages repaid on maturity		(324,915)	(340,831)
Financing costs on mortgages payable		(2,797)	(2,706)
CMHC premiums on mortgages payable		(11,070)	(11,848)
Interest paid	22	(98,124)	(94,905)
Bank indebtedness		(76,712)	39,714
Hedge settlement	16	–	(3,492)
Proceeds on issuance of Units	22	1,031	144,169
Net cash distributions to Unitholders	22	(86,920)	(87,966)
Cash (Used in) Provided by Financing Activities		(94,821)	248,975
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

(CA\$ Thousands, except Unit and per Unit amounts)
December 31, 2014

1. Organization of the Trust

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

CAPREIT converted from a closed-end real estate investment trust to an open-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 June 12, 2014. 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, and owns directly or indirectly the beneficial interest of all its properties along with the related mortgages and all the corporate debt obligations of CAPREIT.

CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited, entered into an external management agreement to perform certain property and asset management services for Irish Residential Properties REIT plc ("IRES"), an Irish residential REIT listed on the Irish Stock Exchange. As at December 31, 2014, CAPREIT has a 20.8% beneficial interest in IRES.

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

2. Summary of Significant Accounting Policies

A) STATEMENT OF COMPLIANCE

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

These consolidated annual financial statements, which were approved by CAPREIT's Board of Trustees on February 17, 2015, have been prepared on the basis of IFRS issued and effective, or available for early adoption, at December 31, 2014. 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 an 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 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 income and comprehensive income. In general, CAPREIT has recourse against all of the assets of the joint operations in the event that CAPREIT is called on to pay liabilities in excess of its proportionate share.

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

iii) Investment in Associates

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

on the board of trustees, direction of management or through contractual agreements.

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

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

D) INVESTMENT PROPERTIES

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

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

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

a change in fair value recognized within operating income in the consolidated statements of income and comprehensive income for the period. For Operating Leasehold Interests, all of which are held under a prepaid operating lease, CAPREIT has classified all such interests as finance leases, including the fair value of options to purchase, and are accounted for and presented as investment properties.

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

E) PROPERTY ASSET ACQUISITIONS

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

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, CAPREIT applies 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 held-for-sale is considered to meet the definition of a discontinued operation, then income or expense recognized in the consolidated statements of income and comprehensive income relating to that group of assets is presented separately from continuing operations. A discontinued operation is a component of operations that represents a separate major line of business or geographic area of operations that has been disposed of or is held-for-sale, or is a subsidiary acquired exclusively with a view to resale.

G) PROPERTY, PLANT AND EQUIPMENT

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

H) TENANT INDUCEMENTS

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

I) PREPAID CMHC PREMIUMS

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

J) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities

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

Classification of financial instruments

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

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

Cash and cash equivalents and restricted cash

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

Loans and 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 on the consolidated balance sheets and are accounted for at amortized cost.

Available-for-sale

Investments are measured at fair value at each consolidated balance sheet date and the difference between the fair value of the asset and its cost basis is included in other comprehensive income ("OCI"). Differences included in accumulated other comprehensive 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.

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.

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 was operating the Dublin acquisition in a foreign jurisdiction, it was exposed to foreign currency fluctuations arising between the functional currency of the foreign operation (the Euro) and the functional currency of CAPREIT (the Canadian dollar). As such, CAPREIT entered into a hedge effective at the date of the Dublin acquisition (September 10, 2013). CAPREIT hedged the investment in the Dublin foreign operations against the Euro-denominated debt on CAPREIT's consolidated balance sheets. As such, the effective portion of any foreign currency gain/loss arising from the Euro-denominated debt and the foreign currency gain/loss arising from the investment in the Dublin foreign operations was recognized in OCI and the ineffective portion was recognized in net income. On April 16, 2014, this hedging relationship became ineffective when CAPREIT's beneficial interest in IRES was diluted from wholly owned to a 20.8% ownership. See note 5 for further details.

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 on 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 management fees. Interest and dividend income are recognized as earned. Management fees are recorded as the services are provided.

Q) BORROWING COSTS AND INTEREST ON MORTGAGES PAYABLE

Interest and other financing costs 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, 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. Deferred income taxes are measured using tax rates that have been enacted or substantively enacted to the consolidated 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 substantively 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 as equity for the purposes of calculating net income on a per Unit basis. Consequently, CAPREIT has elected not to report an Earnings Per Unit calculation, as permitted under IFRS.

W) FOREIGN CURRENCY TRANSLATION

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated into the functional currency using the prevailing rate of exchange at the

consolidated balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of income and comprehensive income.

Foreign exchange gains and losses are presented in the consolidated statements of income and comprehensive income.

X) 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 assessed the standard and completed an analysis of the government levies that CAPREIT is subject to and determined it does not impact CAPREIT on adoption in its current form.

Y) ACCOUNTING CHANGES APPLIED IN 2014**IFRIC 21, Levies ("IFRIC 21")**

CAPREIT has applied IFRIC 21 as at January 1, 2014. See x) IFRIC 21, Levies above for further details of the accounting impact.

Z) FUTURE ACCOUNTING CHANGES

As at February 17, 2015, 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, 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 of IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 also introduces new requirements for classifying and measuring financial assets; specifically, investments in equity instruments can be designated as "fair value through other comprehensive income" with only dividends being recognized in profit or loss. IFRS 9 was further amended in November 2013 to: (i) include guidance on hedge accounting, (ii) allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk, from financial liabilities designated under the fair value option, in OCI (without having to adopt the remainder of IFRS 9); and (iii) remove the previous mandatory effective date of January 1, 2015.

The final amendment of IFRS 9 as at July 2014 included (i) a third measurement category for financial assets – fair value through other comprehensive income; (ii) a single, forward looking “expected loss” impairment model; and (iii) a mandatory effective date for IFRS 9 for annual periods beginning on or after January 1, 2018.

IFRS 7, Financial Instruments – Disclosure

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

IFRS 10 and IAS 28, Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture

The amendment clarifies an inconsistency between the two standards, and establishes that a gain or loss is fully recognized when the transaction involves a business, and a partial gain or loss is recognized when the transaction involves assets that do not constitute a business. This amendment will come into effect on January 1, 2016.

IFRS 11, Accounting for Acquisitions of Interests in Joint Operations

This amendment provides specific guidance for the acquisition of an interest in a joint operation that is a business. This amendment will come into effect on January 1, 2016.

IFRS 15, Revenue from Contracts with Customers

This new standard on revenue recognition supersedes IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The new standard provides a single, comprehensive revenue recognition model. While early adoption is permitted for IFRS reporters, this standard is effective beginning January 1, 2017.

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

3. Critical Accounting Estimates, Assumptions and Judgements

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

The estimates deemed to be more significant, due to subjectivity and the potential risk of causing a material adjustment 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 an external appraisal firm to determine the fair value of the investment properties for interim reporting purposes. Capitalization rates employed by the appraisal firm are based on recently closed transactions, generally within the last three months, and other current market indicators for similar properties.

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

II) VALUATION OF FINANCIAL INSTRUMENTS

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

III) UNIT-BASED COMPENSATION

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

IV) INVESTMENT IN IRISH RESIDENTIAL PROPERTIES REIT PLC ("IRES")

CAPREIT has determined that its investment in IRES should be accounted for using the equity method of accounting given the

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

V) CLASSIFICATION OF INTEREST PAID ON CONSOLIDATED STATEMENTS OF CASH FLOWS

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

4. Recent Investment Property Acquisitions

CAPREIT completed the following investment property acquisitions since January 1, 2013, which have contributed to the operating results effective from their respective acquisition dates:

For the Year Ended December 31, 2014

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

1 Weighted average stated interest rate on mortgage funding.

2 Weighted average term to maturity on mortgage funding.

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

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

5 The acquisition of a commercial property is situated beside an existing residential property in the Burlington, Ontario region.

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 2,308 land lease sites in eleven communities in New Brunswick.

4 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.

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.

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

5. Dispositions

The tables below summarize the dispositions completed since January 1, 2013. 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, 2014

On April 16, 2014, CAPREIT's wholly-owned subsidiary, CAPREIT Ireland Limited (renamed to Irish Residential Properties REIT plc ("IRES")), completed the admission of its Ordinary Shares to the Irish Stock Exchange. CAPREIT retained a 20.8% interest in IRES and received cash of \$7,599. CAPREIT's retained interest is accounted as an equity investment and was recorded at fair value in the amount of \$64,039 on the transaction date. CAPREIT recorded a gain of \$717 in other income on the transaction date, representing the difference between fair value of the retained interest and cash received over the carrying value of the net assets of IRES.

Disposition Date	Suite Count	Region	Sale Price	Mortgage Discharged
April 16, 2014	338	Dublin, Ireland	\$ 70,871	\$ 7,599
	338		\$ 70,871	\$ 7,599

DISPOSITIONS COMPLETED DURING THE YEAR ENDED DECEMBER 31, 2013

Disposition Date	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 five properties located in Mississauga and Toronto, Ontario.

For the year ended December 31, 2013, a loss of \$811 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. Capitalization rates employed by the appraisers are based on recently closed transactions for similar properties. To the extent that the stabilized forecasted cash flows of an investment property change significantly in a quarter, the fair value of the investment property would be re-assessed by the external appraisers and the fair value adjusted accordingly.

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

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

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

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

A) FEE SIMPLE AND MHC LAND LEASE SITES

CAPREIT utilizes the DC method. Under this method, capitalization rates are applied to a stabilized net operating income ("NOI") representing market-based NOI assumptions (property revenue less property operating expenses adjusted for market based assumptions such as long-term vacancy rates, management fees, R&M costs, and general and administration costs). The most significant assumption is the capitalization rate for each specific property. The capitalization rate is based on 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 flows are adjusted for contractual air rights payments and the discount rate is adjusted for uncertainty regarding the renegotiation of the air rights lease at the end of the term. Generally, an increase in forecasted cash flows will result in an increase to the fair value of an investment property. An increase in the discount rate will result in a decrease to the fair value of an investment property.

C) OPTIONS TO PURCHASE THE RELATED OPERATING LEASEHOLD INTERESTS

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

D) LAND LEASEHOLD INTERESTS

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

A summary of the market assumptions and ranges for each type of property interest along with their fair values is presented below as at December 31, 2014 and December 31, 2013:

As at December 31, 2014

Type of Interest	Fair Value	WA NOI/ Cash Flow ¹	Rate Type	Max	Min	Weighted Average
Fee Simple Interests – Apartments and Townhomes	\$ 4,713,330	2,520	Capitalization rate	6.70%	3.50%	4.90%
MHC Land Lease Sites	272,700	2,302	Capitalization rate	7.00%	4.39%	6.18%
Operating Leasehold Interests ^{2,3,4}	559,560	3,078	Discount rate ⁵	6.75%	5.75%	6.03%
Land Leasehold Interests ²	204,050	3,448	Discount rate	7.25%	7.00%	7.08%
Total Investment Properties	\$ 5,749,640					

As at December 31, 2013

Type of Interest	Fair Value	WA NOI/ Cash Flow ¹	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 ^{2,3,4}	497,913	2,932	Discount rate ⁵	7.00%	6.00%	6.25%
Land Leasehold Interests ²	191,210	3,200	Discount rate	7.25%	7.00%	7.08%
Total Investment Properties	\$ 5,459,218					

¹ Weighted average (“WA”) net operating income (“NOI”) or cash flow per property.

² The fair values of Operating Leasehold Interests subject to a contractual air rights lease and Land Leasehold Interests subject to land leases reflect the estimated land lease or air rights payments over the term of the leases.

³ The fair values of Operating Leasehold Interests include the fair values of the Options to purchase the related freehold interests of \$106,190 and \$49,863 as at December 31, 2014 and December 31, 2013, respectively.

⁴ The weighted average remaining lease term on Operating Leasehold Interests is 18.8 years as at December 31, 2014 (December 31, 2013 – 19.8 years).

⁵ Represents the discount rate used to determine the fair value for Operating Leasehold Interests using the Discounted Cash Flow (“DCF”) method.

A weighted average stabilized NOI growth of 2.5% has been assumed as at December 31, 2014 and December 31, 2013.

RECONCILIATION OF CARRYING AMOUNTS OF INVESTMENT PROPERTIES BY TYPE

For the Year Ended December 31, 2014	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
Balance at the beginning of the year	\$ 4,770,095	\$ 497,913	\$ 191,210	\$ 5,459,218
Additions:				
Acquisitions	61,545	–	–	61,545
Property capital investments	129,673	11,848	4,080	145,601
Capitalized leasing costs ¹	379	86	132	597
Foreign currency translation	2,653	–	–	2,653
Dispositions ²	(70,871)	–	–	(70,871)
Unrealized fair value adjustments	92,556	49,713	8,628	150,897
Balance of Investment Properties at end of year	\$ 4,986,030	\$ 559,560	\$ 204,050	\$ 5,749,640

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

2 See note 5 for further details.

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.

7. Other Assets

As at December 31,		2014	2013
	Note		
Other Non-Current Assets			
Property, plant and equipment ¹		\$ 20,102	\$ 18,139
Accumulated amortization of property, plant and equipment		(14,317)	(11,928)
Net property, plant and equipment		5,785	6,211
Investments ^{2,3}		83,133	22,676
Prepaid CMHC premiums, net ⁴		56,099	47,638
Deferred loan costs, net ⁵		1,495	2,039
Hedge asset	16(b)	–	3,699
Total		\$ 146,512	\$ 82,263
Other Current Assets			
Prepaid expenses		\$ 3,149	\$ 2,658
Other receivables		7,605	4,886
Restricted cash		5,536	4,852
Deposits		13,719	5,057
Total		\$ 30,009	\$ 17,453

- 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 for the year ended December 31, 2013.
- 3 Included in investments is CAPREIT's ownership interest in IRES. See note 5 for further details.
- 4 Represents prepaid CMHC premiums on mortgages payable net of accumulated amortization of \$14,017 (December 31, 2013 – \$11,408).
- 5 Represents deferred loan costs related to the revolving credit facilities net of accumulated amortization of \$6,784 (December 31, 2013 – \$5,899).

8. Other Liabilities

As at December 31,		2014	2013
	Note		
Other Non-Current Liabilities			
Hedge liability	16(b)	\$ 3,393	\$ 1,121
Total		\$ 3,393	\$ 1,121
Other Current Liabilities			
Hedge liability	16(c)	\$ 23	\$ 232
Mortgage interest payable		7,524	7,018
Total		\$ 7,547	\$ 7,250

9. Mortgages Payable

As at December 31, 2014, mortgages payable bear interest at a weighted average effective rate of 3.81% (December 31, 2013 – 3.94%), and mature between 2014 and 2027. The effective interest rate as at December 31, 2014 includes 0.15% (December 31, 2013 – 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 of CAPREIT's mortgages payable are financed at fixed interest rates as at December 31, 2014. Investment properties at fair value of \$5,532,736 have been pledged as security as at December 31, 2014. CAPREIT has investment properties with a fair value of \$216,904 as at December 31, 2014 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. As at December 31, 2014, unamortized deferred financing costs of \$8,019 and fair value adjustments of (\$6,381) are netted against mortgages payable.

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

As at December 31, 2014	Principal Amount	% of Total Principal
2015	\$ 288,500	10.8
2016	155,566	5.8
2017 ^{1,2}	312,109	11.7
2018	170,122	6.4
2019	309,000	11.6
Subsequent to 2019	1,424,795	53.7
	2,660,092	100.0
Deferred financing costs and fair value adjustments	(1,638)	
	\$ 2,658,454	

As at December 31,	2014	2013
Represented by:		
Mortgages Payable – non-current ^{1,2}	\$ 2,369,954	\$ 2,016,077
Mortgages Payable – current	288,500	441,105
	\$ 2,658,454	\$ 2,457,182

- 1 Included in mortgages payable as at December 31, 2014 is a €48,900 non-amortizing Euro LIBOR borrowing. See note 10 for further details.
- 2 Included in mortgages payable as at December 31, 2014 is a \$65,000 non-amortizing credit facility on two of the MHC land lease sites.

10. Bank Indebtedness

On August 29, 2014, CAPREIT renewed and amended the existing \$280,000 acquisition and operating facility and €40,000 five-year non-revolving Euro-denominated term credit facility by combining the two facilities into a \$340,000 revolving credit facility (“Acquisition and Operating Facility”). The aggregate amount of Euro LIBOR borrowings at any time shall not exceed €40,000 while the Canadian Dollar Equivalent of the aggregate principal amount of all advances (including the Euro LIBOR borrowings) under the Acquisition and Operating Facility shall not exceed \$340,000. Effective November 21, 2014, the Acquisition and Operating Facility was amended such that the aggregate amount of Euro LIBOR borrowings shall not exceed €49,000. Subsequent to year end, effective January 16, 2015, the aggregate amount of Euro LIBOR borrowings was amended to (a) €210,000 until the earlier of (i) October 31, 2015; and (ii) fifteen days after the issuance of any equity or debt by IRES; and (b) €60,000 thereafter.

CAPREIT’s Credit Facilities include the amended \$340,000 acquisition and operating facility and 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), (collectively, the “Credit Facilities”). The €48,900 Euro LIBOR borrowings bears interest at the Euro LIBOR rate plus a margin of 1.70% per annum (included in mortgages payable). The margin is renegotiated annually. The interest rate on the

Acquisition and Operating Facility is determined by interest rates on prime advances and bankers’ acceptances utilized during the year. The Acquisition and Operating Facility matures June 30, 2017. The Credit Facilities are subject to compliance with the various provisions of the Credit Facilities in order to fund operations, acquisitions, capital improvements, letters of credit and other uses.

	Acquisition and Operating Facility
As at December 31, 2014	
Facility	\$ 340,000
Less: Euro LIBOR borrowings ¹	(68,646)
Bank Indebtedness	(113,167)
Letters of Credit	(6,144)
Available Borrowing Capacity	\$ 152,043
Weighted Average Floating Interest Rate	3.09%

	Acquisition and Operating Facility
As at December 31, 2013	
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%

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

11. Unit-based Compensation Financial Liabilities and Exchangeable Units

Units are issuable pursuant to CAPREIT's Unit-based compensation plans, namely, the Unit Option Plan ("UOP"), the Employee Unit Purchase Plan ("EUPP"), the Deferred Unit Plan ("DUP") and the Restricted Unit Rights ("RUR") Plan (each of which is more fully described in note 12). As at December 31, 2014, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 9,500,000 Units (December 31, 2013 – 7,000,000). The maximum number of Units available for future issuance under all Unit incentive plans as at December 31, 2014 is 2,380,445 Units (December 31, 2013 – 362,583 Units).

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

The Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans and exchangeable units as at December 31, 2014 and 2013 are as follows:

(Number of Units) Year Ended December 31, 2014	UOP	DUP	RUR	SELTIP/ LTIP ¹	Exch. Units ²	Total
Units, Unit Rights and Unit Options outstanding as at January 1, 2014	915,900	151,261	358,424	2,240,597	161,311	3,827,493
Issued, cancelled or granted during the year:						
Issued or granted	218,282	46,594	132,525	–	–	397,401
Exercised or settled	–	–	(9,138)	(15,000)	–	(24,138)
Distributions reinvested	–	8,871	24,230	–	–	33,101
Units, Unit Rights and Unit Options outstanding as at December 31, 2014	1,134,182	206,726	506,041	2,225,597	161,311	4,233,857
(Number of Units) 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

1 The distributions payable on SELTIP and LTIP Units do not increase the number of Units outstanding on these plans but are incorporated into the fair value of the plans.

2 The outstanding 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 \$4,054 as at December 31, 2014 (December 31, 2013 – \$3,428), which approximates the closing bid price of the Trust Units. In 2013, 100,000 Exchangeable Units were converted into 100,000 Trust Units (see note 13(b)).

The table below summarizes the change in the total Unit-based compensation financial liabilities for the year ended December 31, 2014 and December 31, 2013, including the settlement of such liabilities through the issuance of Trust Units.

As at December 31,	2014	2013
Total Unit-based compensation financial liabilities, beginning of the year	\$ 32,764	\$ 40,844
Unit-based compensation expenses (recoveries)	16,337	(6,012)
Settlement of Unit-based compensation awards for Trust Units	(415)	(2,068)
Total Unit-based compensation financial liabilities, end of the year	\$ 48,686	\$ 32,764

The Unit-based compensation financial liabilities comprise:	December 31, 2014	December 31, 2013
Current		
LTIP	\$ 19,042	\$ 13,428
SELTIP	10,952	8,429
DUP	5,178	3,201
RUR	3,690	3,510
UOP	4,418	2,424
	43,280	30,992
Non-Current		
RUR	5,406	1,772
Total Unit-based compensation financial liabilities, end of the year	\$ 48,686	\$ 32,764

Units or Unit-based compensation financial liabilities held by trustees, officers and other senior management
As at December 31, 2014, 3.5% (December 31, 2013 – 3.5%) 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, 2013. No Trust Units were acquired and cancelled under these NCIB programs.

Period Covered Under the NCIB	Approval Limit
July 8, 2014 to July 7, 2015	10,659,524
July 8, 2013 to July 7, 2014	9,773,361

12. Unit-based Compensation Expenses (Recoveries)

These costs represent Unit-based compensation expenses (recoveries), which includes fair value remeasurement at each reporting date recognized over the respective vesting periods for each plan for the years ended December 31, 2014 and 2013, as follows:

Year Ended December 31,	2014	2013
UOP	\$ 1,994	\$ (1,412)
LTIP	5,837	(4,787)
SELTIP	2,523	(1,800)
DUP	1,978	467
RUR Plan	4,005	1,521
EUPP	141	43
Unit-based Compensation (Recoveries) Expenses	\$ 16,478	\$ (5,968)

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 his term, the President and CEO will be awarded options to acquire three per cent (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 June 12, 2014, the President and CEO was granted 218,282 options at an exercise price of \$22.72 with an expiration date of June 11, 2024.

A summary of Unit option activity for the years ended December 31, 2014 and 2013 is presented below. All Unit options are exercisable as at December 31, 2014 and 2013.

Number of Units		
For the Year Ended December 31,	2014	2013
Balance, beginning of the year	915,900	915,900
Granted	218,282	–
Balance, end of the year	1,134,182	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,	2014	2013
Number of Units	1,134,182	915,900
Weighted average issue price	\$ 21.44	\$ 21.14
Weighted average risk free rate (%)	1.5	2.4
Weighted average distribution yield (%)	4.7	5.4
Weighted average expected years	7.5	8.0
Weighted average volatility (%)	22.4	24.0
Weighted average Unit option value	\$ 3.89	\$ 2.65

b) LTIP and SELTIP

The Board of Trustees awarded LTIP and SELTIP Units, subject to the attainment of specified performance objectives, to certain officers and key employees (collectively the “Participants”). SELTIP Units were awarded to the Chief Executive Officer and

Chief Financial Officer of the Trust. The Participants subscribed for Units of CAPREIT at a purchase price equal to the weighted average trading price of the Units for five trading days prior to issuance. The purchase price is payable in instalments, with an initial instalment of 5% paid when the Units are issued. The balance, represented by Instalment Receipts, is due over a term not exceeding ten years for the LTIP and 30 years in the case of the SELTIP. Participants are required to pay interest at ten-year and 30-year fixed rates, respectively, based on the Trust’s fixed borrowing rate for long-term mortgage financing, and are required to apply cash distributions received by them on these Units toward the payment of interest and the remaining instalments. In the case of the SELTIP, following the tenth anniversary, cash distributions shall be applied to pay interest only and any excess will be distributed to the Participants. Participants may pre-pay any remaining instalments at their discretion. The Instalment Receipts are non-recourse to the Participants and are secured by the Units as well as the distributions on the Units. If a Participant fails to pay interest and/or principal, CAPREIT may elect to reacquire or sell the Units in satisfaction of the outstanding amounts. No LTIP or SELTIP awards were granted for the year ended December 31, 2014 (2013 – nil).

The LTIP and SELTIP were terminated on April 4, 2014 by the Trustees of CAPREIT, although awards previously granted remain outstanding under the original terms of such plans.

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

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

Year Ended December 31,	2014		2013	
	LTIP	SELTIP	LTIP	SELTIP
Number of Units				
Balance, beginning of the year	1,422,683	817,914	1,515,427	817,914
Settled during the year	(15,000)	–	(92,744)	–
Balance, end of the year	1,407,683	817,914	1,422,683	817,914

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

Year Ended December 31,	2014		2013	
	LTIP	SELTIP	LTIP	SELTIP
Instalment Receipts				
Balance, beginning of the year	\$ 17,120	\$ 11,690	\$ 18,910	\$ 12,030
Principal repayments during the year	(1,025)	(381)	(1,790)	(340)
Balance, end of the year	\$ 16,095	\$ 11,309	\$ 17,120	\$ 11,690

The Instalment Receipts are recognized as a deduction from Unit-based compensation liability. During the years ended December 31, 2014 and 2013, interest payments in the amounts of \$1,345 and \$1,425, 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, 2014	December 31, 2013
Number of Units	1,407,683	1,422,683
Weighted average loan rate (%)	4.65	4.65
Weighted average issue price	\$ 15.55	\$ 15.54
Weighted average loan balance per Unit – current	\$ 11.45	\$ 11.91
Weighted average loan balance per Unit – at maturity	\$ 9.13	\$ 9.37
Weighted average risk free rate (%)	1.1	1.5
Weighted average distribution yield (%)	4.7	5.4
Weighted average expected years	2.9	3.9
Weighted average volatility (%)	15.3	17.7
Weighted average Unit value	\$ 13.69	\$ 9.44

SELTIP

As at	December 31, 2014	December 31, 2013
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	\$ 13.81	\$ 14.18
Weighted average loan balance per Unit – at maturity	\$ 13.06	\$ 13.13
Weighted average risk free rate (%)	1.8	2.8
Weighted average distribution yield (%)	4.7	5.4
Weighted average expected years	21.4	22.4
Weighted average volatility (%)	25.0	25.5
Weighted average Unit value	\$ 13.39	\$ 10.31

c) DUP

The DUP gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred units (“Deferred Units”). Each trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the “Elected Percentage”) of their annual retainer payable in respect of a calendar year (the “Elected Amount”), subject to an annual maximum Elected Percentage established by the Human Resources and Compensation Committee, in the form of Deferred Units, in lieu of cash. CAPREIT will match the Elected Amount in the form of Deferred Units having a value equal to the volume weighted average price of all Units traded on the TSX for the five trading days immediately preceding the date on which board compensation is payable. The maximum Elected Percentage in respect of 2014 is 100% (2013 – 100%) of a trustee’s annual board compensation of \$75 and \$55, respectively, for 2014 and 2013.

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

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

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

	December 31, 2014			December 31, 2013		
	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	\$ 19.52	\$ 21.25	151,261	\$ 18.50	\$ 24.90	139,907
Granted during the year	23.18	–	46,594	22.27	–	34,499
Additional Unit Distributions	22.80	–	8,871	22.74	–	6,870
Net settled during the year	–	–	–	18.67	–	(30,015)
Outstanding, end of the year	\$ 20.48	\$ 25.13	206,726	\$ 19.52	\$ 21.25	151,261

d) *RUR Plan*

In 2010, CAPREIT adopted the RUR Plan as the primary plan through which long-term incentive compensation will be awarded. The RUR Plan was approved by Unitholders on May 19, 2010. The Human Resources and Compensation Committee of the Board of Trustees may award RURs, subject to the attainment of specified performance objectives to certain officers and key employees (collectively the “Participants”). The purpose of the RUR Plan is to provide its Participants with additional incentive and to further align the interests of its Participants with Unitholders through the use of RURs which, on vesting, are exercisable for Units. RUR Plan Units will be issued from treasury on vesting. The RURs vest in their entirety on the third anniversary of the grant date. The RURs earn notional distributions in respect of each distribution paid on RURs commencing from the grant date and such notional distributions are used to calculate additional RURs (“Distribution RURs”), which are accrued for the benefit of the Participants. The Distribution RURs are credited to the Participants only when the underlying RURs on which the Distribution RURs are earned become vested. The fair value of the Distribution RURs is based on the five business day weighted average closing price of the Units on the TSX prior to the distribution date.

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

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

	December 31, 2014			December 31, 2013		
	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	\$ 20.85	\$ 21.25	358,424	\$ 18.86	\$ 24.90	268,397
Granted during the year	21.66	–	132,525	25.64	–	92,966
Additional Unit distributions	22.72	–	24,230	22.57	–	16,925
Cancelled during the year	18.93	–	(9,138)	17.77	–	(19,864)
Outstanding, end of the year	\$ 21.19	\$ 25.13	506,041	\$ 20.85	\$ 21.25	358,424

e) *EUPP*

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

13. Unitholders' Equity

All Trust Units outstanding are fully paid, have no par value and are voting Trust Units. 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,	2014	2013
	Ref	
Units outstanding, beginning of the year	108,187,406	99,412,550
Issued or granted during the year in connection with the following:		
New Units Issued	(a) –	7,276,050
Exchangeable Units	(b) –	100,000
Distribution Reinvestment Plan ("DRIP")	(c) 1,842,604	1,263,844
EUPP	(d) 38,236	20,938
DUP	(e) –	16,553
RUR Plan	(f) 4,833	4,727
LTIP	(g) 15,000	92,744
Units outstanding, end of the year	110,088,079	108,187,406

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

b) Exchangeable Units

During the first quarter of 2013, pursuant to the terms of the Exchangeable Units, 100,000 Exchangeable Units were exchanged for 100,000 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")

Effective January 1, 2014, the EUPP grants all employees the right to receive an additional amount equal to 20% of the Units they acquire, paid in the form of additional Units.

e) Deferred Unit Plan ("DUP")

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 2014, 9,138 RUR Units were settled, out of which 4,833 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. In 2013, 9,504 RUR Units were settled, 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) Long-Term Incentive Plan ("LTIP")

In 2014, 15,000 Units previously issued were settled. In 2013, 92,744 Units previously issued were settled.

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 2014, monthly cash distributions declared to Unitholders increased to \$0.098 per Unit (\$1.18 annually). 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.

Year Ended December 31,	2014	2013
Distributions declared on Trust Units	\$ 127,496	\$ 116,056
Distributions per Unit	\$ 1.168	\$ 1.138

15. Financial Instruments, Investment Properties and Risk Management

A) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

As at December 31, 2014, the fair value of CAPREIT's mortgages payable is estimated to be \$2,799,000 (December 31, 2013 – \$2,475,000) 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, 2014, 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	\$ –	\$ –	\$ 4,986,030 ¹	\$ 4,986,030
Operating leasehold interests	–	–	559,560 ¹	559,560
Land leasehold interests	–	–	204,050 ¹	204,050
Investments	22,197 ²	–	–	22,197
Liabilities				
Derivative financial instruments – interest	–	(886) ³	–	(886)
Derivative financial instruments – interest Euro	–	(2,507) ³	–	(2,507)
Derivative financial instruments – foreign currency	–	(23) ⁴	–	(23)
Total	\$ 22,197	\$ (3,416)	\$ 5,749,640	\$ 5,768,421

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

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

3 The 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. If the total mark to market is positive, CAPREIT will consider a current value adjustment to reflect the credit risk of the counterparty and if the total mark to market is negative, CAPREIT will consider a current value adjustment to reflect CAPREIT's own credit risk in the fair value measurement of the interest rate swap adjustments.

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, 2014, 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, 2014 and 2013, 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	
		2014	2013	2014	2013
Floating rate debt	+100	\$ (1,316)	\$ (1,497)	\$ –	\$ –
Floating rate debt	-100	\$ 1,316	\$ 1,497	\$ –	\$ –
Interest rate swap agreements	+100	\$ –	\$ –	\$ 5,976	\$ 5,437
Interest rate swap agreements	-100	\$ –	\$ –	\$ (4,869)	\$ (5,033)
Euro interest rate swap agreements	+100	\$ 2,063	\$ –	\$ –	\$ 2,941
Euro interest rate swap agreements ¹	-100	\$ (41)	\$ –	\$ –	\$ (2,008)

1 Assumes an interest rate floor of zero percent.

CAPREIT's objective in managing interest rate risk is to minimize the volatility of earnings. As at December 31, 2014, interest rate risk has been minimized as all of the mortgages payable are financed at fixed interest rates, with maturities staggered over a number of years.

Liquidity risk

Liquidity risk is the risk that CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 95.7% of CAPREIT's mortgages are CMHC-insured (excluding \$162,199 of mortgages on the MHC), which reduces the risk in refinancing mortgages. CAPREIT's overall risk for mortgage refinancings is further reduced as the unamortized mortgage insurance premiums are transferable between approved lenders and are effective for the full amortization period of the underlying mortgages, ranging between 25 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 and unencumbered assets to fund its ongoing operational and capital commitments, distributions to Unitholders, and to provide future growth in its business. As at December 31, 2014, CAPREIT had undrawn lines of credit in the amount of \$152,043 (December 31, 2013 – \$86,443).

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at December 31, 2014 are as follows:

	2015	2016–2017	2018–2019	2020 onward
Mortgages payable	\$ 288,500	\$ 467,675	\$ 479,122	\$ 1,424,795
Bank indebtedness	–	113,167	–	–
Mortgage interest ¹	88,904	153,205	119,649	149,516
Bank indebtedness interest ¹	3,499	5,238	–	–
Other liabilities	78,490	886	2,507	–
Security deposits	25,769	–	–	–
Exchangeable Units	4,054	–	–	–
Distributions payable	11,045	–	–	–
	\$ 500,261	\$ 740,171	\$ 601,278	\$ 1,574,311

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

Credit risk

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

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

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

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

Foreign currency risk

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

CAPREIT manages and mitigates the exposure to foreign currency risk by entering into foreign exchange forward contracts. CAPREIT currently has quarterly foreign exchange forward contracts aggregating to €2,800, settling between 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

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

CAPREIT settled these Interest Rate Forward Contracts in 2009. The associated cumulative unamortized loss of \$9,908 included in AOCL at September 30, 2008 is being amortized to mortgage interest expense over the original terms of the hedged contracts. For the year ended December 31, 2014, \$1,070 (December 31, 2013 – \$1,071) was amortized from AOCL to mortgage interest expense.

ii) As CAPREIT was operating the Dublin acquisition in a foreign jurisdiction, it was exposed to foreign currency fluctuations arising between the functional currency of the foreign operation (the Euro) and the functional currency of CAPREIT (the Canadian dollar). As such, CAPREIT entered into a hedge effective at the date of the Dublin acquisition (September 10, 2013). CAPREIT hedged the investment in the Dublin foreign operations with the €45,000 Euro-denominated debt on CAPREIT’s consolidated balance sheets. Any foreign currency gains/losses arising from the Euro-denominated debt were 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 was recognized in OCI and the ineffective portion was recognized in net income. This hedge was ineffective at the date of disposition of the Dublin operation, on April 16, 2014, and the related OCI of \$197 was recycled to net income.

iii) CAPREIT had a €45,000 interest rate swap agreement fixing the EURIBOR rate at 1.22%, with a maturity of August 2018, for which hedge accounting was being applied. On April 21, 2014, the €45,000 credit facility was paid down by €5,000, resulting in ineffectiveness of the hedging relationship for accounting purposes. As a result, the hedge was no longer effective and a loss of \$1,989 was recycled to net income from OCI.

As at December 31, 2014, the interest rate swap agreement has been summarized as follows:

As at December 31,	2014	2013
Liability, beginning of the year	\$ (1,121)	\$ –
Change in value	(390)	(1,121)
Liability, end of the year	\$ (1,511)	\$ (1,121)
Liability in AOCL,		
beginning of the year	\$ (936)	\$ –
Change in value in OCI	(1,053)	(936)
Reversal of OCI to net income	1,989	–
Liability in AOCL, end of the year	\$ –	\$ (936)

b) Contracts for which hedge accounting is being applied

i) As at December 31, 2014, 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 loss of \$886 has been set up in other non-current liabilities as at December 31, 2014.

The interest rate swap agreement has been summarized as follows:

As at December 31,	2014	2013
Hedge asset (liability), beginning of the year	\$ 3,699	\$ (418)
Change in intrinsic value	(4,585)	4,117
Hedge (liability) asset, end of the year	\$ (886)	\$ 3,699
Hedge asset (liability) in AOCL, beginning of the year	\$ 3,699	\$ (418)
Change in intrinsic value in OCI	(4,585)	4,117
Hedge (liability) asset in AOCL, end of the year	\$ (886)	\$ 3,699

- ii) In June 2011, CAPREIT entered into a hedging program, which effectively hedged interest rates on approximately \$312,000 of mortgages maturing between September 2011 and June 2013. The maturing mortgages have been refinanced for 10-year terms and as a result bear interest rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before the credit spread. The change in the intrinsic value of the forward interest rate hedge has been included in OCI (see note 19). The hedging program matured in June 2013, for which hedge accounting was being applied. The ineffective portion and the difference between the settled amount and the mark-to-market has been recognized in net income. All contracts have been settled as at December 31, 2013.

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

As at December 31,	2014	2013
Hedge liability, beginning of the year	\$ -	\$ (3,934)
Change in intrinsic value included in OCI	-	520
Loss on derivative financial instruments	-	(78)
Cash settlement of derivatives	-	3,492
Hedge liability, end of the year	\$ -	\$ -
Hedge liability in AOCL, beginning of the year	\$ (19,695)	\$ (22,422)
Change in intrinsic value included in OCI	-	520
Amortization from AOCL to interest and other financing costs	2,286	2,207
Hedge liability in AOCL, end of the year	\$ (17,409)	\$ (19,695)

c) Contracts for which hedge accounting is not being applied

- i) As at December 31, 2014, CAPREIT has quarterly foreign currency exchange contracts aggregating to €2,800, settling between 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. As at December 31, 2014, foreign currency exchange contracts amounting to €1,050 are still outstanding. The mark-to-market gain of \$209 has been recognized in net income for the year ended December 31, 2014, and \$23 has been included in other liabilities as at December 31, 2014.
- ii) As at December 31, 2014, CAPREIT has a €40,000 interest rate swap agreement fixing the EURIBOR rate at 1.22%, which matures in August 2018, for which hedge accounting is not being applied. The 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 mark-to-market loss of \$996 has been recorded in net income and included in other liabilities as at December 31, 2014.

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.

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, 2014	December 31, 2013
Mortgages payable		\$ 2,658,454	\$ 2,457,182
Bank indebtedness		113,167	187,030
Unit-based compensation financial liabilities		48,686	32,764
Exchangeable Units		4,054	3,428
Unitholders' equity		2,983,105	2,757,469
Total capital		\$ 5,807,466	\$ 5,437,873
	Threshold		
Total debt to gross book value ¹	Maximum 70.00%	46.49%	47.32%
Tangible net worth ³	Minimum \$1,200,000	\$ 3,035,845	\$ 2,793,661
Debt service coverage ratio (times) ^{2,4}	Minimum 1.20	1.61	1.54
Interest coverage ratio (times) ^{2,5}	Minimum 1.50	2.82	2.62

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 2013 and 2014, 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 2014 (2013 – \$nil).

19. Accumulated Other Comprehensive Loss

Year Ended December 31,	2014	2013
AOCL balance, beginning of the year	\$ (21,194)	\$ (22,511)
Other comprehensive (loss) income:		
Amortization from AOCL to interest and other financing costs ^{1,2}	3,333	3,265
Change in fair value of derivative financial instruments (note 16(b))	(3,649)	3,701
Change in fair value of investments	(478)	(4,392)
(Loss) gain on foreign currency translation	(5,296)	124
Realized gain on sale of investments	–	(1,381)
Other comprehensive (loss) income	(6,090)	1,317
AOCL balance, end of the year	\$ (27,284)	\$ (21,194)

	December 31, 2014	December 31, 2013
AOCL comprises:		
Loss on derivative financial instruments		
Cumulative realized loss ¹	\$ (9,908)	\$ (9,908)
Accumulated amortization to interest and other financing costs	6,150	5,079
Unamortized balance of loss on cash flow hedges previously settled	(200)	(176)
(Loss) gain on interest rate swap agreements	(886)	2,763
Loss on forward interest rate hedge ²	(22,884)	(22,884)
Accumulated amortization to interest and other financing costs	5,475	3,189
Change in fair value of investments	2,972	3,450
Cumulative (loss) gain on foreign currency translation	(5,172)	124
Cumulative realized gain on sale of investments	(2,831)	(2,831)
AOCL balance, end of the year	\$ (27,284)	\$ (21,194)

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 hedges is \$22,585, which will be amortized to net income as mortgage interest expense over the original 10-year term of the hedged contracts. The estimated amount of the amortization expected to be reclassified to net income from AOCL in the next 12 months is \$2,288.

20. Interest and Other Financing Costs

Year Ended December 31,	2014	2013
Interest on mortgages payable ¹	\$ 97,323	\$ 93,072
Amortization of CMHC premiums and fees	2,609	2,124
Interest on bank indebtedness and deferred loan costs ²	5,325	6,072
Interest on Exchangeable Units	188	197
	\$ 105,445	\$ 101,465

1 Includes amortization of deferred financing costs, fair value adjustments and OCI hedge interest of \$2,641 (December 31, 2013 – (\$836)).

2 Includes amortization of deferred loan costs of \$833 (December 31, 2013 – \$982).

21. Joint Arrangements

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

Year Ended December 31,	2014	2013
Assets	\$ 181,890	\$ 173,778
Liabilities	79,278	75,752
Revenues	15,364	15,142
Expenses	3,596	7,226
Net Income	11,768	7,916

Cash Provided By (Used In):

Operating Activities	\$ 2,043	\$ 6,275
Financing Activities	\$ (535)	\$ (2,455)
Investing Activities	\$ (1,627)	\$ (4,238)

22. Supplemental Cash Flow Information**a) Net income items related to investing and financing activities**

Year Ended December 31,	2014	2013
Dividend, interest income, and equity pick-up on equity accounted investments	\$ (3,786)	\$ (1,298)
Interest paid on Exchangeable Units	188	206
Interest paid on mortgages payable	93,410	89,631
Interest paid on bank indebtedness	4,526	5,068
Net disbursement	\$ 94,338	\$ 93,607

b) Changes in non-cash operating assets and liabilities

Year Ended December 31,	2014	2013
Prepaid expenses	\$ (642)	\$ (569)
Tenant inducements and direct leasing costs	(3,138)	(3,689)
Other receivables	699	(3,438)
Deferred loan costs	(341)	(1,014)
Deposits on purchases	(8,678)	(1,931)
Deposits	(10)	(36)
Accounts payable and other liabilities	10,701	16,527
Security deposits	1,390	2,112
Net (disbursement) proceeds	\$ (19)	\$ 7,962

c) Net cash distributions to Unitholders

Year Ended December 31,	2014	2013
Distributions declared to Unitholders	\$ (127,496)	\$ (116,056)
Add: Distributions payable at beginning of year	(10,366)	(9,279)
Less: Distributions payable at end of year	11,045	10,366
Less: Distributions to participants in the DRIP	39,897	27,003
Net disbursement	\$ (86,920)	\$ (87,966)

d) Capital investments

Year Ended December 31,	2014	2013
Capital investments	\$ (147,564)	\$ (162,659)
Change in capital investments included in accounts payable and other liabilities	(17,334)	4,292
Net disbursement	\$ (164,898)	\$ (158,367)

e) Acquisition of investment properties

Year Ended December 31,	2014	2013
Acquired properties	\$ (61,545)	\$ (456,523)
Fair value adjustment of assumed debt	459	1,987
Assumed debt	26,122	37,971
Net disbursement	\$ (34,964)	\$ (416,565)

f) Disposition of investment properties

Year Ended December 31,	2014	2013
Proceeds	\$ –	\$ 94,250
Closing costs	–	(1,806)
Mortgages assumed by purchasers and discharged	–	(34,772)
Net proceeds	\$ –	\$ 57,672

g) Issuance of Trust Units

Year Ended December 31,	2014	2013
Issuance of Trust Units	\$ 1,350	\$ 148,313
Conversion of Exchangeable Units to Trust Units	–	(2,542)
Settlement of Unit-based Compensation Awards for Trust Units	(319)	(1,602)
Net proceeds	\$ 1,031	\$ 144,169

23. Related Party Transactions

a) CAPREIT has a 20.8% beneficial interest in IRES and has determined that it has significant influence over IRES. The beneficial interest is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. See note 5 for a more detailed description. In addition, effective April 11, 2014, CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited, entered into an external management agreement to perform certain property and asset management services for IRES. Included in other income for the year ended December 31, 2014 is \$1,176 from asset management and property management fees. The amount receivable from IRES as at December 31, 2014 is \$2,475.

David Ehrlich is the CEO and a director of the IRES board. He is also a trustee of CAPREIT. Thomas Schwartz is a director (non-executive) of the IRES board. He is also a trustee and the president and chief executive officer of CAPREIT and each of its subsidiaries. Officers and key management of CAPREIT were granted options of IRES.

CAPREIT has entered into an agreement (the "Pipeline Agreement") with IRES to make available up to €150,000 for a period of up to one year to acquire high quality properties in Ireland, and to subsequently permit IRES to acquire such properties from CAPREIT once IRES has sourced additional funding. In addition to CAPREIT receiving the purchase price and related acquisition cost, CAPREIT will receive an underwriting fee of 1.0% of the purchase price of any assets acquired by CAPREIT under the Pipeline Agreement at such time as the assets are acquired by IRES. The portfolio is intended to be transferred to IRES conditional on, among other things, IRES shareholder approval of the Pipeline Agreement and IRES having sufficient funds available.

b) CAPREIT incurred the following transactions with key management personnel and trustees. The loans outstanding to key management personnel and trustees for indebtedness relating to the SELTIP and LTIP as at December 31, 2014 were \$7,787 and \$11,226, respectively (December 31, 2013 – \$8,040 and \$11,834, 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,	2014	2013
Short-term employee benefits	\$ 3,583	\$ 3,439
Unit-based compensation – grant date amortization	3,306	2,050
	6,889	5,489
Unit-based compensation – fair value remeasurement	6,997	(6,491)
Total	\$ 13,886	\$ (1,002)

c) CAPREIT has a lease for office space with a company in which an officer has an 18% beneficial interest. The rent paid for the office space for the years ended December 31, 2014 and 2013 was \$876 and \$868, respectively, excluding property operating costs, and has been expensed as trust expenses. The lease expires on October 31, 2017. Minimum annual rental payments for the next three years are as follows:

	2015	2016	2017
Minimum annual rent	\$ 502	\$ 502	\$ 419

24. Commitments**NATURAL GAS**

Through the combination of fixed and variable price contracts, CAPREIT is committed as at December 31, 2014, in the aggregate amount of \$9,604 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.

	2015	2016
Fixed Weighted Average Cost per GJ ¹	\$ 3.77	\$ 3.79
Total of CAPREIT's Estimated Requirements	63.3%	50.7%

¹ Fixed weighted average cost per gigajoule ("GJ") excludes expected transportation costs of \$1.99 per GJ for 2015 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, 2014 and 2013, total expenses under these four leases were \$2,901 and \$2,858, 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:

	2015	2016	2017	2018	2019	Thereafter
Minimum annual rent	\$ 1,323	\$ 1,323	\$ 1,323	\$ 1,323	\$ 1,323	\$ 41,323

PROPERTY CAPITAL INVESTMENTS

Commitments primarily related to capital investments in investment properties of \$35,452 were outstanding as at December 31, 2014 (December 31, 2013 – \$44,620).

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 28, 2015, CAPREIT announced that it had, through a wholly-owned Irish subsidiary, completed the acquisition of the Rockbrook Portfolio, consisting of 270 residential suites and approximately 50,214 square feet of mixed-use commercial space located in Dublin, Ireland for a purchase price (including VAT) of approximately €87,300 and other acquisition costs of approximately €2,500. The purchase will be funded through CAPREIT's Acquisition and Operating Facility.

The Rockbrook Portfolio is the first portfolio CAPREIT is acquiring for IRES under the previously announced agreement entered into between IRES and CAPREIT on November 21, 2014 and amended on February 9, 2015 (the "Pipeline Agreement"). The Pipeline Agreement was amended on February 9, 2015 to remove the proposed 2.5 year extension to be made to the investment management agreement but to include an underwriting fee of 1.0% of the purchase price of each property investment acquired under the Pipeline Agreement. CAPREIT will receive the purchase price and related acquisition cost and an underwriting fee of 1.0% of the purchase price of any assets acquired by CAPREIT under the Pipeline Agreement at such time as the assets are acquired by IRES. The portfolio is intended to be transferred to IRES conditional on, among other things, IRES shareholder approval of the Pipeline Agreement and IRES having sufficient funds available.

FIVE-YEAR REVIEW

(\$ Thousands, except per Unit amounts)

Year Ended December 31,	2014	2013	2012	2011	2010
Operating Revenues	\$ 506,411	\$ 477,023	\$ 412,421	\$ 361,955	\$ 338,959
Net Operating Income ("NOI")	\$ 303,885	\$ 273,854	\$ 237,916	\$ 206,157	\$ 190,339
Net Operating Income Margin (%)	60.0	57.4	57.7	57.0	56.2
Net Income ¹	\$ 317,975	\$ 267,678	\$ 412,263	\$ 316,172	\$ 529,048
Normalized Funds from Operations ("NFFO")	\$ 183,353	\$ 159,375	\$ 132,553	\$ 103,875	\$ 92,026
Cash Distributions	\$ 131,044	\$ 119,256	\$ 101,210	\$ 86,054	\$ 75,526
NFFO Payout Ratio (%)	71.5	74.8	76.4	82.8	82.1
Non-taxable Distributions (%)	76.0	89.0	74.2	86.9	72.5
Normalized Funds From Operations					
NFFO Per Unit – Basic	\$ 1.675	\$ 1.562	\$ 1.486	\$ 1.357	\$ 1.371
Cash Distributions Per Unit	\$ 1.168	\$ 1.138	\$ 1.097	\$ 1.080	\$ 1.080
Weighted Average Number of Units (000s)	109,456	102,064	89,215	76,538	67,130
Number of Suites and Sites – total	41,688	41,552	37,225	31,014	28,947
Number of Suites and Sites – CAPREIT's share	40,533	40,397	36,070	29,859	27,792
Investment Properties	\$ 5,749,640	\$ 5,459,218	\$ 4,826,355	\$ 3,713,737	\$ 3,049,980
Unitholders' Equity	\$ 2,983,105	\$ 2,757,469	\$ 2,429,214	\$ 1,740,663	\$ 1,355,445
Overall Portfolio Occupancy (%)	97.9	98.0	97.9	98.5	98.4
Mortgage Debt to Gross Book Value (%)	44.6	44.0	44.3	48.3	51.8
Interest Coverage (times)	2.82	2.62	2.51	2.20	2.07
Weighted Average Mortgage Interest Rate (%) ²	3.66	3.76	3.87	4.48	4.82
Weighted Average Mortgage Term (years)	6.3	6.0	5.4	5.7	4.9
Cumulative Compounded Return Since Inception (%)	839	652	736	614	417
Unit Price at End of Year	\$ 25.13	\$ 21.25	\$ 24.90	\$ 22.31	\$ 17.14

1 2010 includes a recovery of deferred income taxes of \$435,733.

2 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 Harris²
*Partner, Davies, Ward,
Phillips & Vineberg LLP
(a law firm)*

Harold Burke²
*Principal, Dundee Real Estate
Asset Management
(a real estate management firm)*

Stanley Swartzman^{1, 3, 4}
Corporate Director

Edwin F. Hawken^{1, 2}
Corporate Director

David Ehrlich^{1, 3, 4}
Corporate Director

Elaine Todres^{3, 4}
*President, Todres Leadership
Counsel*

David Sloan²
Corporate Director

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

11 Church Street, Suite 401
Toronto, Ontario M5E 1W1
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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](mailto: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 – May 2014:
\$0.096 (\$1.15 annually)

June 2014 – December 2014:
\$0.098 (\$1.18 annually)

ANNUAL MEETING OF UNITHOLDERS

The Annual Meeting of Unitholders will be held at 4:30 p.m. EDT on Thursday, May 21, 2015 at One King West Hotel 1 King Street West Toronto, Ontario M5H 1A1

www.capreit.net



2015 marks the second consecutive 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.