



CAPREIT 2016 ANNUAL REPORT

BUILDING A
WORLD-CLASS
PORTFOLIO



CAPREIT



CAPREIT PROFILE



About the Photographer:
Jose Valenzuela has been an architectural photographer since 2007, focus-

ing primarily on residential and commercial property. Jose has produced high-quality images for industry award submissions, the CAPREIT website and internal communications of company events. He is currently employed in the Corporate Services department at CAPREIT, and for the past eight years has also worked closely with the company's Human Resources, Operations and Marketing teams.

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.



2016 HIGHLIGHTS & OBJECTIVES

Highlights

- Acquired 2,552 residential suites and sites for total costs of \$412.9 million, further strengthening and diversifying the portfolio
- Revenues, Net Operating Income (“NOI”) and Normalized Funds From Operations (“NFFO”) at record levels, driven by strong occupancies, increased same-property average monthly rents and acquisitions

- Average monthly rents on stabilized residential properties up 3.3%, with strong 98.7% occupancy
- Same-property NOI up 3.3%, our eleventh consecutive year of strong organic growth
- NFFO up 15.9%, with NFFO per Unit up an accretive 4.7%
- Named one of Canada’s Fifty Best Employers for the fourth year in a row

Objectives

- To provide Unitholders with long-term, stable and predictable monthly distributions;
- To grow 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.



2016 SELECTED FINANCIAL HIGHLIGHTS

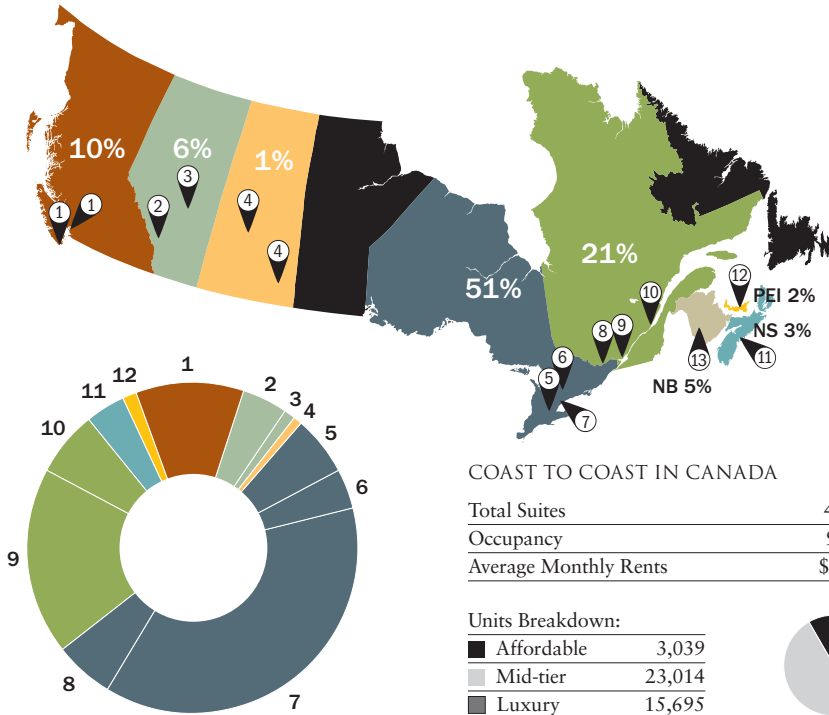
2016 was another year of record growth as we significantly expanded, strengthened and further diversified our property portfolio in our key target markets across Canada. Combined with industry-leading organic growth resulting from our proven property management programs, we generated strong and accretive increases in all our performance benchmarks for the year.

Notes	Year Ended December 31,	2016	2015
1 As at December 31.	Portfolio Performance		
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).	Overall Portfolio Occupancy ⁽¹⁾	98.6%	97.5%
	Overall Portfolio Average Monthly Rents ⁽¹⁾	\$ 1,003	\$ 963
	Operating Revenues (000s)	\$ 596,831	\$ 533,798
	NOI (000s)	\$ 366,947	\$ 324,614
	NOI Margin	61.5%	60.8%
	Operating Performance⁽²⁾		
3 Based on the historical cost of investment properties.	FFO Per Unit – Basic	\$ 1.707	\$ 1.619
	NFFO Per Unit – Basic	\$ 1.772	\$ 1.692
4 Based on the trailing four quarters.	Weighted Average Number of Units – Basic (000s)	130,794	118,220
	Cash Distributions Per Unit	\$ 1.238	\$ 1.207
	FFO Payout Ratio ⁽⁶⁾	73.7%	76.4%
	NFFO Payout Ratio ⁽⁶⁾	70.9%	73.1%
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).	Liquidity and Leverage		
	Total Debt to Gross Book Value ⁽¹⁾	44.31%	45.71%
	Total Debt to Gross Historical Cost ^{(1), (3)}	54.36%	55.41%
	Weighted Average Mortgage Interest Rate ⁽¹⁾	3.20%	3.39%
	Weighted Average Mortgage Term (years) ⁽¹⁾	6.1	6.3
	Debt Service Coverage (times) ⁽⁴⁾	1.63	1.63
	Interest Coverage (times) ⁽⁴⁾	3.09	2.96
6 Payout ratio (a non-IFRS measure) is calculated as distribution declared as a percentage of FFO and NFFO. See Section III for details.	Available Liquidity – Acquisition and Operating Facility (000s) ⁽¹⁾	\$ 275,922	\$ 70,315
	Other		
	Number of Suites and Sites Acquired	2,549	5,632
	Number of Suites Disposed	579	530
	Closing Price of Trust Units ⁽¹⁾	\$ 31.37	\$ 26.84
	Market Capitalization (millions) ⁽⁵⁾	\$ 4,290	\$ 3,478

CAPREIT'S PORTFOLIO DIVERSIFICATION

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 as well as holdings in the Netherlands

CANADA WIDE BY PROVINCE



COAST TO COAST IN CANADA

Total Suites	41,748
Occupancy	98.7%
Average Monthly Rents	\$ 1,103

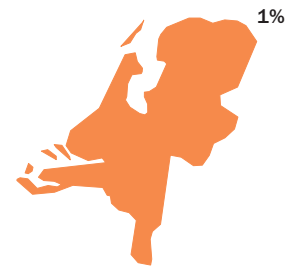
Units Breakdown:

Affordable	3,039
Mid-tier	23,014
Luxury	15,695



THE NETHERLANDS

Utrecht, Cuijk, Scherpenzeel, Enschede and Warnsveld



NETHERLANDS

Total Suites	568
Occupancy	98.4%
Average Monthly Rents	\$ 974

Units Breakdown:

Affordable	465
Mid-tier	103
Luxury	0



1. GREATER VANCOUVER AREA AND VICTORIA

Total Suites	4,433
Occupancy	99.8%
Average Monthly Rents	\$ 1,124

Units Breakdown:

Affordable	148
Mid-tier	2,629
Luxury	1,656



2. CALGARY

Total Suites	1,884
Occupancy	95.9%
Average Monthly Rents	\$ 1,051

Units Breakdown:

Affordable	0
Mid-tier	1,452
Luxury	432



3. EDMONTON

Total Suites	436
Occupancy	95.0%
Average Monthly Rents	\$ 1,098

Units Breakdown:

Affordable	0
Mid-tier	126
Luxury	310





4. REGINA AND SASKATOON

Total Suites	367
Occupancy	98.9%
Average Monthly Rents	\$ 1,001

Units Breakdown:

Affordable	31
Mid-tier	336
Luxury	0



7. GREATER TORONTO AREA

Total Suites	15,649
Occupancy	99.7%
Average Monthly Rents	\$ 1,269

Units Breakdown:

Affordable	1,273
Mid-tier	9,430
Luxury	4,946



10. QUÉBEC CITY

Total Suites	2,733
Occupancy	96.9%
Average Monthly Rents	\$ 967

Units Breakdown:

Affordable	0
Mid-tier	833
Luxury	1,900



5. LONDON/KITCHENER/WATERLOO

Total Suites	2,407
Occupancy	98.3%
Average Monthly Rents	\$ 910

Units Breakdown:

Affordable	0
Mid-tier	1,439
Luxury	968



8. OTTAWA

Total Suites	2,377
Occupancy	99.6%
Average Monthly Rents	\$ 1,186

Units Breakdown:

Affordable	185
Mid-tier	2,192
Luxury	0



11. HALIFAX

Total Suites	1,659
Occupancy	96.6%
Average Monthly Rents	\$ 1,077

Units Breakdown:

Affordable	505
Mid-tier	0
Luxury	1,154



6. OUTSIDE GREATER TORONTO AREA

Total Suites	1,698
Occupancy	99.4%
Average Monthly Rents	\$ 1,176

Units Breakdown:

Affordable	0
Mid-tier	1,508
Luxury	190



9. GREATER MONTRÉAL REGION

Total Suites	7,640
Occupancy	97.6%
Average Monthly Rents	\$ 866

Units Breakdown:

Affordable	897
Mid-tier	2,877
Luxury	3,866



12. CHARLOTTETOWN

Total Suites	465
Occupancy	99.1%
Average Monthly Rents	\$ 982

Units Breakdown:

Affordable	0
Mid-tier	192
Luxury	273



MANUFACTURED HOME COMMUNITIES

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



1. BRITISH COLUMBIA

Total Suites
272
Occupancy
100.0%
Average Monthly Rents
\$423

Gibson
The Poplars
Fort St. John
Southridge Estates

2. ALBERTA

Total Suites
415
Occupancy
99.8%
Average Monthly Rents
\$418

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

3. SASKATCHEWAN

Total Suites
246
Occupancy
99.6%
Average Monthly Rents
\$384

Saskatoon
Sunset Estates

4. ONTARIO

Total Suites
2,701
Occupancy
99.9%
Average Monthly Rents
\$513

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
504
Occupancy
99.8%
Average Monthly Rents
\$141

Charlottetown
Parkwood Estates
River Ridge Estates
Riverview Estates
Cornwall
Chateau Estates

6. NEW BRUNSWICK

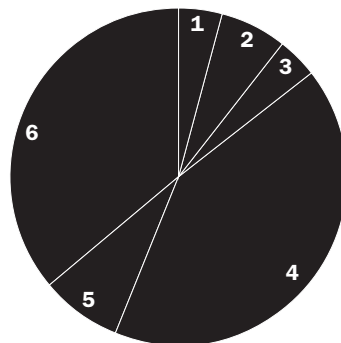
Total Suites
2,313
Occupancy
95.6%
Average Monthly Rents
\$258

Bathurst
Bayview Park & Kent Estates
Beresford
Bayview Park & Kent Estates

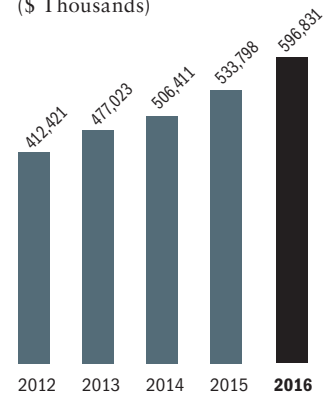
Burton
Burton Estates
Edmundston
Park P'Tiso Estates
Lincoln
Tamarack Estates
Moncton
Pine Tree Village
White Frost Estates
Quispamsis
Parkside Estates
Riverview
River East Estates
Saint John
Milford Estates
Waqsis
Crown & Currie Estates

TOTAL

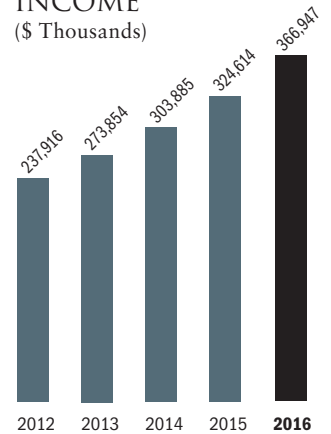
Units 6,451
Occupancy 98.3%
Average Monthly Rents \$378



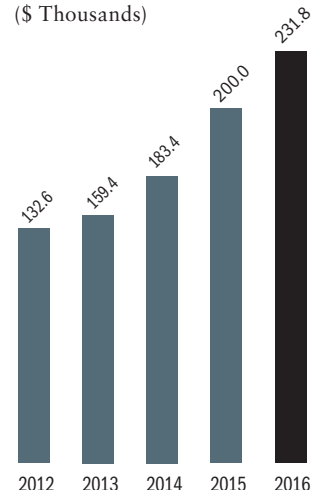
OPERATING REVENUES (\$ Thousands)



NET OPERATING INCOME (\$ Thousands)



NORMALIZED FUNDS FROM OPERATIONS (\$ Thousands)



CAPREIT 2016 MESSAGE TO UNITHOLDERS



2016 was another year of record operating and financial performance as we continued to generate very strong organic growth while further strengthening and diversifying our property portfolio with strategic acquisitions in our key target markets. We also expanded our presence in Europe with our first acquisitions in The Netherlands, complementing our significant success in Dublin, Ireland. As we celebrate two decades of growth and superior performance in 2017, we are confident we have the assets, the team and the proven strategies to continue delivering stable, sustainable and growing returns to our Unitholders for many years to come.

From left to right:

Jodi Lieberman
*Chief Human
Resources Officer*

Scott Cryer
Chief Financial Officer

Corinne Pruzanski
*General Counsel and
Corporate Secretary*

Thomas Schwartz
*President and Chief
Executive Officer*

Mark Kenney
Chief Operating Officer

Roberto Israel
*Chief Information
Officer*



ANOTHER YEAR OF RECORD PERFORMANCE

CAPREIT experienced another year of record growth and financial performance in 2016. Operating revenues rose by a very strong 11.8% to \$596.8 million for the year as a result of continuing high stable occupancies, increased same-property average monthly rents, and the contribution from our portfolio growth during the year. Ancillary revenues, including parking, laundry, communications services and antenna rentals continue to make a strong contribution to our revenues, rising 10.9% to \$31.7 million in 2016 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) rose 13.0% to \$366.9 million, generating a very strong NOI margin of 61.5%. Once again in 2016 we demonstrated our ability to drive organic growth from our stabilized portfolio as same property NOI increased a very strong 3.3% for the year. Stabilized properties represented 83.4% of our total portfolio at December 31, 2016.

Normalized Funds from Operations (NFFO), our key performance benchmark, increased 15.9% for the year to \$231.8 million, resulting in strong accretive growth as NFFO per Unit rose

to \$1.772, up from \$1.692 per Unit in 2015 despite the 11% increase in the weighted average number of Units outstanding during the year. Our payout ratio of distributions declared to NFFO also remained very conservative at 70.9%.

Importantly, we continue to maintain one of the strongest balance sheets in our business. Total debt to gross book value ratio was a conservative 44.3% at year end, well within our guidelines. Our mortgage portfolio remained well-balanced with the weighted average interest rate declining to 3.20% at December 31, 2016 and a weighted average term to maturity of 6.1 years, adding to the stability of our long-term cash flows.

BUILDING A WORLD-CLASS PORTFOLIO

We acquired a total of 1,984 suites and sites in Canada during 2016, building our presence and critical mass in key markets in Ontario, British Columbia, Nova Scotia and Prince Edward Island, and exceeding our long-term objective of purchasing an average of between 1,500 and 2,000 suites annually. The total acquisition cost for these property purchases amounted to approximately \$317.6 million, funded primarily by an accretive \$165.1 million bought deal equity offering in August, new and assumed mortgages on the acquisitions, and cash from our credit lines.



We also sold 579 non-core properties during the year for net cash proceeds of \$31.3 million after the payment of related mortgages. We believe selling non-core properties when we have maximized value or the properties no longer fit our strategic focus allows us to recycle capital into more strategic and higher return investments. We will continue to evaluate our entire portfolio to ensure all our properties are generating the highest possible return on investment for our Unitholders.

With the completion of these transactions, our Canadian property portfolio consisted of 41,748 apartment and town-home suites and 6,451 land lease sites at December 31, 2016, the majority well diversified from coast-to-coast across all of the country's key rental markets. As we build critical mass and economies of scale in our target markets, we continue to generate industry-leading growth in our same-property performance. Cash flow from our acquisitions also increases as we apply our proven sales and marketing strategies to maximize occupancies and average monthly rents, while our successful property management programs reduce costs and enhance operating efficiencies. Most importantly, we remain focused on ensuring our residents receive the best and most effective responses to their questions and concerns, ensuring

Our growth over the last twenty years has transformed CAPREIT into Canada's largest publicly-traded residential landlord, with a high-quality and growing property portfolio and a proven and experienced management team



they choose and remain in a CAPREIT property and add to the stability of our cash flows.

All of these growth initiatives have transformed CAPREIT into Canada's largest publicly-traded residential landlord with a high-quality and growing property portfolio and a proven and experienced management team located in key centres from coast to coast. We will continue to build on this dominant market presence in the years ahead.

EXPANDING GLOBALLY

Competition for apartment properties in Canada remains very strong, driven by recognition that the rental residential business generates stable and growing cash flows through both good times and bad. While we will see continued strong and accretive growth in our Canadian portfolio going forward, we have also focused on new markets where we believe capitalization rates are higher, interest rates are low and we can generate significant long-term value.

Our successful entry into Ireland is an excellent example. We initially purchased 338 luxury apartment suites in 2013 in well-located key growth neighbourhoods of Dublin. In April 2014

we sold our Irish assets to a separate publicly-traded company in which CAPREIT continues to retain a significant 15.7% ownership interest. CAPREIT manages the Irish properties on behalf of the new public company, exporting our proven property management expertise to Ireland and generating a new and growing source of cash flows for our Unitholders. Since its founding, Irish Residential Properties REIT has delivered a total of \$9.7 million in property and asset management fees to CAPREIT as at December 31, 2016, as well as \$3.5 million in dividends on our equity investment. We look for this sustainable contribution to grow in the years ahead.

Near the end of 2016 we capitalized on our success in Ireland and acquired a portfolio of 568 luxury apartment suites in eight properties in The Netherlands. The total purchase price of €64.9 million excluding transaction costs generated a capitalization rate of just under 5% and is significantly below replacement cost. Similar to our experience in Ireland, we will export our proven property management expertise to our new Netherlands properties. We have also entered into a partnership agreement with a highly experienced local real estate investment firm in The Netherlands to provide ongoing asset management services and help us grow our presence in the country. With a current housing shortage,



and strong demand created by a growing population that favours rental accommodation, we believe we will see solid returns as we expand our Netherlands' portfolio and bring our proven and scalable property management programs to the country.

INNOVATIVE NEW GROWTH STRATEGIES

In addition to expanding outside of Canada, in 2016 we embarked on a number of new and innovative programs to accretively grow our business and build value for our Unitholders.

We own a number of properties where there is sufficient land on which we can develop new apartment buildings. After a full review of our portfolio, we believe we can add approximately 1,600 new suites to these properties over the next three years, with another 7,700 suites over the longer term. These investments will generate very strong and accretive returns for our Unitholders as there are no land costs associated with this growth.

We are also looking at partnering with other real estate companies to bring our expertise to new development opportunities. We were pleased to have announced our first joint venture with First Capital Realty to acquire a one-third interest in the residential component of their King High Line project in

In May 2017 we celebrate twenty years of growth and success since our Initial Public Offering in 1997. Looking ahead, we are confident we have the right team, the right properties, and the right strategies to continue building value for years to come



downtown Toronto, projected to add 506 suites to our portfolio when completed. This is an exciting and very accretive opportunity for CAPREIT, and will set the stage for further similar joint-venture partnerships in the future.

TWENTY YEARS OF BUILDING VALUE

In May 2017 we celebrate twenty years of growth and success since our Initial Public Offering in 1997. We have expanded our portfolio from only 2,900 apartment suites to where we now own interests in 48,767. Total assets have increased from \$48.5 million to \$7.9 billion at the end of 2016. We have entered new geographic regions, both in Canada and internationally, diversifying to reduce risk and strengthening our presence in strong rental markets. We have also expanded into new asset classes, building a growing portfolio of manufactured housing land lease communities that deliver strong and growing cash flows with a reduced risk profile.

Most importantly, our growth and strong operating performance has resulted in very accretive returns for our Unitholders. NFFO per Unit has risen from \$0.906 per Unit in 1998, our first full year of operations, to \$1.772 per Unit in 2016 despite the significant increase in the number of Units outstanding.

We have increased monthly cash distributions to Unitholders thirteen times since our IPO, rising from our initial \$0.76 per Unit to the current annual rate of \$1.25 per Unit. Unitholders to December 31, 2016 have achieved a remarkable total return of 1,182%, well above the 281% for the TSX REIT Index and 636% for the overall Toronto Stock Exchange.

As we celebrate two decades of success in 2017, we look ahead very excited about our future. We believe we have the right team, the right properties, and the right strategies to continue building value for years to come.

THOMAS SCHWARTZ
President and Chief Executive Officer

MICHAEL STEIN
Chairman

CSR AND FINANCIAL REPORTING

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CELEBRATING TWENTY YEARS OF RESPONSIBLE AND SUSTAINABLE BUSINESS PRACTICES

In 2017, CAPREIT will be celebrating twenty years of growth and performance, as well as two decades of delivering stable, sustainable and growing returns to our Unitholders. We are very proud of this track record, and remain confident we have the right strategies, the right properties and the right team to continue building on this progress for years to come.

Our success is also built on a foundation of the highest levels of responsible and sustainable business practices. Since our founding in 1997, our focus has been on enhancing the engagement of our employees, ensuring we build strong and enduring relationships with our residents, strengthening our environmental performance, and building on our strong corporate governance initiatives. We will maintain this important focus going forward.

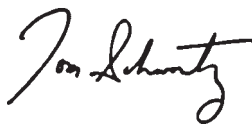
Our track record of success over the last twenty years could not have been achieved without the dedication, commitment and full engagement of our people. At CAPREIT, we believe we have the best team in the business, and in 2016 we were very proud to have been awarded a Platinum Level AON Best Employer in Canada for the fourth year in a row. This prestigious honour recognizes our high levels of employee engagement, our leadership programs, and our culture of performance. Our team is our most important asset, and we are proud of everything they have accomplished over the last twenty years.

Building strong and enduring relationships with our tenants is another key reason for our growth and success. By ensuring our residents receive timely assistance and responses to their questions and concerns, we reduce turnover and vacancy loss, experience fewer repairs and maintenance issues, achieve the highest sustainable monthly rents, and develop high-quality communities in our properties. We work hard to ensure our tenants are happy, and will continue to implement best-practice resident programs going forward.

Reducing our environmental footprint is another goal of our sustainable business practices. We continue to invest in energy-efficient heating boilers, energy-saving lighting, high-efficiency toilets, low-flow taps and shower heads, and numerous other initiatives. These programs reduce our energy use and water consumption, as well as our operating costs. We will continue to invest in our properties to ensure they are modern and efficient while improving the environment in which we live.

From a governance perspective, CAPREIT's Board of Trustees is comprised of skilled and experienced individuals, the majority of them independent, and all fully engaged in CAPREIT's operations, ensuring our business practices remain ethical, open and transparent. We continue to bring diversity and a broad and deep wealth of knowledge to the Board, and will continue to ensure we adopt the highest standards of corporate governance practices going forward.

Throughout this report you will learn more about our progress in meeting established goals related to our corporate social responsibility and sustainability initiatives. Focusing on these important practices is another reason we have been able to deliver a strong, stable and sustainable track record of accretive growth to our Unitholders for the last twenty years.



THOMAS SCHWARTZ
President and Chief Executive Officer

CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY

CAPREIT is Canada's largest publicly-traded residential landlord, serving more than 48,700 families. CAPREIT owns and operates a large portfolio of multi-unit residential rental properties, including apartments, townhomes and manufactured home communities, located principally 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 long-term sustainable growing distributions 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 incorporates 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 2016, affecting several key stakeholders.

CAPREIT achieved the following goals in 2016:

Employment practices

- Selected as a Platinum Level Aon Hewitt Best Employer in Canada for a fourth consecutive year for our outstanding employee engagement
- Successful implementation of a new performance management framework including core competencies aligned to our mission and values that are fully integrated into our Human Resources Information System
- Launch of employee and manager self-service portals enabling the entire organization to perform collaboratively on a single platform to foster growth and development
- Implementation of an online Learning Management System ("LMS") accessible through our employee self-service portal that enhances our ability to deliver industry-leading training content to all employees nationwide
- Expansion of our Leadership Excellence and Development ("LEAD") Programs including our two-year Rotational Management Training and Mentorship Programs, in order to support succession planning and increase the capacity of our internal talent pipeline
- Introduction of a new organizational structure for our Operations group that reinforces career progression, professional development and more clearly defined accountabilities
- Hiring of an Executive Vice-President, Operations in order to improve the bench strength of our Operations leadership team and support CAPREIT's continued growth and expansion into new and existing markets

Resident satisfaction

- \$61.6 million in structural capital investments for enhanced life safety and property improvement
- \$117.2 million in suite improvements, common areas and other enhancements for the greater comfort of residents
- \$10.3 million in repairs and maintenance, including for reconditioning, and improved curb appeal of properties
- Implemented an automation tool to aid in streamlining customer relationship management
- Continue to maintain CAP CARES, a 24/7 urgent maintenance request line for residents
- Rollout of a new Suite Turnover Mobile App, a tablet-based solution to streamline and improve the suite turnover process

Affordable housing and philanthropic efforts

- Provided more than 2,000 affordable suites to families in need in partnership with multiple government agencies
- Worked alongside local community organizations to assist in providing housing to Syrian refugees and to those affected by the fire in Fort McMurray in Alberta
- Continued to serve free breakfasts to schoolchildren at CAPREIT properties

Environmental conservation

- Invested \$10.8 million in energy-efficiency capital investments to reduce resource consumption
- Implemented better tracking and visibility of resource consumption to identify underperforming properties
- Received recognition in 2016 as an industry leader in energy management:
 - Water Efficiency Excellence Award, Multi-Residential Water Fixtures Retrofit Project, Region of Waterloo
 - Retrofit Energy Savings Champions Award, Enersource, Mississauga
 - Inducted into the Burlington Hydro Conservation Hall of Fame
 - Partner in Power Reduction Award, Hydro One Brampton
- Continued to expand electricity submetering to 94 properties and water submetering to 25 properties

Corporate governance

- Continued to improve the transparency and timely disclosure of corporate results and events

Investors

- Increased cash distributions for the nineteenth time since IPO to \$1.25 per Unit annually
- Continue to maintain conservative total debt to gross book value ratios and weighted average term to maturity for the mortgage portfolio
- Maintained a minimum of \$130 million of unencumbered assets
- Diversified revenue streams by providing asset management duties and property services for Irish Residential Properties REIT plc
- Expanded into new markets with the acquisition of 568 luxury apartment suites in eight properties in The Netherlands
- Development plan for more than 9,500 suites over the next ten years.
- Continued stabilized net operating income growth and sustained overall portfolio occupancy at above 97%

FUTURE TARGETS**2017****Employment practices**

- Delivery of nationwide training to create a high performance culture via performance management and fostering an environment of innovation through open communication and continuous feedback
- Rollout of a compensation strategy for all CAPREIT employees that aligns pay with individual performance
- Introduction of CAPREIT's Building Leaders Program, an executive training program created in order to meet the needs of CAPREIT's future growth by supporting the development of high potential employees

Resident satisfaction

- Improve customer relationship management by continuing to conduct automated resident satisfaction surveys
- Continue to focus on renovations to improve the quality of life of our residents

Affordable housing and philanthropic efforts

- Expand breakfast programs to allow both staff and residents to donate and volunteer

Environmental conservation

- Continue to evaluate opportunities and invest in energy-efficient and environment-friendly projects

Corporate governance

- Continue to evaluate opportunities to improve disclosure and risk management policies

Investors

- Acquire between 1,500 and 2,000 suites and sites on an annualized basis
- Raise between \$175 million and \$200 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
- Continue to look for acquisition opportunities in The Netherlands that meet CAPREIT's investment criteria

In the medium term

- Focusing on continuous succession planning activities in order to ensure CAPREIT's sustainable growth
- Continue the multiphase implementation of our Human Resources Information System in order to enhance visibility, reporting and decision-making capabilities
- Expand charitable efforts to improve the livelihoods of underprivileged families and further engage the community
- Reduce average energy use and water consumption intensity on a per suite basis
- Continue to investigate opportunities to enter into joint venture relationships with other real estate entities to develop new multi-unit rental residential properties on excess land owned by CAPREIT or other vacant land

Ultimately, these initiatives will help CAPREIT achieve its goals to:

- Continue to maintain Platinum Level Aon Best Employer in Canada status
- 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**

At CAPREIT, we recognize that our employees play a pivotal role in supporting our continued growth and success. This success has been achieved by fostering a culture of open communication, collaboration and teamwork that provides all employees with opportunities to drive business process innovation and pursue professional development.

In order to facilitate our employees' ability to influence and shape our business process innovation, our newly formed Centre of Excellence department remains focused on continuous process improvement and refinement. CAPREIT's focus on organizational efficiency via process improvement is a direct reflection of our ability to innovate. In that respect, our CAPTECH department plays a critical role in the creation and delivery of tailored applications that deliver industry-leading tools and reporting abilities to our employees.

The ability to attract and retain top talent remains of utmost importance to our organization in order to create open and collaborative teams staffed with employees dedicated to the pursuit of excellence. We take great pride in being awarded Platinum-level status as one of the 50 Best Employers in Canada by Aon Hewitt for a fourth consecutive year. We believe this recognition of our strong employee engagement is a direct reflection of our commitment to excellence in our employment practices.

At CAPREIT, we believe that our professional development opportunities contribute significantly to our outstanding employee engagement. In particular, our Rotational Management Training Program, Mentorship Program, and executive training programs help ensure that employees are given the tools they need to develop into our future leaders. In order to provide learning and development opportunities for employees at all levels of the organization, CAPREIT has launched our online Learning Management System (LMS), allowing us to deliver original training content to our employees nationwide. Furthermore, a suite of in-person training seminars delivered by our expert team of corporate trainers furthers our ability to ensure that employees at all levels of the organization are receiving the development they need to advance their careers at CAPREIT.

This focus on training and development provides us with the ability to maintain a robust internal talent pipeline that will meet the needs of CAPREIT's growth strategy for years to come.

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 any questions. Additional investments in technologies to improve the resident experience are currently being explored. During 2016 we introduced a customer relationship management tool to conduct automated surveys to monitor resident satisfaction and hired a new team focused on tenant experience. We also developed a new suite turnover mobile app for on-site managers to streamline and improve the suite turnover process, reduce inefficiencies and enhance resident satisfaction. In 2016, we were honoured to be recognized by various industry associations for our staff, property renovations, website redesign and contributions to the community.

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

In addition to our formal 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 the delivery of resident services at its properties. In 2016, call volumes decreased year over year across all tiers and most provinces. CAPREIT continues to employ 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 shut-down procedures for all building mechanical systems in case of an emergency. Efforts are underway to find opportunities within the current portfolio to convert unused space and 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 the 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 governments. 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. In 2016, CAPREIT continued to work alongside local community organizations to assist in providing housing to Syrian refugees and to those affected by the fire in Fort McMurray, Alberta. As of 2016, CAPREIT provides more than 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 they contribute to the well-being of communities and society and ensures properties are fully occupied at market rents.

CAPREIT continues to partner with the Breakfast Club of Canada. For 20 years, the Breakfast Club of Canada has been nourishing children's potential by making sure as many of them as possible have access to a healthy morning meal before school, in an environment that allows their self-esteem to grow and flourish.

But the Club is much more than a breakfast program: they take a broader approach that promotes the core values of engagement, enrichment and empowerment, and team up with communities and local partners to develop solutions adapted to their specific needs. Operating from coast to coast, the Breakfast Club of Canada helps feed 164,000 students every day in 1,455 schools. In 2016, CAPREIT helped raise over \$65,000 on behalf of the Breakfast Club of Canada through employee and corporate donations.

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,

more cost-effective technology that allows even greater reductions in energy use. These initiatives, with favourable payback periods, include:

- Installation of new high-efficiency boilers and chillers
- Installation of building automation systems to better control equipment performance and tenant comfort
- Installation of efficient LED and fluorescent lighting technology in suites and common areas
- Replacement of laundry machines with high-efficiency washing machines and dryers
- Optimization of electricity and water consumption by way of submetering
- Use of reflective panels to cost-effectively reduce heat loss
- Regular cleaning of in-suite heating coils, fins and radiators
- Installation of variable frequency drives to further reduce electricity use

High-efficiency boilers, remotely monitored by CAPREIT’s in-house energy department, allow for optimal temperatures for residents’ comfort while ensuring efficient energy use. Total expenditures since 2010 on energy consumption optimization investments amount to \$62 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 based on energy consumption for the years 2011 to 2015, calculated by an independent consulting firm in accordance with GHG Protocol (including Scopes 1 to 3):

Energy Use Intensity Performance over Prior Year (%)

	2015	2014	2013	2012
In Accordance with GHG Protocol	(7.0%)	0.5%	4.5%	(7.9%)
In Accordance with GHG Protocol Adjusted for Impact of Weather and Occupancy	(3.6%)	(2.5%)	(1.8%)	(2.6%)

Based on stabilized properties using 2010 as a base year.

In addition, to optimize electricity consumption, as of December 31, 2016 CAPREIT had installed tenant sub-metering systems at 94 properties for electricity submetering and 25 properties for water submetering, comprising more than 16,000 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 submetering through the reduction in annual electricity use intensity on a per suite basis in submetered buildings compared with those for the overall portfolio for the years 2011 to 2015.

Reduction in Electricity Use Intensity over Prior Year (%)

	2015	2014	2013	2012
Sub-metered Properties	(4.0%)	(4.4%)	(6.4%)	(2.6%)
Overall Portfolio	(4.3%)	(2.9%)	3.1%	(0.6%)

Based on stabilized properties using 2010 as a base year.

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:

- 24,000 ultra-low-flow toilets
- 50,000 low-flow shower heads and faucet aerators
- 1,158 high-efficiency front load washers
- Over 3,500 Energy Star appliances

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

Water Use Intensity Performance over Prior Year (%)

	2015	2014	2013	2012
In Accordance with GHG Protocol	0.0%	(3.4%)	(2.8%)	(1.0%)

Based on stabilized properties using 2010 as a base year.

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 facilities for recycling, and educating residents about the benefits of recycling.

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

CAPREIT contributes to the benefits of greater urban density and reduces 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 nineteen 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, 2016 should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2016.

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. In particular, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to acquisition and capital investment strategy and the real estate industry 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, Dutch, and Irish economies will generally experience growth but may be adversely impacted by the global economy; that inflation will remain low; that interest rates will remain low in the medium term; that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates; that the Canadian capital markets will continue to provide CAPREIT with access to equity and/or debt at reasonable rates; that vacancy rates for CAPREIT properties will be consistent with historical norms; that rental rates will grow at levels similar to the rate of inflation on renewal; that rental rates on turnovers will remain stable; that CAPREIT will effectively manage price pressures relating to its energy usage; and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the

properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions, Management believes they are reasonable as of the date hereof; however, there can be no assurance actual results will be consistent with these forward-looking statements, and they may prove to be incorrect. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond CAPREIT's control, that may cause CAPREIT's or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: reporting investment properties at fair value, real property ownership, leasehold interests, co-ownerships, investment restrictions, operating risk, energy costs and hedging, environmental matters, insurance, capital investments, indebtedness, interest rate hedging, foreign operation and currency risks, taxation, harmonization of federal goods and services tax and provincial sales tax, land transfer tax, government regulations, controls over financial accounting, legal and regulatory concerns, the nature of units of CAPREIT ("Trust Units"), Preferred Units, and units of CAPREIT's subsidiary, CAPREIT Limited Partnership ("Exchangeable Units") (collectively, the "Units"), unitholder liability, liquidity and price fluctuation of Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, continued growth, risks related to acquisitions, and foreign operating and currency risks. There can be no assurance that the expectations of CAPREIT's Management will prove to be correct. For a detailed discussion of risk factors, refer to CAPREIT's MD&A contained in CAPREIT's 2016 Annual Report in the Risks and Uncertainties section. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

NON-IFRS FINANCIAL MEASURES

CAPREIT prepares and releases unaudited consolidated interim financial statements and audited consolidated annual financial statements in accordance with International Financial Reporting Standards ("IFRS"). In this MD&A, and in earnings releases and investor conference calls, as a complement to results provided in accordance with IFRS, CAPREIT also discloses and discusses certain financial measures not recognized under IFRS and that do not have standard meanings prescribed by IFRS. These include

stabilized net rental income (“NOI”), Net Rental Revenue Run-Rate, Funds From Operations (“FFO”), Normalized Funds From Operations (“NFFO”), Adjusted Cash Flow from Operating Activities 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 stabilized NOI, Net Rental Revenue Run-Rate, FFO, NFFO, AFFO, and Adjusted Cash Flow from Operating Activities are not measures recognized under IFRS, they may not be comparable to similarly titled measures reported by other issuers. CAPREIT has presented the Non-IFRS measures because Management believes these Non-IFRS measures are relevant measures of the ability of CAPREIT to earn revenue and to evaluate CAPREIT's performance. A reconciliation of the Non-IFRS measures is provided in Section III under Non-IFRS Financial Measures. The Non-IFRS measures should not be construed as alternatives to net income (loss) or cash flows from operating activities determined in accordance with IFRS as indicators of CAPREIT's performance or the sustainability of our distributions.

OVERVIEW

CAPREIT is an unincorporated open-ended publicly-traded real estate investment trust and one of Canada's largest residential landlords, serving over 48,700 families across the country. CAPREIT owns and operates a portfolio of multi-unit residential rental properties, including apartments, townhomes and manufactured home communities, principally located in and near major urban centres in Canada. CAPREIT's concentration on the residential rental 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 and internationally.

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

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

CAPREIT was established under the laws of the Province of Ontario by a declaration of trust (the “DOT”) dated February 3, 1997, as most recently amended and restated on June 12, 2014. As at December 31, 2016, CAPREIT owned interests in 48,767 residential units, comprised of 42,316 residential suites and 31 manufactured home communities (“MHC”), comprised of 6,451 land lease sites. As at December 31, 2016, CAPREIT had 991 employees (937 employees as at December 31, 2015).

IRES TRANSACTION

On March 25, 2015, CAPREIT invested an additional €23.5 million in Ordinary Shares in IRES as part of IRES's €215.0 million secondary equity offering. As at December 31, 2016, CAPREIT LP holds 65.5 million ordinary shares representing 15.7% of the issued share capital of IRES.

The tables below summarize property acquisitions and dispositions for the years ended December 31, 2016 and 2015:

Acquisitions Completed During the Year Ended December 31, 2016

(\$ Thousands)

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

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

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

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

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

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

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

Acquisitions Completed During the Year Ended December 31, 2015

(\$ Thousands)

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

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

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

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

(4) The Rockbrook Portfolio acquisition was the first portfolio CAPREIT acquired for IRES for €89.7 million (including transaction costs), under the previously-announced agreement entered into between IRES and CAPREIT on November 21, 2014 and as amended on February 9, 2015 (the "Pipeline Agreement"). Refer to note 5 of the audited consolidated annual financial statements for further details.

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

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

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

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

Dispositions Completed During the Year Ended December 31, 2016

(\$ Thousands)

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

Dispositions Completed During the Year Ended December 31, 2015

(\$ Thousands)

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

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

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
- Invest capital within the property portfolio in order to ensure life safety of residents and maximize earnings and cash flow potential.

BUSINESS STRATEGY

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

Customer Service

CAPREIT recognizes that it is in a "people business" and strives to be recognized as the Landlord of Choice in all 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 investing appropriate capital investments in order to maintain the productive capacity of its property portfolio and to sustain the portfolio's rental income-generating potential over its useful life. CAPREIT continues to invest in environment-friendly and energy-saving initiatives that improve overall net operating income. CAPREIT completes a review of its portfolio and revises its long-term capital investment plan on an annual basis, which allows Management to ensure capital investments extend the useful economic life of CAPREIT's properties, enhance life safety, maximize earnings and improve the long-term cash flow potential of its portfolio.

Portfolio Growth

CAPREIT 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. Furthermore, Management continues to seek development opportunities within its portfolio to ensure existing assets are put towards their most accretive use. In addition, Management continues to prudently investigate opportunities to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT or other vacant land.

Financial Management

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

KEY PERFORMANCE INDICATORS

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

Occupancy

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

Average Monthly Rents

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

Net Rental Income ("NOI")

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

FFO and NFFO

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

Payout Ratio

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

Portfolio Growth

Management's objective is to pursue acquisitions 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 continues to prudently investigate opportunities to add new suites through the development of properties within its own portfolio and to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties on excess land 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 non-IFRS financial measures and operational results of CAPREIT for the years ended December 31, 2016 and 2015. Management believes that these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. Effective May 2016, monthly cash distribution declared to Unitholders increased to \$0.1042 per Unit (\$1.25 annually), compared to \$0.102 per Unit (\$1.22 annually) effective since May 2015 and \$0.098 per Unit (\$1.18 annually) effective since June 2014.

Year Ended December 31,	2016	2015
Portfolio Performance		
Overall Portfolio Occupancy ⁽¹⁾	98.6%	97.5%
Overall Portfolio Average Monthly Rents ⁽¹⁾	\$ 1,003	\$ 963
Operating Revenues (000s)	\$ 596,831	\$ 533,798
NOI (000s)	\$ 366,947	\$ 324,614
NOI Margin	61.5%	60.8%
Operating Performance ⁽²⁾		
FFO Per Unit – Basic	\$ 1.707	\$ 1.619
NFFO Per Unit – Basic	\$ 1.772	\$ 1.692
Weighted Average Number of Units – Basic (000s)	130,794	118,220
Cash Distributions Per Unit	\$ 1.238	\$ 1.207
FFO Payout Ratio ⁽⁶⁾	73.7%	76.4%
NFFO Payout Ratio ⁽⁶⁾	70.9%	73.1%
Liquidity and Leverage		
Total Debt to Gross Book Value ⁽¹⁾	44.31%	45.71%
Total Debt to Gross Historical Cost ^{(1),(3)}	54.36%	55.41%
Weighted Average Mortgage Interest Rate ⁽¹⁾	3.20%	3.39%
Weighted Average Mortgage Term (years) ⁽¹⁾	6.1	6.3
Debt Service Coverage (times) ⁽⁴⁾	1.63	1.63
Interest Coverage (times) ⁽⁴⁾	3.09	2.96
Available Liquidity – Acquisition and Operating Facility (000s) ⁽¹⁾	\$ 275,922	\$ 70,315
Other		
Number of Suites and Sites Acquired	2,552	5,632
Number of Suites Disposed	579	530
Closing Price of Trust Units ⁽¹⁾	\$ 31.37	\$ 26.84
Market Capitalization (millions) ⁽⁵⁾	\$ 4,290	\$ 3,478

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

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

PROPERTY PORTFOLIO

Types of Property Interests

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

Fee Simple Interests – Apartments and Townhomes

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

Operating Leasehold Interests

CAPREIT owns leasehold interests in 15 properties located in the Greater Toronto Area. The leases mature between 2033 and 2037. While separate lease arrangements exist for each property, the general structure is common across all leases: each lease is for a 35-year term and the rent for the entire lease term was fully paid at the time the leasehold interest was acquired. Each lease also provides CAPREIT with a purchase option exercisable between the 26th and 35th year of the lease term. In the case of one of the properties, the purchase option entitles CAPREIT to acquire a prepaid operating leasehold interest in the property maturing in 2072 (see Portfolio of Operating Leasehold Interests for additional information).

Land Leasehold Interests

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

Fee Simple Interests – MHC Land Lease Sites

CAPREIT has fee simple interests in 31 MHCs, whereby CAPREIT owns the sites, which it rents to residents.

Portfolio by Type of Property Interest

As at December 31,	2016	%	2015	%
Fee Simple Interests – Apartments and Townhomes	37,450	76.8	35,635	76.2
Operating Leasehold Interests	3,815	7.8	3,815	8.2
Land Leasehold Interests	1,051	2.2	1,051	2.2
Total Residential Suites	42,316	86.8	40,501	86.6
Fee Simple Interests – MHC Land Lease Sites	6,451	13.2	6,289	13.4
Total Suites and Sites	48,767	100.0	46,790	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,	2016	%	2015	%
Affordable	3,504	7.2	3,291	7.0
Mid-tier	23,117	47.4	21,679	46.4
Luxury	15,695	32.2	15,531	33.2
Total Residential Suites	42,316	86.8	40,501	86.6
MHC Land Lease Sites	6,451	13.2	6,289	13.4
Total Suites and Sites	48,767	100.0	46,790	100.0

Portfolio by Geography

As at December 31,	2016	%	2015	%
Residential Suites				
<i>Ontario</i>				
Greater Toronto Area	15,649	32.1	15,518	33.2
Ottawa	2,377	4.9	1,527	3.3
London / Kitchener / Waterloo	2,407	4.9	1,650	3.5
Other Ontario	1,698	3.5	1,696	3.6
	22,131	45.4	20,391	43.6
<i>Québec</i>				
Greater Montréal Region	7,640	15.6	8,243	17.6
Québec City	2,733	5.6	2,729	5.8
	10,373	21.2	10,972	23.4
<i>British Columbia</i>				
Greater Vancouver Region	3,031	6.2	3,030	6.5
Victoria	1,402	2.9	1,381	3.0
	4,433	9.1	4,411	9.5
<i>Alberta</i>				
Edmonton	436	0.9	436	0.9
Calgary	1,884	3.9	1,883	4.0
	2,320	4.8	2,319	4.9
<i>Nova Scotia</i>				
Halifax	1,659	3.4	1,588	3.4
<i>Saskatchewan</i>				
Saskatoon	133	0.2	133	0.3
Regina	234	0.5	234	0.5
	367	0.7	367	0.8
<i>Prince Edward Island</i>				
Charlottetown	465	1.0	453	1.0
<i>Europe</i>				
The Netherlands	568	1.2	–	–
Total Residential Suites	42,316	86.8	40,501	86.6
MHC Land Lease Sites				
Ontario	2,701	5.5	2,690	5.7
British Columbia	272	0.6	130	0.3
Alberta	415	0.9	415	0.9
Saskatchewan	246	0.5	246	0.5
Prince Edward Island	504	1.0	500	1.1
New Brunswick	2,313	4.7	2,308	4.9
Total MHC Land Lease Sites	6,451	13.2	6,289	13.4
Total Suites and Sites	48,767	100.0	46,790	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.

CAPREIT continues 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 lease amount based on the remaining lease term. In addition, under certain circumstances, the option price may be reduced by the unamortized portion of capital expenditures incurred during the final ten years of the lease term.

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

Operating Leasehold Interests Portfolio by Lease Maturity

(\$ Thousands)

As at December 31, 2016 and 2015

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

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

Portfolio of Land Leasehold Interests

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

Land Leasehold Interests Portfolio by Lease Maturity

(\$ Thousands)

Year Ended December 31, 2016 and 2015

Year of Lease Maturity	Suites	%	Annual Ground Rent	
			2016	2015
2045	473	45.0	\$ 1,000	\$ 1,000
2068	306	29.1	500	561
2070	272	25.9	1,216	1,246
Total Land Leasehold Interests Portfolio	1,051	100.0	\$ 2,716	\$ 2,807

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 net operating income used for appraisal purposes may not reflect the results ultimately realized during future periods.

The fair value of investment properties is established by a qualified, independent appraiser annually. Each quarter, CAPREIT utilizes market assumptions for rent increases, capitalization and discount rates provided by the independent 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 to the accompanying audited consolidated annual financial statements for the year ended December 31, 2016 contained in CAPREIT's 2016 Annual Report.

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

(\$ Thousands)	2016	2015
As at December 31,		
Balance, Beginning of the Period	\$ 6,863,140	\$ 5,749,640
Add:		
Acquisitions	414,668	949,300
Property Capital Investments ⁽¹⁾	195,742	163,208
Capitalized Leasing Costs ⁽²⁾	918	166
Unrealized Gain on Remeasurement at Fair Value	227,967	173,242
Less:		
Dispositions	(58,793)	(168,622)
Realized Loss on Dispositions	(1,813)	(639)
Foreign Currency Translation	188	(3,155)
Investment Properties at Fair Value, End of the Period	\$ 7,642,017	\$ 6,863,140

(1) See *Property Capital Investments* section.

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

For the years ended December 31, 2016 and 2015, 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

(\$ Millions)

As at December 31,	2015					2016	2015		2016
	Fair Value	Change Due to Change in					Fair Value	Rates ⁽¹⁾	
Rates ⁽¹⁾		Stabilized NOI ⁽²⁾	Forex Translation	Net Acquisitions	Rates ⁽¹⁾	Rates ⁽¹⁾			
Greater Toronto Area	\$ 2,846	\$ 70	\$ 125	\$ –	\$ 27	\$ 3,068	4.41%	4.30%	
Other Ontario	601	14	25	–	258	898	4.81%	4.84%	
Québec	1,434	9	44	–	(60)	1,427	4.94%	4.91%	
British Columbia	905	102	61	–	3	1,071	4.20%	3.72%	
Alberta	465	25	(55)	–	–	435	4.99%	4.67%	
Nova Scotia	237	5	(6)	–	17	253	5.62%	5.48%	
Saskatchewan	45	1	(3)	–	–	43	5.99%	5.76%	
Prince Edward Island	47	–	2	–	1	50	6.17%	6.17%	
The Netherlands	–	–	–	–	92	92	–	4.83%	
MHC Land Lease Sites	283	1	13	–	8	305	6.23%	6.23%	
Total	\$ 6,863	\$ 227	\$ 206	\$ –	\$ 346	\$ 7,642	4.74%	4.53%	

(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, 2016 for Operating and Land Leasehold Interests.

(2) Represents stabilized net operating income.

As at December 31, 2016, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of investment properties:

(\$ Millions)

As at December 31, 2016	Change (basis points) ⁽¹⁾	Estimated (Decrease) Increase
Weighted Average Capitalization Rate	+25	\$ (410)
Weighted Average Capitalization Rate	–25	\$ 413

(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 the 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, 2015				Properties Acquired Since December 31, 2015	
	2016		2015		2016		2015 ⁽¹⁾		AMR	Occ. %
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %
Affordable	\$ 910	97.7	\$ 815	95.7	\$ 880	97.5	\$ 841	95.9	\$ 1,039	98.6
Mid-tier	\$ 1,063	99.1	\$ 1,028	98.1	\$ 1,057	99.1	\$ 1,029	98.1	\$ 1,130	98.7
Luxury	\$ 1,198	98.3	\$ 1,152	96.6	\$ 1,194	98.4	\$ 1,152	96.9	\$ 1,609	98.1
Average Residential Suites	\$ 1,101	98.7	\$ 1,059	97.4	\$ 1,099	98.7	\$ 1,064	97.5	\$ 1,137	98.7
Average MHC Land Lease Sites	\$ 378	98.3	\$ 366	98.2	\$ 377	98.3	\$ 366	98.2	\$ 413	100.0
Overall Portfolio Average	\$ 1,003	98.6	\$ 963	97.5	\$ 998	98.6	\$ 967	97.6	\$ 1,095	98.7

(1) Prior year comparable AMR and occupancy have been restated for properties disposed of since December 31, 2015.

AMR is defined as actual residential rents, net of vacancies, divided by the total number of suites in the property, and does not include revenues from parking, laundry or other sources. Overall average monthly rents for the stabilized residential suite portfolio (properties owned prior to December 31, 2015) increased in all demographic sectors to \$1,099 at December 31, 2016 from \$1,064 at December 31, 2015, resulting in a 3.3% increase. Excluding Alberta and Saskatchewan, where Management has strategically reduced rents to increase occupancy, average monthly rents for the stabilized residential suite portfolio increased a solid 3.9% to \$1,102 at December 31, 2016 from \$1,061 at December 31, 2015. This was due primarily to a combination of ongoing successful sales and marketing strategies, above guideline rent increases, and continued strength in the residential rental sector in the majority of CAPREIT's regional markets. Occupancy for the stabilized residential suite portfolio increased to 98.7% as at December 31, 2016 compared to 97.5% for last year. For the total residential portfolio, AMR increased 4.0% at December 31, 2016 compared to the prior year, while occupancies improved to 98.7% from 97.4% last year.

For the total MHC land lease portfolio, average monthly rents increased to \$378 as at December 31, 2016, compared to \$366 as at December 31, 2015 while occupancy remained strong at 98.3%, up from 98.2% last year. Management believes MHC land lease sites provide secure and stable cash flows due to long-term tenancies, high occupancies, steady increases in average monthly rents, and significantly lower capital and maintenance costs.

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

Suite Turnovers and Lease Renewals – Total Portfolio

For the Year Ended December 31,	2016			2015		
	Change in AMR \$	%	% Turnovers & Renewals ⁽¹⁾	Change in AMR \$	%	% Turnovers & Renewals ⁽¹⁾
Suite Turnovers	13.0	1.2	27.7	20.7	1.9	24.8
Lease Renewals	21.8	2.0	78.7	21.6	2.0	71.6
Weighted Average of Turnovers and Renewals	19.5	1.8		21.4	1.9	

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

For suite turnovers in the residential suite portfolio (excluding co-ownerships and the Alberta and Saskatchewan regions where Management has strategically reduced rents to increase occupancy) during the year ended December 31, 2016, average monthly rents increased strongly by approximately \$41 or 3.8% compared to an increase of \$29 or 2.7% for last year, primarily due to the strong rental markets of British Columbia and Ontario.

Overall, suite turnovers in the residential suite portfolio (excluding co-ownerships) during the year ended December 31, 2016, resulted in average monthly rents increasing by approximately \$13 or 1.2%, compared to an increase of approximately \$21 or 1.9% for last year primarily due to the strong rental markets of British Columbia and Ontario, offset by strategically reduced rents in the Alberta and Saskatchewan rental markets to increase occupancy and higher unit turnover than in previous years.

Pursuant to Management's focus on increasing overall portfolio rents for the year ended December 31, 2016, average monthly rents on lease renewals increased by approximately \$22 or 2.0%, compared to an increase of approximately \$22 or 2.0% for last year. Increased portfolio diversification helped mitigate geographical risk in particular areas of Canada. Management continues to pursue applications for AGI in Ontario, where it believes increases to raise average monthly rents on lease renewals above the annual guideline are supported by market conditions (see discussion in the Future Outlook section). For 2017, the permitted guideline increase in Ontario and British Columbia has been set to 1.5% and 3.7% respectively.

Portfolio Average Monthly Rents and Occupancy by Geography

As at December 31,	Total Portfolio				Properties Owned Prior to December 31, 2015				Properties Acquired Since December 31, 2015	
	2016		2015		2016		2015 ⁽¹⁾		AMR	Occ. %
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %		
Residential Suites										
<i>Ontario</i>										
Greater Toronto Area	\$ 1,269	99.7	\$ 1,218	99.1	\$ 1,267	99.7	\$ 1,218	99.1	\$ 1,470	100.0
Ottawa	1,186	99.6	946	99.7	951	99.9	946	99.7	1,395	98.9
London / Kitchener / Waterloo	910	98.3	894	97.3	922	98.4	894	97.3	883	98.2
Other Ontario	1,176	99.4	1,126	99.1	1,176	99.4	1,126	99.1	–	–
	\$ 1,214	99.5	\$ 1,171	99.0	\$ 1,217	99.6	\$ 1,171	99.0	\$ 1,177	98.7
<i>Québec</i>										
Greater Montréal Region	\$ 866	97.6	\$ 830	96.6	\$ 866	97.6	\$ 840	96.7	\$ –	–
Québec City	967	96.9	947	95.5	967	96.9	947	95.5	–	–
	\$ 892	97.4	\$ 859	96.4	\$ 892	97.4	\$ 868	96.4	\$ –	–
<i>British Columbia</i>										
Greater Vancouver Region	\$ 1,151	99.8	\$ 1,095	99.6	\$ 1,151	99.8	\$ 1,095	99.6	\$ –	–
Victoria	1,065	99.7	1,017	99.9	1,069	99.7	1,017	99.9	791	100.0
	\$ 1,124	99.8	\$ 1,070	99.7	\$ 1,126	99.8	\$ 1,070	99.7	\$ 791	100.0
<i>Alberta</i>										
Edmonton	\$ 1,098	95.0	\$ 1,157	91.5	\$ 1,098	95.0	\$ 1,157	91.5	\$ –	–
Calgary	1,051	95.9	1,118	89.9	1,051	95.9	1,118	89.9	–	–
	\$ 1,060	95.7	\$ 1,125	90.2	\$ 1,060	95.7	\$ 1,125	90.2	\$ –	–
<i>Nova Scotia</i>										
Halifax	\$ 1,077	96.6	\$ 1,004	92.1	\$ 1,053	96.4	\$ 1,004	92.1	\$ 1,603	100.0
<i>Saskatchewan</i>										
Saskatoon	\$ 951	98.5	\$ 894	88.7	\$ 951	98.5	\$ 894	88.7	\$ –	–
Regina	1,030	99.1	1,022	95.7	1,030	99.1	1,022	95.7	–	–
	\$ 1,001	98.9	\$ 975	93.2	\$ 1,001	98.9	\$ 975	93.2	\$ –	–
<i>Prince Edward Island</i>										
Charlottetown	\$ 982	99.1	\$ 951	84.8	\$ 985	99.1	\$ 951	94.9	\$ 897	100.0
<i>Europe</i>										
The Netherlands	\$ 974	98.4	\$ –	–	\$ –	–	\$ –	–	\$ 974	98.4
Total Residential Suites	\$ 1,101	98.7	\$ 1,059	97.4	\$ 1,099	98.7	\$ 1,064	97.5	\$ 1,137	98.7
MHC Land Lease Sites										
Ontario	\$ 513	99.9	\$ 500	99.6	\$ 513	99.9	\$ 500	99.6	\$ 621	100.0
British Columbia	423	100.0	411	96.9	440	100.0	411	96.9	408	100.0
Alberta	418	99.8	404	100.0	418	99.8	404	100.0	–	–
Saskatchewan	384	99.6	353	97.2	384	99.6	353	97.2	–	–
Prince Edward Island	141	99.8	140	95.8	141	99.8	140	95.8	–	–
New Brunswick	258	95.6	250	96.8	258	95.6	250	96.8	–	–
Total MHC Land Lease Sites	\$ 378	98.3	\$ 366	98.2	\$ 377	98.3	\$ 366	98.2	\$ 413	100.0
Total Suites and Sites	\$ 1,003	98.6	\$ 963	97.5	\$ 998	98.6	\$ 967	97.6	\$ 1,095	98.7

(1) Prior year comparable AMR and occupancy have been restated for properties disposed of since December 31, 2015.

Overall average monthly rents for the stabilized residential suite portfolio as at December 31, 2016 increased by approximately 3.3% compared to last year, while occupancies increased to 98.7%. For the total residential suite portfolio, AMR increased by approximately 4.0%, as compared to December 31, 2015, primarily due to a combination of ongoing successful sales and marketing strategies, above guideline increases, and continued strength in the residential rental sector in the majority of CAPREIT's regional markets, while occupancies remained strong at 98.7%. Management believes annual occupancies can be maintained in the 97% to 98% range and the trend for gradual increases in same-property average monthly rents will continue, providing the basis for sustainable year-over-year increases in revenues.

Management also believes the defensive characteristics of its 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 same-property 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, 2016 and 2015, 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,	2016	% ⁽¹⁾	2015	% ⁽¹⁾
New Tenant Inducements Incurred ⁽²⁾	\$ 2,870		\$ 1,691	
Tenant Inducements Amortized	\$ 2,427	0.4	\$ 1,652	0.3
Vacancy Loss Incurred	12,950	2.2	12,585	2.4
Total Amortization and Loss	\$ 15,377	2.6	\$ 14,237	2.7
Bad Debt Expense ⁽³⁾	\$ 2,622	0.4	\$ 1,504	0.3

(1) As a percentage of total operating revenues.

(2) New Tenant Inducements increased compared to last year primarily due to weakness in the Alberta region.

(3) Bad Debt Expense increased compared to last year due to Alberta and Saskatchewan.

RESULTS OF OPERATIONS

Total Operating Revenues by Geography

(\$ Thousands)

For the Year Ended December 31,	2016	2015
Residential Suites		
<i>Ontario</i>		
Greater Toronto Area	\$ 243,067	\$ 235,037
Ottawa	16,263	9,193
London / Kitchener / Waterloo	24,918	17,939
Other Ontario	25,648	23,613
	\$ 309,896	\$ 285,782
<i>Québec</i>		
Greater Montréal Region	\$ 92,268	\$ 65,961
Québec City	34,715	35,046
	\$ 126,983	\$ 101,007
<i>British Columbia</i>		
Greater Vancouver Region	\$ 44,229	\$ 33,296
Victoria	19,806	16,360
	\$ 64,035	\$ 49,656
<i>Alberta</i>		
Edmonton	\$ 6,784	\$ 6,890
Calgary	29,506	32,455
	\$ 36,290	\$ 39,345
<i>Nova Scotia</i>		
Halifax	\$ 20,681	\$ 20,193
<i>Saskatchewan</i>		
Saskatoon	\$ 1,422	\$ 1,500
Regina	2,857	2,938
	\$ 4,279	\$ 4,438
<i>Prince Edward Island</i>		
Charlottetown	\$ 5,424	\$ 5,136
<i>Europe</i>		
The Netherlands / Ireland	\$ 156	\$ 1,072
Total Residential Suites	\$ 567,744	\$ 506,629
MHC Land Lease Sites		
Ontario	\$ 17,181	\$ 16,182
British Columbia	1,107	640
Alberta	1,617	1,518
Saskatchewan	1,118	1,027
Prince Edward Island	861	870
New Brunswick	7,203	6,932
Total MHC Land Lease Sites	\$ 29,087	\$ 27,169
Total Residential Suites and MHC Land Lease Sites	\$ 596,831	\$ 533,798

Results of Operations

(\$ Thousands)

For the Year Ended December 31,	2016	% ⁽¹⁾	2015	% ⁽¹⁾
Operating Revenues				
Net Rental Revenues	\$ 565,099	94.7	\$ 505,188	94.6
Other ⁽²⁾	31,732	5.3	28,610	5.4
Total Operating Revenues	\$ 596,831	100.0	\$ 533,798	100.0
Operating Expenses				
Realty Taxes	(65,462)	11.0	(59,337)	11.1
Utilities	(60,759)	10.2	(54,241)	10.2
Other ⁽³⁾	(103,663)	17.3	(95,606)	17.9
Total Operating Expenses	(229,884)	38.5	(209,184)	39.2
NOI	\$ 366,947	61.5	\$ 324,614	60.8

*(1) As a percentage of total operating revenues.**(2) Comprises ancillary income such as parking, laundry and antenna income.**(3) Comprises R&M, wages, general and administrative, insurance, advertising, and legal costs.***Operating Revenues**

For the year ended December 31, 2016, total operating revenues increased by 11.8% compared to last year, due to the contributions from acquisitions, increased average monthly rents on stabilized properties, 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 10.9% for the year ended December 31, 2016.

Estimated Net Rental Revenue Run-Rate

(\$ Thousands)

As at December 31,	2016	2015
Residential Rent Roll ^{(1),(2)}	\$ 568,484	\$ 524,341
Commercial Rent Roll ^{(1),(2)}	22,134	20,386
Annualized Net Rental Revenue Run-Rate	\$ 590,618	\$ 544,727

*(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, 2016 and 2015, net of average historical vacancy loss, tenant inducements and bad debt. The estimated annualized Net Rental Revenue Run-Rate improved by 8.4% to \$590.6 million from \$544.7 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, 2016 was \$561.9 million (2015 – \$503.7 million).

Operating Expenses

Overall operating expenses increased in the year ended December 31, 2016 compared to last year, due primarily to the increased size of the portfolio. However, total operating expenses as a percentage of revenues decreased to 38.5% compared to 39.2% for last year.

Realty Taxes

For the year ended December 31, 2016, realty taxes as a percentage of operating revenues decreased to 11.0% compared to 11.1% last year.

Utilities

As a percentage of operating revenues, utility costs for the year ended December 31, 2016 remained stable at 10.2%.

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,	2016		2015		
		% ⁽¹⁾			% ⁽¹⁾
Electricity	\$ 26,830	4.5	\$ 23,257		4.4
Natural Gas	15,712	2.6	14,878		2.8
Water	18,217	3.1	16,106		3.0
Total	\$ 60,759	10.2	\$ 54,241		10.2

(1) As a percentage of total operating revenues.

For the year ended December 31, 2016, electricity costs as a percentage of total operating revenues remained stable at 4.5% compared to 4.4% for last year. In dollar terms, electricity costs for the year ended December 31, 2016 increased compared to last year due to the large number of acquisitions in the past year and higher rates, partially offset by lower consumption on stabilized properties and an increase in submetered units in Ontario and Alberta. As at December 31, 2016, tenants who pay their hydro charges directly represent 62% of the total 16,474 recently sub-metered suites in Ontario and Alberta.

For the year ended December 31, 2016, natural gas costs as a percentage of total operating revenues decreased to 2.6% compared to 2.8% for last year, primarily due to reduced consumption.

The table below provides information on CAPREIT's fixed natural gas contracts for the fiscal years remaining 2017, 2018, 2019, and 2020:

	Actual ⁽²⁾ 2015	Actual 2016	Estimated 2017	Estimated 2018	Estimated 2019	Estimated 2020
Gas Commodity						
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 3.75	\$ 3.61	\$ 2.91	\$ 2.95	\$ 2.84	\$ 2.79
Total of CAPREIT's Actual/Estimated Requirements	70.0%	66.2%	58.5%	50.7%	48.8%	32.9%
Transport						
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 1.84	\$ 1.59	\$ 1.25	\$ 1.00	\$ 0.96	\$ 0.95
Total of CAPREIT's Actual/Estimated Requirements	52.0%	55.3%	69.9%	49.2%	47.6%	32.9%

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

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

Other Operating Expenses

Other operating expenses, which include R&M costs, wages and benefits, insurance and advertising, decreased as a percentage of operating revenues for the year ended December 31, 2016 to 17.3% from 17.9% for last year, primarily due to reduced R&M costs, partially offset by increased wages compared to last year.

NOI

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

The following table shows the NOI and the NOI margin attained for each regional market for the years ended December 31, 2016 and 2015.

(\$ Thousands)

For the Year Ended December 31,	2016		2015		Increase (Decrease)		
	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
<i>Ontario</i>							
Greater Toronto Area	\$ 151,700	62.4	\$ 144,294	61.4	3.4	0.7	5.1
Ottawa	9,558	58.8	4,776	52.0	76.9	51.8	100.1
London / Kitchener / Waterloo	15,090	60.6	10,750	59.9	38.9	36.7	40.4
Other Ontario	15,257	59.5	13,814	58.5	8.6	6.0	10.4
	\$ 191,605	61.8	\$ 173,634	60.8	8.4	5.5	10.3
<i>Québec</i>							
Greater Montréal Region	\$ 52,472	56.9	\$ 37,359	56.6	39.9	39.1	40.5
Québec City	19,255	55.5	19,227	54.9	(0.9)	(2.3)	0.1
	\$ 71,727	56.5	\$ 56,586	56.0	25.7	24.4	26.8
<i>British Columbia</i>							
Greater Vancouver Region	\$ 30,580	69.1	\$ 22,402	67.3	32.8	25.3	36.5
Victoria	14,186	71.6	11,113	67.9	21.1	7.1	27.7
	\$ 44,766	69.9	\$ 33,515	67.5	29.0	19.4	33.6
<i>Alberta</i>							
Edmonton	\$ 4,599	67.8	\$ 4,772	69.3	(1.5)	3.2	(3.6)
Calgary	17,590	59.6	20,605	63.5	(9.1)	0.6	(14.6)
	\$ 22,189	61.1	\$ 25,377	64.5	(7.8)	1.0	(12.6)
<i>Nova Scotia</i>							
Halifax	\$ 12,588	60.9	\$ 12,513	62.0	2.4	5.4	0.6
<i>Saskatchewan</i>							
Saskatoon	\$ 710	49.9	\$ 761	50.7	(5.2)	(3.7)	(6.7)
Regina	1,786	62.5	1,838	62.6	(2.8)	(2.6)	(2.8)
	\$ 2,496	58.3	\$ 2,599	58.6	(3.6)	(3.0)	(4.0)
<i>Prince Edward Island</i>							
Charlottetown	\$ 2,716	50.1	\$ 2,497	48.6	5.6	2.6	8.8
<i>Europe</i>							
Netherlands / Ireland	\$ 127	81.4	\$ 878	81.9	(85.4)	(85.1)	(85.5)
Total Residential Suites	\$ 348,214	61.3	\$ 307,599	60.7	12.1	10.3	13.2
MHC Land Lease Sites							
Ontario	\$ 11,687	68.0	\$ 10,656	65.9	6.2	(0.6)	9.7
British Columbia	847	76.5	490	76.6	73.0	73.3	72.9
Alberta	1,126	69.6	1,030	67.9	6.5	0.6	9.3
Saskatchewan	771	69.0	644	62.7	8.9	(9.4)	19.7
Prince Edward Island	360	41.8	372	42.8	(1.0)	0.6	(3.2)
New Brunswick	3,942	54.7	3,823	55.2	3.9	4.9	3.1
Total MHC Land Lease Sites	\$ 18,733	64.4	\$ 17,015	62.6	7.1	2.0	10.1
Total Suites and Sites	\$ 366,947	61.5	\$ 324,614	60.8	11.8	9.9	13.0

For the year ended December 31, 2016, NOI increased by 13.0% and the NOI margin increased to 61.5% compared to 60.8% for last year due to reduced R&M costs and vacancies. The significant increase in NOI in specific regions of the portfolio was primarily the result of acquisitions completed in the prior twelve months and higher operating revenues. CAPREIT remains focused on continuing to 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,

	2016		2015		Increase (Decrease)		
	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
<i>Ontario</i>							
Greater Toronto Area	\$ 150,647	62.4	\$ 143,345	61.3	3.2	0.3	5.1
Ottawa	4,622	49.8	4,776	52.0	0.9	5.4	(3.2)
London / Kitchener / Waterloo	11,501	62.1	10,750	59.9	3.2	(2.4)	7.0
Other Ontario	12,963	60.2	12,152	58.9	4.4	1.2	6.7
	\$ 179,733	61.8	\$ 171,023	60.7	3.2	0.4	5.1
<i>Québec</i>							
Greater Montréal Region	\$ 29,540	56.6	\$ 29,027	56.3	1.3	0.7	1.8
Québec City	19,255	55.5	19,227	54.9	(0.9)	(2.3)	0.1
	\$ 48,795	56.1	\$ 48,254	55.7	0.4	(0.5)	1.1
<i>British Columbia</i>							
Greater Vancouver Region	\$ 20,945	69.2	\$ 19,441	67.0	4.3	(2.7)	7.7
Victoria	12,069	71.2	10,872	67.8	5.7	(5.5)	11.0
	\$ 33,014	69.9	\$ 30,313	67.3	4.8	(3.7)	8.9
<i>Alberta</i>							
Edmonton	\$ 3,479	68.6	\$ 3,622	68.9	(3.6)	(2.7)	(3.9)
Calgary	17,590	59.6	20,605	63.5	(9.1)	0.6	(14.6)
	\$ 21,069	60.9	\$ 24,227	64.2	(8.3)	0.2	(13.0)
<i>Nova Scotia</i>							
Halifax	\$ 12,335	60.8	\$ 12,513	62.0	0.5	3.6	(1.4)
<i>Saskatchewan</i>							
Saskatoon	\$ 710	49.9	\$ 761	50.7	(5.2)	(3.7)	(6.7)
Regina	1,786	62.5	1,838	62.6	(2.8)	(2.6)	(2.8)
	\$ 2,496	58.3	\$ 2,599	58.6	(3.6)	(3.0)	(4.0)
<i>Prince Edward Island</i>							
Charlottetown	\$ 2,686	50.4	\$ 2,497	48.6	3.8	0.3	7.6
Total Residential Suites	\$ 300,128	61.3	\$ 291,426	60.6	1.8	(0.1)	3.0
MHC Land Lease Sites							
Ontario	\$ 11,687	68.0	\$ 10,656	65.9	6.2	(0.6)	9.7
British Columbia	482	73.5	490	76.6	2.5	16.0	(1.6)
Alberta	1,126	69.6	1,030	67.9	6.5	0.6	9.3
Saskatchewan	771	69.0	644	62.7	8.9	(9.4)	19.7
Prince Edward Island	360	41.8	372	42.8	(1.0)	0.6	(3.2)
New Brunswick	3,942	54.7	3,823	55.2	3.9	4.9	3.1
Total MHC Land Lease Sites	\$ 18,368	64.1	\$ 17,015	62.6	5.4	1.1	8.0
Total Suites and Sites	\$ 318,496	61.5	\$ 308,441	60.7	2.0	-	3.3
Stabilized Suites and Sites	39,702		39,702				

Stabilized properties for the year ended December 31, 2016 are defined as all properties owned by CAPREIT continuously since December 31, 2014, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2016 and 2015. As at December 31, 2016, stabilized suites and sites represent 83.4% of CAPREIT's overall portfolio (excluding co-ownerships).

For the year ended December 31, 2016, operating revenues increased by 2.0% and operating costs remained stable compared to last year. As a result, stabilized NOI increased by 3.3% for the year ended December 31, 2016. For the fourth quarter of 2016, operating revenues increased by 2.5% and operating costs decreased by 2.2% compared to the same period in the prior year, driving a 5.6% increase in stabilized NOI for the three months ended December 31, 2016.

For the year ended December 31, 2016, the NOI margin for properties acquired since December 31, 2014 was 61.9%.

Ontario:

NOI for the stabilized Ontario portfolio increased by 5.1% during the year ended December 31, 2016 compared to last year, primarily due to higher operating revenues and lower R&M and vacancies partially offset by higher utilities and wages. The NOI margin improved to 61.8% for the year ended December 31, 2016 compared to 60.7% 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 2017 is 1.5%.

Québec:

NOI for the stabilized Québec portfolio increased by 1.1% during the year ended December 31, 2016 compared to last year, primarily due to higher operating revenues and lower utilities, offset by higher vacancies, bad debt, and tenant allowances. For the year ended December 31, 2016, the NOI margin increased to 56.1% compared to 55.7% 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 8.9% during the year ended December 31, 2016 compared to last year, primarily due to higher operating revenues and lower R&M costs partially offset by higher realty taxes. For the year ended December 31, 2016, the NOI margin improved to 69.9% from 67.3% for last year. Management believes the British Columbia portfolio will continue to generate steady returns in the medium term. The rent guideline increase for 2017 is 3.7%.

Alberta:

NOI for the stabilized Alberta portfolio decreased by 13.0% during the year ended December 31, 2016 compared to last year, primarily due to higher bad debt and tenant allowances and lower rental revenues partially offset by lower vacancies and R&M costs. For the year ended December 31, 2016, the NOI margin decreased to 60.9% compared to 64.2% for last year. Despite recent declines in the price of oil on international markets, management believes its well-located properties and CAPREIT's proven property management programs should help mitigate any further downturn in the local market. In addition, with Alberta representing only 6.0% of CAPREIT's total NOI, it is not overly exposed to any unanticipated significant downturn in the Alberta multi-unit residential rental business.

Nova Scotia:

NOI for the stabilized Nova Scotia portfolio decreased by 1.4% for the year ended December 31, 2016 compared to last year, primarily due to higher realty taxes, maintenance and wage costs and lower parking revenue partially offset by lower tenant allowances, and utilities. For the year ended December 31, 2016, the NOI margin decreased to 60.8% 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 by 8.0% for the year ended December 31, 2016 compared to last year, primarily due to higher rental revenue, MHC home sales, and lower R&M costs. For the year ended December 31, 2016, the NOI margin increased to 64.1% from 62.6% for last year. Management believes its MHC land lease portfolio will provide accretive growth in the long term.

(\$ Thousands)

For the Year Ended December 31,	NOI		NOI	
	2016	Margin (%)	2015	Margin (%)
Stabilized NOI	\$ 318,496	61.5	\$ 308,441	60.7
Net Acquisitions NOI ⁽¹⁾	48,451	61.9	16,173	62.7
Total NOI	\$ 366,947	61.5	\$ 324,614	60.8

(1) Accounts for the NOI of acquisitions or dispositions completed during 2016 and 2015.

NET INCOME AND OTHER COMPREHENSIVE INCOME

(\$ Thousands)

Year Ended December 31,	2016	2015
Net Operating Income	\$ 366,947	\$ 324,614
(Less) Plus:		
Trust Expenses	(32,129)	(22,707)
Unrealized Gain on Remeasurement of Investment Properties	227,335	173,242
Realized Loss on Disposition of Investment Properties	(1,813)	(639)
Remeasurement of Exchangeable Units	(731)	(276)
Unit-based Compensation Expenses	(19,897)	(13,417)
Interest on Mortgages Payable and Other Financing Costs	(112,425)	(103,795)
Interest on Bank Indebtedness	(4,705)	(3,988)
Interest on Exchangeable Units	(200)	(194)
Other Income	17,236	12,340
Amortization	(4,249)	(2,799)
Severance and Other Employee Costs	–	(5,237)
Unrealized and Realized (Loss) Gain on Derivative Financial Instruments	(397)	282
Dilution Loss on Equity Accounted Investments	–	(4,346)
Gain (Loss) on Foreign Currency Translation	4,441	(7,447)
Net Income	\$ 439,413	\$ 345,633
Other Comprehensive Income		
Items That May Be Reclassified Subsequently to Net Income		
Amortization of Losses from AOCL to Interest and Other Financing Costs	\$ 3,105	\$ 3,311
Change in Fair Value of Derivative Financial Instruments	1,644	(2,641)
Change in Fair Value of Investments	3,109	652
Foreign Currency Translation	(5,914)	8,305
Reversal of Cumulative Foreign Currency Translation Relating to IRES Ownership Dilution	–	3,127
Other Comprehensive Income	1,944	12,754
Comprehensive Income	\$ 441,357	\$ 358,387

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and advisory services, trustees' and officers' insurance premiums, providing third-party property and asset management services, and other general and administrative expenses, net of amounts allocated to property operating expenses for properties owned by CAPREIT. Trust expenses increased for the year ended December 31, 2016 to \$32.1 million from \$22.7 million for last year due to higher compensation expenses and non-recurring legal provisions of \$2.3 million and \$5.5 million related to transactions that were not completed.

Unrealized Gain on Remeasurement of Investment Properties

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

Realized Loss on Disposition of Investment Properties

For the year ended December 31, 2016, a loss of \$1.8 million was recognized in connection with the property dispositions in the third quarter of 2016. For the year ended December 31, 2015, a loss of \$0.6 million was recognized in connection with the property disposition on February 18, 2015. 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.

Remeasurement of Exchangeable Units

CAPREIT accounts for its Exchangeable Units as a financial liability, remeasures such liability at each reporting period, and includes this remeasurement in the consolidated statements of income and comprehensive income. The increase in the market price of the underlying CAPREIT Trust Units since the last reporting date resulted in a loss on remeasurement of \$0.7 million for the year ended December 31, 2016 compared to \$0.3 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, 2016 contained in CAPREIT's 2016 Annual Report.

Unit-based Compensation Expenses

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

CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2016 contained in CAPREIT's 2016 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, 2016, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 9,500,000 Units (December 31, 2015 – 9,500,000). The maximum number of Units available for future issuance under all Unit incentive plans as at December 31, 2016 is 1,346,980 Units (December 31, 2015 – 1,750,051 Units).

A description of the key components of the market-based rates and assumptions used to determine the fair values of the awards is included in notes 11 and 12 to CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2016 contained in CAPREIT's 2016 Annual Report.

CAPREIT's Unit-based compensation expense for the year ended December 31, 2016 resulted in a loss of \$19.9 million compared to \$13.4 million for last year due to the larger increase in the market price of the underlying CAPREIT Trust Units and higher DUP and RUR awards amortization expense compared to 2015. The table below demonstrates the impact of each component of CAPREIT's benefit plans on the total compensation expense.

(\$ Thousands)		
Year Ended December 31,	2016	2015
Remeasurement of Unit-based Compensation Liabilities	\$ 14,217	\$ 7,511
Amortization of Fair Value on Grant Date of Unit-based Compensation	5,680	5,906
Total	\$ 19,897	\$ 13,417

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, 2016 to \$112.4 million from \$103.8 million for last year due to mortgage top-ups and acquisition financings in 2016. As a percentage of operating revenues, mortgage interest expense decreased to 18.8% for the year ended December 31, 2016 compared to 19.4% for last year due to refinancing of mortgages at lower interest rates and higher operating revenues from stabilized properties and acquisitions. Additional information on the interest on mortgages payable and other financing costs is included in note 21 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,	2016	2015
Recurring		
Investment Income	\$ 1,304	\$ 1,305
Net Profit from Equity		
Accounted Investment ⁽¹⁾	10,600	6,894
Asset and Property Management Fees	5,195	3,316
Non-Recurring ⁽²⁾	137	825
Total	\$ 17,236	\$ 12,340

(1) Includes unrealized gain on remeasurement of IRES investment properties of \$7,006 and \$4,024 for the years ended December 31, 2016 and December 31, 2015, respectively.

(2) Includes other interest income and underwriters' fee relating to sale of Rockbrook SPV in 2015.

Effective April 11, 2014, CAPREIT entered into an external management agreement as may be amended from time to time, to perform certain asset management duties and property services for IRES REIT (formerly CAPREIT's Irish subsidiary), which owns properties in Dublin, Ireland. Asset management and property management fees included in other income for the year ended December 31, 2016 are \$5.2 million compared to \$3.3 million in the prior year. Expenses related to the asset management and property management services are included in trust expenses for the year ended December 31, 2016.

Included in non-recurring other income is \$0.8 million (net of taxes) for the year ended December 31, 2015 from one-time underwriters' fee income relating to the sale of the Rockbrook Portfolio to IRES pursuant to the Pipeline Agreement.

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.

Severance and Other Employee Costs

For the year ended December 31, 2015, \$5.2 million of severance and other employee costs were incurred, including compensation costs related to the accelerated vesting of previously-granted RUR Units.

Unrealized and Realized (Loss) Gain on Derivative Financial Instrumentsi) *Interest rate contracts for which hedge accounting is being applied*

As at December 31, 2016, CAPREIT has two interest rate swap agreements, which include:

a. \$65 million interest rate swap agreement fixing the interest rate at 3.60%, which matures in September 2022. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a ten-year term. The related floating rate credit facility is for a five-year term. The credit facility was amended effective June 30, 2016 and expires on June 30, 2021. On expiry of the term it is expected to be refinanced to match the term of the interest rate swap. At each reporting date, the hedging derivative will be marked-to-market with the ineffective portion recognized in net income (unrealized loss of \$0.7 million for the year ended December 31, 2016), recorded under (loss) gain on derivative financial instruments on the consolidated statements of income and comprehensive income for the year ended December 31, 2016.

b. The €45 million credit facility agreement and interest rate swap agreement fixing the interest rate at 3.22%, which matures in September 2018, was partially paid down by €5.0 million on April 21, 2014 therefore deemed the entire hedge as ineffective and the marked-to-market loss of approximately \$2.0 million on the date of repayment was recognized in net income in 2014. The new €40 million interest rate swap agreement was not hedged. See below for details.

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 2.87% (assuming a constant margin of 1.65% per annum) and matures in August 2018. This agreement effectively converts borrowings on a Euribor-based floating rate credit facility to a fixed rate facility for a five-year term. At each reporting date, the hedging derivative will be marked-to-market in net income (\$0.3 million unrealized gain for the year ended December 31, 2016).

iii) *Foreign currency exchange contracts for which hedge accounting is not being applied*

CAPREIT had quarterly foreign currency exchange contracts aggregating to €2.8 million, which commenced December 2013 and matured quarterly until September 2015, fixed the exchange rate between the euro and the Canadian dollar, for which hedge accounting was not being applied. The mark-to-market gain of \$23 thousand has been recognized in net income for the year ended December 31, 2015.

iv) *Forward interest rate hedge agreement for which hedge accounting is not being applied*

CAPREIT had a \$100.0 million forward interest hedge agreement fixing the Government of Canada 10-year bond at 1.44% effective October 29, 2015. The agreement effectively converted mortgage financings of \$100.0 million for a 10-year term. The realized gain of \$0.4 million has been recorded in net income for the year ended December 31, 2015.

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

Dilution Loss on Equity Accounted Investments

On March 25, 2015, IRES raised €215.0 million from the secondary equity offering. Due to the issuance of additional IRES ordinary shares, CAPREIT recorded a loss resulting from ownership dilution of \$1.2 million. This loss represents the difference between CAPREIT's share of the fair value of the secondary equity offering and the carrying value of CAPREIT's deemed disposed equity interest. In addition, due to CAPREIT's ownership dilution, \$3.1 million of accumulated foreign currency loss was reclassified from other comprehensive loss to dilution loss on equity accounted investments in the consolidated statements of income and comprehensive income. A corresponding foreign exchange gain has been recognized in current and prior periods in the consolidated statements of income on the euro LIBOR borrowings related to the investment in IRES.

The investment in IRES for €63.5 million is funded fully by euro LIBOR borrowings, thereby economically substantially eliminating its foreign exchange exposure. CAPREIT does not apply hedge accounting for its investment in IRES against the euro LIBOR borrowings related to it; therefore, the accounting results may differ from the naturally offsetting asset and liability exposures to foreign exchange.

Gain on Foreign Currency Translation

For the year ended December 31, 2016, CAPREIT recognized a gain on foreign exchange of \$4.4 million compared to a loss of \$7.4 million for the same period last year. The gain or loss on foreign currency translation recognized in the consolidated statements of income primarily represents the foreign exchange translation on the €63.5 million euro LIBOR borrowings. The foreign exchange gain or loss on the investment in IRES relating to these borrowings is recorded in other comprehensive income.

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

The Rockbrook Portfolio acquisition and its subsequent disposition in the first quarter of 2015 resulted in a foreign exchange loss of approximately \$13 thousand. The foreign exchange loss on the sale of the Rockbrook Portfolio was substantially offset by the foreign exchange gain on the repayment of the euro LIBOR borrowings that were used to fund the acquisition.

SECTION III

NON-IFRS FINANCIAL MEASURES

PER UNIT CALCULATIONS

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

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

(Thousands) Year Ended December 31,	Weighted Average Number of Units		Outstanding Number of Units
	2016	2015	2016
Trust Units	130,372	117,835	134,389
Exchangeable Units ⁽¹⁾	161	161	161
Units under the DUP ⁽²⁾	261	224	286
Basic Weighted Average Number of Units	130,794	118,220	134,836
Plus:			
Dilutive Units under the LTIP ^{(2),(3)}	431	564	630
Dilutive Units under the SELTIP ^{(2),(3)}	311	316	555
Units Rights under the RUR Plan ⁽²⁾	701	608	718
Dilutive Unexercised Options under the UOP ^{(2),(4)}	245	218	– ⁽⁵⁾
Diluted Weighted Average Number of Units	132,482	119,926	136,739

(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, 2016 contained in CAPREIT's 2016 Annual Report for details of CAPREIT's Unit-based compensation plans.

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

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

(5) There are 1,488,212 unexercised options outstanding under the UOP.

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

(\$ Thousands)

Year Ended December 31,	2016	2015
Distributions Declared on Trust Units	\$ 161,483	\$ 142,973
Distributions Declared on Exchangeable Units	200	194
Distributions Declared on Awards Outstanding under Unit-based Compensation Plans ⁽¹⁾	2,730	3,031
Total Distributions Declared	164,413	146,198
Less:		
Distributions on Trust Units Reinvested	(51,780)	(44,372)
Distributions on Unit Awards Reinvested ⁽¹⁾	(2,730)	(3,031)
Net Distributions Paid	\$ 109,903	\$ 98,795
Percentage of Distributions Reinvested	33.2%	32.4%

(1) Comprises: (i) non-cash distributions related to the DUP and the RUR Plan, and (ii) retained distributions on LTIP and SELTIP Units (see notes 11 and 12 to CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2016 contained in CAPREIT's 2016 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, 2016 to 33.2% from 32.4% 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.

Funds From Operations

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

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

A reconciliation of net income to FFO is as follows:

(\$ Thousands, except per Unit amounts)

Year Ended December 31,	2016	2015
Net Income	\$ 439,413	\$ 345,633
Adjustments:		
Unrealized Gain on Remeasurement of Investment Properties	(227,335)	(173,242)
Realized Loss on Disposition of Investment Properties	1,813	639
Remeasurement of Exchangeable Units	731	276
Remeasurement of Unit-based Compensation Liabilities	14,217	7,511
Interest on Exchangeable Units	200	194
Corporate Income Taxes	7	59
(Gain) Loss on Foreign Currency Translation	(4,441)	7,447
FFO Adjustment for Income from Equity Accounted Investments ⁽¹⁾	(6,021)	(4,024)
Unrealized and Realized Loss (Gain) on Derivative Financial Instruments	397	(282)
Net Income Attributable from Non-Controlling Interest	67	–
Net FFO Impact Attributable from Non-Controlling Interest	(68)	–
Dilution Loss on Equity Accounted Investments	–	4,346
Amortization of Property, Plant and Equipment	4,249	2,799
FFO	\$ 223,229	\$ 191,356
FFO per Unit – Basic	\$ 1.707	\$ 1.619
FFO per Unit – Diluted	\$ 1.685	\$ 1.596
Total Distributions Declared	\$ 164,413	\$ 146,198
FFO Payout Ratio	73.7%	76.4%
Net Distributions Paid	\$ 109,903	\$ 98,795
Excess FFO over Net Distributions Paid	\$ 113,326	\$ 92,561
FFO Effective Payout Ratio	49.2%	51.6%

(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. NFFO is calculated by excluding from FFO the effects of certain non-recurring items, including amortization of losses on certain hedging instruments previously settled and paid, mortgage prepayment penalties, offset by the write-off of fair value adjustments on assumed mortgages that were refinanced early, large acquisition research costs relating to transactions that were not completed, and significant severance and other employee costs. As it is an operating performance metric, no adjustment is made to NFFO for capital expenditures. NFFO facilitates better comparability to prior year's performance and provides a better indicator of CAPREIT's long-term operating performance. For further information on CAPREIT's total property capital investments, please refer to the Property Capital Investments section. See the discussions in the Net Income section in this MD&A for additional information on hedging instruments currently in place. NFFO is not a measure of sustainability of distributions.

A reconciliation of FFO to NFFO is as follows:

(\$ Thousands, except per Unit amounts)

Year Ended December 31,	2016	2015
FFO	\$ 223,229	\$ 191,356
Adjustments:		
Amortization of losses from AOCL to interest and other financing costs	3,105	3,311
Net Mortgage Prepayment Cost	–	123
Acquisition Research Costs ⁽¹⁾	5,474	–
Severance and Other Employee Costs	–	5,237
NFFO	\$ 231,808	\$ 200,027
NFFO per Unit – Basic	\$ 1.772	\$ 1.692
NFFO per Unit – Diluted	\$ 1.750	\$ 1.668
Total Distributions Declared	\$ 164,413	\$ 146,198
NFFO Payout Ratio	70.9%	73.1%
Net Distributions Paid	\$ 109,903	\$ 98,795
Excess NFFO Over Net Distributions Paid	\$ 121,905	\$ 101,232
Effective NFFO Payout Ratio	47.4%	49.4%

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

NFFO for the year ended December 31, 2016 increased by 15.9% compared to last year, primarily due to contributions from acquisitions and higher NOI for properties owned prior to December 31, 2015.

For the year ended December 31, 2016, basic NFFO per Unit increased by 4.7% compared to last year, despite an approximate 11% increase in the weighted average number of Units outstanding resulting from the October 2015 and August 2016 equity offerings (see Liquidity and Capital Resources section for further details), offset by strong organic NOI growth and contributions from acquisitions. 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, 2016 improved to 70.9% compared to 73.1% for last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the year ended December 31, 2016 to 47.4% from 49.4% for last year.

Cash Flows From Operating Activities and Distributions Declared

There may be periods where actual distributions declared may exceed cash generated from (utilized in) operating activities after interest paid, primarily due to weaker performance in certain periods from seasonal fluctuations. These seasonal or short-term fluctuations are funded, if necessary, with our Acquisition and Operating Facility. CAPREIT determines distributions and the distribution rate by, among other considerations, its assessment of Adjusted Cash Flow from Operating Activities (a non-IFRS measure). As such, CAPREIT believes the cash distributions are not an economic return of capital, but a distribution of sustainable adjusted cash flow from operating activities.

The following table reconciles cash generated from operating activities (per the consolidated financial statements) to Adjusted Cash Flows from Operating Activities:

(\$ Thousands, except per Unit amounts)

Year Ended December 31,	2016	2015
Cash Generated From Operating Activities	\$ 361,358	\$ 292,824
Adjustments:		
Interest Paid	(109,097)	(100,467)
Adjusted Cash Flow from Operating Activities	\$ 252,261	\$ 192,357

As indicated by National Policy 41-201, "Income Trusts and Other Indirect Offerings", the following table outlines the differences between Adjusted Cash Flow generated from Operating Activities and total distributions declared, as well as the differences between net income and total distributions, in accordance with the guidelines.

(\$ Thousands, except per Unit amounts)

Year Ended December 31,	2016	2015
Net Income	\$ 439,413	\$ 345,633
Adjusted Cash Flow from Operating Activities	\$ 262,350	\$ 192,357
Total Distributions Declared	\$ 164,413	\$ 146,198
Net Distributions Paid	\$ 109,903	\$ 98,795
Excess of Net Income over (under) Total Distributions Declared	\$ 275,000	\$ 199,435
Excess of Net Income over (under) Net Distributions Declared	\$ 329,510	\$ 246,838
Excess of Adjusted Cash Flow from Operating Activities over Total Distributions Declared	\$ 97,937	\$ 46,159
Excess of Adjusted Cash Flow from Operating Activities over Net Distributions Declared	\$ 152,447	\$ 93,562

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

Adjusted Funds From Operations

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 or do not have a common definition, and it would require significant judgement to classify property capital investments as maintenance, stabilizing or value enhancing. In addition, there is no definition of maintenance capital expenditure in the Canadian real estate industry. 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. AFFO may not be comparable to similar measures presented by other real estate trusts or companies in similar or different industries. Management does not rely on AFFO to operate the business of CAPREIT, plan CAPREIT's capital spending or determine CAPREIT's distributions, or the sustainability of such distributions, thereon. Management views NFFO, adjusted cash flow from operating activities, and disclosure on capital expenditures within the "Capital Property Investments" section as more relevant metrics for investors.

CAPREIT is committed to providing detailed disclosure on actual and long-term capital expenditures by category which is useful and meaningful information to all Unitholders (as disclosed in the "Capital Property Investments" section), and its sources of funding (as disclosed in the "Liquidity and Financial Condition" section).

CAPREIT calculates AFFO by deducting from NFFO an industry-based estimate for maintenance property capital investments on residential suites 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,	2016	2015
NFFO	\$ 231,808	\$ 200,027
Adjustments:		
Provision for Maintenance Property Capital Investments ⁽¹⁾	(18,249)	(16,343)
Amortization of Fair Value on Grant Date of Unit-based Compensation	5,680	5,906
AFFO	\$ 219,239	\$ 189,590
AFFO per Unit – Basic	\$ 1.676	\$ 1.604
AFFO per Unit – Diluted	\$ 1.655	\$ 1.581
Distributions Declared	\$ 164,413	\$ 146,198
AFFO Payout Ratio	75.0%	77.1%
Net Distributions Paid	\$ 109,903	\$ 98,795
Excess AFFO Over Net Distributions Paid	\$ 109,336	\$ 90,795
Effective AFFO Payout Ratio	50.1%	52.1%

(1) Based on an industry estimate of \$450 per suite per year and the weighted average number of residential suites during the year (see the 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,	2016	2015
Cash Generated From Operating Activities	\$ 361,358	\$ 292,824
Adjustments:		
Net Income Items Related to Financing and Investing Activities	(104,578)	(97,667)
Changes in Non-Cash Operating Assets and Liabilities	(14,138)	12,921
Amortization of Other Financing Costs	(4,675)	(3,612)
Straight-line Rent Adjustment	(138)	(122)
Interest on Exchangeable Units	200	194
Corporate Income Taxes	7	59
Severance and Other Employee Costs	–	5,237
Net Mortgage Prepayment Costs	–	123
FFO Adjustment for Income from Equity Accounted Investments	(6,021)	(4,024)
Net Income Attributable from Non-Controlling Interest	67	–
Net FFO Impact Attributable from Non-Controlling Interest	(68)	–
Acquisition Research Costs	5,474	–
Provision for Maintenance Property Capital Investments	(18,249)	(16,343)
AFFO	\$ 219,239	\$ 189,590

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 the time, in 2009 CAPREIT formulated and embarked on a multi-year capital investment plan that accelerates spending on planned building improvement programs, including upgrading parking garages, balconies and other structural improvements. These investments are closely connected to CAPREIT's property acquisitions, many of which were anticipated at the time of such acquisitions and were included in the acquisition analysis, to ensure such transactions are accretive. Management believes these investments will increase the productive capacity, the useful

economic life and the operating capabilities of CAPREIT's properties and enhance their future cash flow generating potential. Management also believes these building improvement programs, combined with existing suite improvement, common area and environment-friendly and energy-saving initiatives, will enable CAPREIT to reposition its portfolio and maintain 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 satisfaction. Management believes strategic investments will position the portfolio for improved operating performance over the long term.

For the year ended December 31, 2016, CAPREIT made property capital investments (excluding head office assets) of \$195.7 million, compared to \$163.2 million for last year. Property capital investments were higher compared to the prior year primarily due to investments in acquisitions completed in 2015 and 2016, and higher building, suite and common area improvement costs, 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 head office assets) is summarized by category below:

Property Capital Investments by Category

(\$ Thousands)

Year Ended December 31, 2016	Stabilized ⁽¹⁾	Net Acquisitions ⁽²⁾	Total	%
Building Improvements	31,498	30,118	61,616	31.5
Suite Improvements	37,713	17,338	55,051	28.1
Common Area	23,149	12,522	35,671	18.2
Energy-saving Initiatives	2,018	1,500	3,518	1.8
Equipment	8,969	6,609	15,578	8.0
Boilers and Elevators	12,821	5,983	18,804	9.6
Appliances	3,438	2,066	5,504	2.8
Total	119,606	76,136	195,742	100.0
Year Ended December 31, 2015	Stabilized ⁽¹⁾	Net Acquisitions ⁽²⁾	Total	%
Building Improvements	37,163	22,573	59,736	36.6
Suite Improvements	33,420	10,565	43,985	26.9
Common Area	18,814	7,770	26,584	16.3
Energy-saving Initiatives	1,484	712	2,196	1.3
Equipment	7,711	3,208	10,919	6.7
Boilers and Elevators	11,169	5,267	16,436	10.1
Appliances	2,650	702	3,352	2.1
Total	112,411	50,797	163,208	100.0

(1) Properties owned as of December 31, 2011 excluding disposed properties.

(2) Includes properties acquired and disposed of since December 31, 2011.

The significant portfolio growth generated since 2011 has led CAPREIT to adjust its multi-year capital investment programs as acquisitions are expected to have major capital expenditures within the first five years of the purchase. Based on a revised multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments (excluding the Netherlands properties and development) of approximately \$155 million to \$165 million during 2017, including approximately \$64 million targeted at acquisitions completed since January 1, 2012 and approximately \$15 million for high-efficiency boilers and other energy-saving initiatives.

The table below includes estimated 2017 capital expenditures (excluding The Netherlands properties) for intensification for buildings expected to be completed in 2017. It also presents development costs for 2017, which includes costs related to planning, re-zoning, architectural surveys, application fees, and building permits.

2017 Capital Expenditure Budget

(\$ Thousands)

Investment Properties	Stabilized ⁽¹⁾	Net Acquisitions ⁽²⁾	Total	%
Building Improvements	18,400	12,400	30,800	16.4
Suite Improvements	23,900	13,800	37,700	20.1
Common Area	18,300	15,400	33,700	18.0
Energy-saving Initiatives	2,700	2,000	4,700	2.5
Equipment	9,400	5,500	14,900	7.9
Boilers and Elevators	14,400	10,300	24,700	13.2
Appliances	2,700	1,400	4,100	2.2
Total Investment Properties	89,800	60,800	150,600	80.3

Development	Stabilized ⁽¹⁾	Net Acquisitions ⁽²⁾	Total	%
Intensification	1,900	3,200	5,100	2.7
Development	–	31,900	31,900	17.0
Total Development	1,900	35,100	37,000	19.7
Total Capital Expenditures	91,700	95,900	187,600	100.0

(1) Properties owned as of December 31, 2011 excluding disposed properties.

(2) Includes properties acquired and disposed of since December 31, 2011 excluding The Netherlands properties.

Set out in the next table is Management's current estimate, established through consultation with an independent engineering firm, of CAPREIT's investments in building improvements for 2017 through 2020 for properties owned as of December 31, 2016 excluding The Netherlands properties. Building improvements represent one of the most significant categories of property capital investment at present, but are expected to decline significantly in the coming years.

Future Investments in Building Improvements

(\$ Thousands)

	Stabilized ⁽¹⁾ Estimated Range	Acquisitions ⁽²⁾ Estimated Range
2017	\$18,000 – \$22,000	\$11,000 – \$15,000
2018	\$14,000 – \$18,000	\$10,000 – \$14,000
2019	\$16,000 – \$20,000	\$13,000 – \$17,000
2020	\$10,000 – \$14,000	\$6,000 – \$10,000

(1) Properties owned as of December 31, 2011 excluding disposed properties.

(2) Includes properties acquired since December 31, 2011 excluding The Netherlands properties.

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.

CAPREIT continues its multi-phase implementation of an Enterprise Resource Planning ("ERP") system, and Management believes this unified platform will continue to drive operational efficiencies in the business. To date, \$9.8 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 discuss CAPREIT's longer-term goals of enhanced cash flows and value creation to provide Unitholders with increased total returns and stable Unit distributions through property capital investments.

CAPREIT does not differentiate between the concepts of maintenance and value-enhancing property capital investments. Maintenance property capital investments are generally not clearly identifiable or have a common definition and would require significant judgement to classify property capital investments as maintenance, stabilizing or value-enhancing. In addition, there is no defined definition of maintenance capital expenditure in the Canadian real estate industry.

CAPREIT uses industry estimates for annual overall maintenance capital investments, which 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 annually per residential suite and are expensed to NOI.

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.

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 2012 through 2016, reflecting a segregation of the portfolio based on the amount of capital investment per suite. For example, for each year, properties with the highest capital investment per suite were included in the first quartile, and properties with the lowest capital investment per suite were included in the fourth quartile. NOI growth was measured for those properties by quartile for the year following the year in which the capital investments were made, with the assumption that capital investments are undertaken throughout the year and the impact on NOI could reasonably be measured in the following year. A simple average was calculated covering each of the last five years. To compute the results on a stabilized basis, only those properties owned prior to 2012 and held as at December 31, 2016 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	37	6,844	51.1%	5.5%
2nd	37	7,112	28.0%	3.1%
3rd	37	6,483	14.4%	4.9%
4th	38	7,022	6.5%	3.6%
Total	149	27,461	100.0%	4.3%

(1) As a percentage of total property capital investments over the five-year period to December 31, 2016.

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)

As at December 31,		2016	2015
Mortgages Payable		\$ 3,492,923	\$ 3,097,773
Bank Indebtedness		26,408	168,211
Unit-based Compensation Liabilities		60,278	46,163
Exchangeable Units		5,061	4,330
Unitholders' Equity		4,158,149	3,659,953
Total Capital		\$ 7,742,819	\$ 6,976,430
	Threshold		
Total Debt to Gross Book Value ⁽¹⁾	Maximum 70.00%	44.31%	45.71%
Total Debt to Gross Historical Cost ⁽³⁾		54.36%	55.41%
Tangible Net Worth ⁽⁴⁾	Minimum \$1,500,000	\$ 4,224,271	\$ 3,710,446
For the Four Quarters Ended December 31,		2016	2015
Debt Service Coverage Ratio (times) ^{(2),(5)}	Minimum 1.20	1.63	1.63
Interest Coverage Ratio (times) ^{(2),(6)}	Minimum 1.50	3.09	2.96

(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. As at December 31, 2015 the tangible net worth requirement was \$1,200,000 and was amended to \$1,500,000 effective June 30, 2016.

(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 repairs and maintenance expenditures, property capital investment commitments and distributions to Unitholders, and to provide for future growth in the business. CAPREIT finances these commitments through: (i) adjusted cash flow from operating activities; (ii) mortgage debt secured by its investment properties; (iii) secured short-term debt financing with three 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 adjusted 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, retained NFFO in excess of distributions declared, mortgage top-ups and the available borrowing capacity of the Credit Facilities to be sufficient to fund its ongoing property capital investments. For the year ended December 31, 2016, CAPREIT's NFFO payout ratio was 70.9% compared to 73.1% for last year, and the effective NFFO payout ratio was 47.4% compared to 49.4% for last year, both well within CAPREIT's annual target. 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 2017 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages maturing during 2017 of approximately \$119.2 million, which have an effective interest rate of approximately 4.33%, and refinancing approximately \$108.2 million of principal repayments through 2016 with new mortgages.
- iii) Investment properties with a fair value of \$7.4 billion have been pledged as security as at December 31, 2016. In addition, CAPREIT has investment properties with a fair value of approximately \$221.6 million as at December 31, 2016 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. CAPREIT intends to maintain unencumbered investment properties with an aggregate fair value in the range of \$150 million to \$180 million over the long term.
- iv) Effective June 30, 2016, CAPREIT amended and restated its credit agreement to, among other things: (i) increase its credit facilities to \$505.0 million in the aggregate; (ii) increase the maximum amount of its existing \$340.0 million revolving credit facility to \$440.0 million (the "Acquisition and Operating Facility"); (iii) add an additional lender in the syndicate thereto; (iv) amend the "conversion date", for when the revolving

facility converts to a two-year non-revolving term facility, to June 30, 2017; (v) amend the tangible net worth requirement to \$1,500,000; and (vi) extend the maturity date of the existing \$65.0 million non-revolving term credit facility to June 30, 2021. In respect to the Acquisition and Operating Facility, the aggregate amount of euro LIBOR borrowings at any time shall not exceed €70.0 million while the Canadian dollar equivalent of the aggregate principal amount of all advances (including the euro LIBOR borrowings) under the Acquisition and Operating Facility shall not exceed \$440.0 million.

- v) Effective December 19, 2016, CAPREIT amended its credit agreement to increase the euro LIBOR borrowing limit to €150.0 million from €70.0 million while maintaining the Acquisition and Operating Facility limit at \$440.0 million.
- vi) CAPREIT has a \$65.0 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 non-revolving term credit facility, and any principal amount repaid under this facility may not be reborrowed maturing June 30, 2021. 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.
- vii) As at December 31, 2016, the euro LIBOR borrowings of €92.9 million bear interest at the euro LIBOR rate plus a margin of 1.65% 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 2.87% (assuming a constant margin of 1.65%) for the remaining three years of the original five-year term.
- viii) On July 11, 2016, CAPREIT announced it had agreed to sell, subject to regulatory approval, 4,660,000 Units for \$32.20 per Unit for aggregate gross proceeds of \$150.1 million on a bought-deal basis with an over-allotment option. The transaction closed on August 3, 2016 and under the over-allotment option, 466,000 additional Units were also issued on August 3, 2016 for gross proceeds of \$15.0 million. CAPREIT used the net proceeds of the offering to repay a portion of its borrowings under its Acquisition and Operating Facility.
- ix) On September 21, 2015, CAPREIT announced it had agreed to sell, subject to regulatory approval, 8,720,000 Units for \$28.70 per Unit for aggregate gross proceeds of \$250.3 million on a bought-deal basis with an over-allotment option. The transaction closed on October 9, 2015. CAPREIT used the net proceeds of the offering to repay a portion of its borrowings under its Bridge Increase.
- x) On March 3, 2015, CAPREIT announced it had agreed to sell, subject to regulatory approval, 5,050,000 Units for

\$27.85 per Unit for aggregate gross proceeds of \$140.6 million on a bought-deal basis with an over-allotment option. The transaction closed on March 25, 2015, and under the over-allotment option, 505,000 additional Units were also issued on March 25, 2015 for gross proceeds of \$14.1 million. CAPREIT used the net proceeds of the offering to repay a portion of its borrowings under its Acquisition and Operating Facility.

In order to maintain and enhance its CMHC-insured financing program, and consistent with CMHC's risk management practices involving large borrowers, CAPREIT has entered into an agreement with CMHC (the "Large Borrower Agreement" or "LBA"). Other than improving the efficiency and consistency of such processes, the LBA has not materially affected the manner in which CAPREIT conducts its business or its approach to mortgage financing. The LBA provides for, among other things:

- i) Enhanced disclosure to CMHC;
- ii) Certain financial covenants and commitments and limitations on indebtedness, none of which are inconsistent with CAPREIT's current requirements under its DOT and existing credit and mortgage facilities;

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

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

The working capital deficiency, as presented on CAPREIT's consolidated balance sheets as at December 31, 2016, 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, 2016 and December 31, 2015:

Acquisition and Operating Facility

(\$ Thousands)

As at December 31,	2016	2015
Facility	\$ 440,000	\$ 340,000
Less:		
Euro LIBOR Borrowings ⁽¹⁾	(131,630)	(95,434)
Bank Indebtedness	(26,408)	(168,211)
Letters of Credit	(6,040)	(6,040)
Available Borrowing Capacity	\$ 275,922	\$ 70,315
Weighted Average Floating Interest Rate	2.55%	2.56%

(1) Included in mortgages payable.

CAPREIT's key liquidity metrics are summarized as follows:

As at December 31,	2016	2015
Mortgage Debt to Gross Book Value	43.97%	43.36%
Total Debt to Gross Book Value	44.31%	45.71%
Total Debt to Gross Historical Cost ⁽¹⁾	54.36%	55.41%
Total Debt to Total Capitalization	45.09%	48.46%
Debt Service Coverage Ratio (times) ⁽²⁾	1.63	1.63
Interest Coverage Ratio (times) ⁽²⁾	3.09	2.96
Weighted Average Mortgage Interest Rate ⁽³⁾	3.20%	3.39%
Weighted Average Mortgage Term to Maturity (years)	6.1	6.3

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

(2) Based on the trailing four quarters ended December 31, 2016.

(3) Weighted average mortgage interest rate includes deferred financing costs and fair value adjustments on an effective interest rate basis. Including the amortization of the realized component of the loss on settlement of \$32.5 million included in AOCL, the effective portfolio weighted average interest rate at December 31, 2016 would be 3.3% (December 31, 2015 – 3.52%).

As at December 31, 2016, the overall leverage represented by the ratio of total debt to gross book value was 44.31% compared to 45.71% for last year. As at December 31, 2016, CAPREIT's total debt was 45.09% of total market capitalization compared to 48.46% for last year.

The effective portfolio weighted average interest rate has declined from 3.39% as at December 31, 2015 to 3.20% as at December 31, 2016, 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 and 35 years.

As at December 31,	2016	2015
Percentage of CMHC-Insured Mortgages ⁽¹⁾	96.6%	96.5%
Percentage of Fixed-Rate Mortgages	97.9%	98.9%

(1) Excludes the mortgages on the MHC land lease sites and the euro LIBOR borrowings.

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

(\$ Thousands)

As at December 31,	2016	2015
Balance, Beginning of the Year	\$ 3,097,773	\$ 2,658,454
Add:		
New Borrowings on Acquisitions	336,468	524,197
Assumed	25,356	3,030
Refinanced	299,300	284,779
Foreign Currency Translation	(4,323)	4,780
Less:		
Mortgage Repayments	(102,522)	(84,890)
Mortgages Matured	(130,810)	(143,328)
Mortgages Repaid on Dispositions of Investment Properties	(26,407)	(145,917)
Change in Deferred Financing Costs, Fair Value Adjustments, Net	(1,912)	(3,332)
Balance, End of the Year	\$ 3,492,923	\$ 3,097,773

The following table presents refinancings for the year ended December 31, 2016 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	\$ 27,748	4.44%	\$ 48,574	2.36%	8.1	\$ 20,826
Second Quarter	55,895	4.14%	151,792	2.58%	10.0	95,897
Third Quarter	27,944	5.28%	49,343	2.65%	2.9	21,399
Fourth Quarter	19,223	4.52%	49,591	2.57%	9.9	30,368
Acquisitions	–	0.00%	336,468	2.21%	8.4	336,468
Total and Weighted Average	\$ 130,810	4.50%	\$ 635,768	2.38%	8.4	\$ 504,958

(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 \$175 million and \$225 million in total mortgage renewals and refinancings for 2017, excluding financings on acquisitions.

(\$ Thousands)						
As at December 31, 2016						
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)}		
2017	\$ 119,214	\$ 75,829	\$ 195,043	\$ 26,227		
2018	94,652	17,290	111,942	15,598		
2019	405,062	25,194	430,256	45,769		
2020	222,914	(3,278)	219,636	25,985		
2021	350,202	(32,852)	317,350	46,955		
2022 Onward	1,546,727	(82,183)	1,464,544	200,652		
Total	\$ 2,738,771	\$ -	\$ 2,738,771	\$ 361,186		

(1) Mortgage balance due upon maturity.

(2) NOI for the twelve months ended December 31, 2016.

(3) Projected NOI included for acquisitions since December 31, 2015.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2016 is as follows:

(\$ Thousands)						
Year	Principal Repayments	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) ^{(1),(2)}	
2017	\$ 108,240	\$ 119,214	\$ 227,454	6.5	4.33	
2018	109,554	94,652	204,206	5.8	3.39	
2019 ⁽³⁾	106,184	405,062	511,246	14.6	3.08	
2020	100,148	222,914	323,062	9.2	2.61	
2021 ⁽⁴⁾	88,920	350,202	439,122	12.6	3.81	
2022	78,960	338,730	417,690	11.9	3.08	
2023	60,656	249,786	310,442	8.9	3.23	
2024	46,497	287,744	334,241	9.6	3.58	
2025	37,196	321,159	358,355	10.2	2.75	
2026	15,740	298,212	313,952	9.0	2.74	
2027 – 2030	8,939	51,096	60,035	1.7	3.88	
Total	\$ 761,034	\$ 2,738,771	\$ 3,499,805	100.0	3.20 ⁽²⁾	
Deferred Financing Costs, Fair Value Adjustments, Net			(6,882)			
Total			\$ 3,492,923			

(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, 2016 would be 3.3% (December 31, 2015 – 3.52%).

(3) Included in mortgages payable is a €92.9 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, 2016:

(\$ Thousands, except per Unit amounts)

Period	Price Per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
March 2015					
Bought-deal	\$ 27.85	\$ 140,643	\$ 6,491	\$ 134,152	5,050,000
Over-allotment	\$ 27.85	14,064	563	13,501	505,000
Total		\$ 154,707	\$ 7,054	\$ 147,653	5,555,000
October 2015					
Bought-deal	\$ 28.70	\$ 250,264	\$ 10,943	\$ 239,321	8,720,000
Total		\$ 250,264	\$ 10,943	\$ 239,321	8,720,000
August 2016					
Bought-deal	\$ 32.20	\$ 150,052	\$ 6,902	\$ 143,150	4,660,000
Over-allotment	\$ 32.20	15,005	600	14,405	466,000
Total		\$ 165,057	\$ 7,502	\$ 157,555	5,126,000

Year Ended December 31,	2016
Market Capitalization (\$ thousands)	\$ 4,289,516
Number of Units Outstanding	136,739,440
LTIP and SELTIP Units	1,185,398
Deferred Units	285,876
RUR Plan Units	718,398
Exchangeable Units	161,311
Number of Unit Options Outstanding and Exercisable	1,488,212
Ownership by Trustees, Officers and Senior Managers	3.2%

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, 2015. No Trust Units were acquired and cancelled under these NCIB programs.

Period Covered Under Each NCIB	Approval Limit
July 8, 2014 to July 7, 2015	10,659,524
July 28, 2015 to July 27, 2016	11,493,069

UNITHOLDER TAXATION

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

Year Ended December 31,	2016	2015
Taxable to Unitholders as		
Other Income	24.37%	14.46%
Taxable to Unitholders as		
Eligible Dividend Income	0.00%	0.90%
Taxable to Unitholders as		
Capital Gain Income	5.45%	0.30%
Income Tax Deferral	70.18%	84.34%
Total	100.00%	100.00%
Total Effective Non-taxable Portion of Distributions	72.90%	84.49%

The portion of CAPREIT's distributions to Canadian resident Unitholders treated as taxable for the year ended December 31, 2016 increased over the prior year primarily due to higher earnings from operations and higher capital gains and recapture due to dispositions in the current year, partially offset by higher distributions and capital cost allowance.

SECTION V

SELECTED CONSOLIDATED QUARTERLY INFORMATION

	Q4 16	Q3 16	Q2 16	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15
Overall Portfolio AMR	\$ 1,003	\$ 999	\$ 980	\$ 971	\$ 963	\$ 964	\$ 976	\$ 975
Operating								
Revenues (000s) ⁽¹⁾	\$ 152,725	\$ 151,812	\$ 146,656	\$ 145,638	\$ 142,776	\$ 131,812	\$ 130,256	\$ 128,954
NOI (000s) ⁽¹⁾	\$ 95,210	\$ 96,274	\$ 91,083	\$ 84,380	\$ 86,427	\$ 82,087	\$ 81,276	\$ 74,824
NOI Margin ⁽¹⁾	62.3%	63.4%	62.1%	57.9%	60.5%	62.3%	62.4%	58.0%
Net Income (Loss) (000s)	\$ 124,271	\$ 130,663	\$ 98,381	\$ 86,098	\$ 137,375	\$ (3,727)	\$ 159,118	\$ 52,867
FFO (000s)	\$ 58,085	\$ 61,424	\$ 57,670	\$ 46,050	\$ 51,640	\$ 48,434	\$ 50,821	\$ 40,461
NFFO (000s)	\$ 58,860	\$ 62,201	\$ 58,452	\$ 52,295	\$ 52,813	\$ 51,830	\$ 51,665	\$ 43,719
Total Debt to								
Gross Book Value	44.31%	44.31%	47.02%	45.80%	45.71%	49.27%	43.71%	44.32%
FFO per Unit – Basic	\$ 0.432	\$ 0.464	\$ 0.449	\$ 0.360	\$ 0.408	\$ 0.411	\$ 0.434	\$ 0.364
NFFO per Unit – Basic	\$ 0.437	\$ 0.470	\$ 0.455	\$ 0.409	\$ 0.417	\$ 0.440	\$ 0.441	\$ 0.393
Weighted Average								
Number of Units (000s)								
– Basic	134,585	132,246	128,469	127,816	126,515	117,912	117,081	111,207
– Diluted	136,275	133,991	130,209	129,393	128,056	119,566	118,845	113,076

(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. There may be periods where actual distributions declared may exceed cash generated from (utilized in) operating activities after interest paid primarily due to weaker performance in certain periods from seasonal fluctuations. These seasonal or short-term fluctuations are funded, if necessary, with our Acquisition and Operating Facility. CAPREIT determines distributions and the distribution rate by, among other considerations, its assessment of adjusted cash flow from operating activities (a non-IFRS measure). As such, CAPREIT believes the cash distributions are not an economic return of capital, but a distribution of adjusted cash flow from operating activities.

Fourth Quarter

Operating revenues in the fourth quarter of 2016 increased by 7.0% over the same quarter in 2015, while NOI increased by a significant 10.2%, driven by acquisitions, higher operating revenues and lower realty taxes and R&M costs as a percentage of total operating revenues compared to the same period last year. Net income in the fourth quarter of 2016 decreased slightly over the same period last year to \$124.3 million, mainly due to lower unrealized gain on remeasurement of investment properties of \$65.4 million compared to \$81.0 million for the same period last year and higher Unit-based compensation expenses by \$6.9 million and interest on mortgage payable and other financing costs by \$1.7 million, partially offset by higher NOI of \$8.8 million. Higher NFFO for the fourth quarter was primarily due to a 5.6% increase in stabilized property NOI and the NOI contribution from acquisitions completed over the prior twelve months for the three months ended December 31, 2016.

The stabilized portfolio performance for the three months ended December 31, 2016 compared to December 31, 2015, is summarized as follows:

For the Three Months Ended December 31, (\$ Thousands)	2016		2015		Increase (Decrease)		
	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
<i>Ontario</i>							
Greater Toronto Area	\$ 38,513	63.0	\$ 36,359	61.5	3.3	(0.9)	5.9
Ottawa	1,149	49.1	1,183	51.1	1.0	5.1	(2.9)
London / Kitchener / Waterloo	2,989	63.4	2,672	59.1	4.1	(7.0)	11.9
Other Ontario	3,319	60.6	3,076	59.6	6.3	3.8	7.9
	\$ 45,970	62.4	\$ 43,290	60.8	3.5	(0.7)	6.2
<i>Québec</i>							
Greater Montréal Region	\$ 7,502	57.7	\$ 7,318	56.9	1.1	(0.7)	2.5
Québec City	5,069	58.4	4,812	55.1	(0.6)	(7.8)	5.3
	\$ 12,571	58.0	\$ 12,130	56.2	0.4	(3.7)	3.6
<i>British Columbia</i>							
Greater Vancouver Region	\$ 5,411	70.0	\$ 4,935	67.1	5.0	(4.5)	9.6
Victoria	3,125	72.2	2,769	67.4	5.4	(9.9)	12.9
	\$ 8,536	70.8	\$ 7,704	67.2	5.2	(6.4)	10.8
<i>Alberta</i>							
Edmonton	\$ 851	69.6	\$ 887	67.2	(7.3)	(14.1)	(4.1)
Calgary	4,289	60.2	4,690	60.9	(7.4)	(5.6)	(8.6)
	\$ 5,140	61.6	\$ 5,577	61.9	(7.4)	(6.7)	(7.8)
<i>Nova Scotia</i>							
Halifax	\$ 3,104	59.5	\$ 3,092	61.2	3.3	8.0	0.4
<i>Saskatchewan</i>							
Saskatoon	\$ 180	52.6	\$ 148	41.6	(3.9)	(22.1)	21.6
Regina	458	63.3	463	61.8	(3.3)	(7.0)	(1.1)
	\$ 638	59.9	\$ 611	55.3	(3.5)	(13.4)	4.4
<i>Prince Edward Island</i>							
Charlottetown	\$ 686	50.8	\$ 636	48.6	3.1	(1.5)	7.9
Total Residential Suites	\$ 76,645	62.1	\$ 73,040	60.5	2.2	(2.0)	4.9
MHC Land Lease Sites							
Ontario	\$ 3,179	70.7	\$ 2,598	63.3	9.6	(12.4)	22.4
British Columbia	118	69.4	113	70.6	6.3	10.6	4.4
Alberta	274	67.2	264	67.7	4.6	6.3	3.8
Saskatchewan	218	76.5	157	59.9	8.8	(36.2)	38.9
Prince Edward Island	80	37.6	76	35.8	0.5	(2.2)	5.3
New Brunswick	1,027	56.0	972	55.7	5.1	4.4	5.7
Total MHC Land Lease Sites	\$ 4,896	66.1	\$ 4,180	60.8	7.8	(6.7)	17.1
Total Suites and Sites	\$ 81,541	62.4	\$ 77,220	60.5	2.5	(2.2)	5.6
Stabilized Suites and Sites	39,702		39,702				

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,	2016	2015	2014
Income Statement			
Operating Revenues	\$ 596,831	\$ 533,798	\$ 506,411
Net Income	\$ 439,413	\$ 345,633	\$ 317,975
Distributions			
Distributions Declared	\$ 161,483	\$ 142,973	\$ 127,496
Distributions per Unit	\$ 1.238	\$ 1.207	\$ 1.168
Balance Sheet			
Investment Properties	\$ 7,642,017	\$ 6,863,140	\$ 5,749,640
Total Assets	\$ 7,892,994	\$ 7,102,828	\$ 5,926,161
Mortgages Payable	\$ 3,492,923	\$ 3,097,773	\$ 2,658,454
Bank Indebtedness	\$ 26,408	\$ 168,211	\$ 113,167

SECTION VI

ACCOUNTING POLICIES AND CRITICAL ESTIMATES, ASSUMPTIONS, AND JUDGEMENTS

New Accounting Policies and Accounting Standards

As at February 27, 2016, 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, 2016:

IAS 12, Income Taxes – Deferred Tax

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

IAS 7, Statement of cash flows –

Disclosures related to financing activities

This amendment includes the requirement for disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment will come into effect on January 1, 2017.

IAS 40, Investment Property

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

IFRS 2, Share-based payments

This will be amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. This amendment is effective for years beginning on January 1, 2018.

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. This amendment is effective on adoption of IFRS 9.

IFRS 15, Revenue from Contracts with Customers

This new standard on revenue recognition supersedes IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The new standard provides a single, comprehensive

revenue recognition model. While early adoption is permitted for IFRS reporters, this standard is effective for the interim periods within years beginning on or after January 1, 2018.

IFRS 16, Leases

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

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.

Critical Estimates, Assumptions, and Judgements

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

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

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

Valuation of Investment Properties

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

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

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

Valuation of Unit-based Compensation Liabilities

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

Valuation of Derivative Financial Instruments

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

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

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

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

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, 2016, CAPREIT's President and Chief Executive Officer and its Chief Financial Officer, with the assistance of Management, evaluated the effectiveness of the disclosure controls and procedures in accordance with the rules adopted by the Canadian Securities Administrators under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, and based on that evaluation concluded that the design and operation of the disclosure controls and procedures were effective as at December 31, 2016.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with International Financial Reporting Standards (IFRS). As at December 31, 2016, CAPREIT's President and Chief Executive Officer and its Chief Financial Officer, with the assistance of Management, assessed the effectiveness of the internal controls over financial reporting using the criteria set forth in Internal Control – Integrated Framework issued by

the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 and, based on that assessment, determined that the internal controls over financial reporting were designed and operating effectively as at December 31, 2016.

CAPREIT did not make any changes to the design of internal controls over financial reporting in 2016 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 to occur, could 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 that 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 third parties. 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 50.9% of the overall portfolio (by number of suites and sites) in Ontario (32% in the GTA), making CAPREIT's performance particularly sensitive to economic conditions in and changes affecting Ontario and, in particular, the GTA.

CAPREIT's investment properties generate income through rental payments made by residents. Residential tenant leases are relatively short, exposing CAPREIT to market rental-rate volatility. Upon the expiry of any lease, there can be no assurance that such lease will be renewed or the resident replaced. The terms of any subsequent lease may be less favourable to CAPREIT than the existing lease.

Renewal rates may be subject to restrictions on increases to the then current rent (see Government Regulations in this section). As well, unlike commercial leases, which are generally “net” leases and allow a landlord to recover expenditures, residential leases are generally “gross” leases (with the exception of submetering of certain utilities at some properties) under which the landlord is not able to pass on costs to residents. Moreover, there is no assurance that occupancy levels achieved to date at the properties will continue to be achieved and/or that occupancy levels expected in the future will be achieved. Any one of, or a combination of, these factors may adversely affect the cash available to or the financial position of CAPREIT.

Energy Costs 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, 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 difficulty in securing financing or the availability of financing on reasonable terms could adversely impact the cash available to CAPREIT and its ability to pay distributions.

Related to Financing

Indebtedness

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

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

CAPREIT's Acquisition and Operating Facility of \$440 million matures on June 30, 2019. 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 uses, and may use in the future, 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 funds, deferred profit-sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans ("designated savings plans"), which acquired an interest in CAPREIT directly or indirectly from another CAPREIT Unitholder. If CAPREIT ceases to qualify as a "mutual fund trust" or "registered investment" under the Tax Act and CAPREIT Units cease to be

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

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

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

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

Excluded from the definition of a SIFT is a partnership, such as CAPLP and CAPLP2, that is not publicly traded and of which the equity (and equity-like debt) is wholly owned by any combination of a SIFT, a REIT or a taxable Canadian corporation. If CAPREIT does not qualify for the REIT Exception at any point in time in a given future year, the SIFT Rules will apply to CAPREIT for that taxation year. To the extent that CAPREIT does not qualify for the REIT Exception, CAPREIT will consider alternative measures,

including restructuring, assuming that these measures are in the best interests of its Unitholders, in order to qualify for the REIT Exception in the following year. No assurances can be given that CAPREIT will continue to qualify for the REIT Exception. If applicable, the SIFT Rules may have a material adverse effect on Unitholders' returns.

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

Harmonization of Federal Goods and Services Tax and Provincial Sales Tax

Both Ontario and British Columbia harmonized their respective provincial sales tax (“PST”) with the federal goods and services tax (“GST”) into the harmonized sales tax (“HST”), effective July 1, 2010. Currently, there is generally no HST on residential rents (i.e., they are generally HST exempt). As input tax credits for HST paid can only be claimed if the payments are in respect of commercial activities and as renting residential properties is not a commercial activity, CAPREIT is not able to claim input tax credits for HST paid. In the future, the effect of increasing the HST rate or extending its application to a variety of new business input costs presently not subject to HST means landlords will have to absorb the additional tax costs on business inputs. Effective April 1, 2013, however, British Columbia reverted back to the original PST and federal GST. British Columbia consumers pay PST on those goods and services that were subject to PST before the implementation of the HST and all permanent PST exemptions were re-implemented.

Government Regulations

Multi-unit residential rental properties are subject to rent control legislation in most provinces in Canada. Each province in which CAPREIT operates maintains distinct regulations with respect to tenants' and landlords' rights and obligations. The legislation in various degrees provides restrictions on the ability of a landlord to increase rents above an annually prescribed guideline or 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.

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

Other Legal and Regulatory Risks

CAPREIT is subject to a wide variety of laws and regulations across all jurisdictions and faces risks associated with legal and regulatory changes and litigation. 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 differences, 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 on 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.

Cybersecurity Risk

CAPREIT's information resources include tenant and vendor information, enterprise resource system, financial information, and employee data. A cybersecurity incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of CAPREIT's information resources. A cybersecurity incident can lead to unauthorized access and fraudulent activities surrounding personal information, particularly that belonging to CAPREIT's tenants, vendors, and employees. This could result in direct losses to stakeholders, including tenants and employees, potential liability to third parties, operational interruption, and reputational damage to CAPREIT. CAPREIT continues to invest in and place greater reliance on technology; therefore, there are risks posed to CAPREIT's systems. CAPREIT takes data privacy and protection seriously and remains adaptable to constant technical and legislative change. Employees receive annual awareness training on this subject. Access to personal data is controlled through physical security (e.g. locked offices and storage locations, alarm monitoring, cameras) and IT security mechanisms (e.g. password protection, firewalls, antivirus, and encryption). Additionally, CAPREIT maintains cybersecurity insurance coverage and continues to monitor and assess risks surrounding collection, usage, storage, protection, and retention/destruction practices of personal data. These measures, however, do not guarantee that its financial results will not be negatively impacted by such an incident.

Foreign Operation and Currency Risks

Effective April 11, 2014, CAPREIT entered into an external management agreement to perform certain asset management and property services for IRES (formerly CAPREIT's Irish subsidiary), which owns properties in Dublin, Ireland. In addition, CAPREIT acquired a portfolio of properties in the Netherlands on December 23, 2016. The Irish and Dutch real estate markets differ from the Canadian environment and CAPREIT's experience and expertise in managing Canadian properties may not apply perfectly to a foreign operation. In an effort to reduce its risk exposure, CAPREIT hires locally-based employees or asset and property management companies 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 foreign operations and the investment in IRES is the euro. CAPREIT will in part mitigate this risk through the use of euro-denominated debt.

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

RELATED PARTY TRANSACTIONS

On March 25, 2015, CAPREIT invested €23.5 million in addition to its initial investment in Ordinary Shares of IRES as part of IRES's €215.0 million secondary equity offering. As at December 31, 2016, CAPREIT has a 15.7% share ownership in IRES and has determined that it has significant influence over IRES. The share ownership interest is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. For a more detailed description, see note 5 to the accompanying audited consolidated annual financial statements.

Effective April 11, 2014, CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited ("IRES FM"), entered into an external management agreement, amended from time to time, to perform certain property and asset management services for IRES. On October 28, 2015, IRES FM became authorized by the Irish Central Bank as an alternative investment fund manager under the European Union (Alternative Investment Fund Managers) Regulation, 2013 (the "AIFM Regulations"). On November 1, 2015, IRES FM was appointed by IRES as its new alternative investment fund manager in accordance with the AIFM Regulations, and replaced the existing alternative investment fund manager. The investment management agreement between IRES FM and IRES came into effect, pursuant to which IRES pays 3.0% per annum of its gross rental income as property management fees and 0.5% per annum of its net asset value as asset management fees to IRES FM. The investment management agreement governs the provision of portfolio management, risk management and other related services to IRES by IRES FM. It has an initial term of five years, unless it is duly terminated pursuant to a provision of the investment management agreement, and thereafter shall continue in force for consecutive five-year periods.

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

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 Canadian subsidiaries, and director of each of its Irish subsidiaries. Officers and key management personnel of CAPREIT were granted options of IRES relating to the initial and secondary equity offerings. In 2016, David Ehrlich was awarded \$0.5 million RURs and effective 2017, he will be awarded RURs on a quarterly basis and not entitled to DUPs as per his amended employment agreement.

CAPREIT entered into the Pipeline Agreement with IRES to make available up to €150.0 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. The €150.0 million facility commitment provided by CAPREIT to IRES under the Pipeline Agreement terminated on March 26, 2015 on completion of IRES's secondary equity offering. The facility commitment may be reauthorized by CAPREIT's Board of Trustees at a later date.

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

CAPREIT had 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, 2016 were \$7.2 million and \$6.0 million, respectively (December 31, 2015 – \$7.6 million and \$6.5 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 entitled to termination benefits that provides for payments of up to 36 months of benefits (based on base salary, bonus and other benefits) depending on cause.

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

(\$ Thousands)		
Year Ended December 31,	2016	2015
Short-term employee benefits	\$ 3,400	\$ 4,468
Unit-based compensation		
– grant date amortization	3,763	4,012
	7,163	8,480
Unit-based compensation		
– fair value remeasurement	13,662	6,103
Severance and other benefits ⁽¹⁾	–	2,074
Total	\$ 20,825	\$ 16,657

(1) Costs related to the departure of the former Chief Accounting Officer are included in severance and other employee costs.

In 2012, as previously disclosed, Intraurban Management Services Inc., a company owned by Thomas Schwartz, terminated its contract for construction management services with CAPREIT and effectively sold its business to a third party. That transaction contemplated aggregate payments by such third party of \$1.85 million. The final payment of \$0.4 million payable to Intraurban was paid in the fourth quarter of 2016.

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, 2016 was \$1.0 million (2015 – \$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 25 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 February 15, 2017, CAPREIT completed the disposition of a 31-suite property located in Saskatoon, Saskatchewan for a sale price of \$2.0 million. The mortgage was repaid with proceeds

of the sale totalling approximately \$1.4 million with an interest rate of 4.12% and the remaining proceeds were used to repay a portion of the Acquisition and Operating Facility.

On February 16, 2017, CAPREIT announced it has waived conditions and will acquire a luxury 256-suite residential apartment property located in the Côte-Saint-Luc neighbourhood in the Greater Montréal area. The purchase price, to be initially financed in cash from CAPREIT's Acquisition and Operating credit facility, is \$23.5 million. Closing of the transaction is expected on or before May 3, 2017.

On February 27, 2017, CAPREIT announced that its Board of Trustees had approved a 2.4% increase in monthly cash distributions to \$0.1067 per Unit, or \$1.28 per Unit on an annualized basis. The increase is effective with the March 2017 distribution payable on April 17, 2017 to Unitholders of record as at March 31, 2017.

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 same-property average monthly rents while stabilizing average occupancies in the range of 97% to 98% on an annual basis. Management also anticipates operating revenues will benefit from programs over the long term to enhance ancillary revenues from parking, commercial leases, laundry, cable, telecommunications and other income sources. In addition, numerous successful cost management initiatives have proven effective, which should lead to stable NOI over this period.

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

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

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 Provinces of Ontario and British Columbia, the guideline increase for 2017 has been set at 1.5% and 3.7%, respectively. In 2016, the rent guideline increase has been set at 2.0% in Ontario and in British Columbia has been set at 2.9%. 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, 2016 and December 31, 2015 for the last 3 years:

December 31,	2016	2015
Number of Suites and Sites Filed	10,371	9,587
Applications Settled:		
Number of Applications	66	58
Term Weighted Average Total Increase ⁽¹⁾	4.00%	4.14%
Weighted Average Term (years) ^{(1),(2)}	1.86	1.91
Applications Outstanding:		
Number of Applications	10	13
Term Weighted Average Total Increase ⁽¹⁾	2.56%	3.53%
Weighted Average Term (years) ^{(1),(2)}	1.26	1.56

(1) Weighted by number of impacted suites filed.

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

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

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

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

Fifth, CAPREIT will continue to effectively manage interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce 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 payout ratio. Management believes its successful equity financing and mortgage refinancing programs have resulted in CAPREIT possessing one of the strongest balance sheets in its industry, well suited to delivering consistent, stable and secure monthly cash distributions over the long term.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

As at December 31, 2016, our Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, of the design and operating effectiveness of our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that evaluation, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

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

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

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

February 27, 2017



Thomas Schwartz
*President and
Chief Executive Officer*



Scott Cryer
Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

February 27, 2017

**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, 2016 and December 31, 2015 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, 2016 and December 31, 2015 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,

	<i>Note</i>	2016	2015
Non-Current Assets			
Investment properties	6	\$ 7,642,017	\$ 6,863,140
Other non-current assets	7	222,072	205,939
		7,864,089	7,069,079
Current Assets			
Other current assets	7	28,905	33,749
		\$ 7,892,994	\$ 7,102,828
Non-Current Liabilities			
Mortgages payable	9	\$ 3,265,469	\$ 2,858,622
Bank indebtedness	10	26,408	168,211
Unit-based compensation financial liabilities	11, 12	12,717	6,980
Other non-current liabilities	8	4,126	5,856
		3,308,720	3,039,669
Current Liabilities			
Mortgages payable	9	227,454	239,151
Unit-based compensation financial liabilities	11, 12	47,561	39,183
Accounts payable and accrued liabilities		92,704	72,412
Other current liabilities	8	8,464	8,008
Security deposits		29,975	27,049
Exchangeable Units	11	5,061	4,330
Distributions payable		14,123	13,073
		425,342	403,206
		\$ 3,734,062	\$ 3,442,875
Unitholders' Equity			
Unit Capital		\$ 2,441,002	\$ 2,222,747
Accumulated other comprehensive loss ("AOCL")	19	(12,586)	(14,530)
Retained earnings		1,729,733	1,451,736
		4,158,149	3,659,953
Non-controlling interest		783	-
		\$ 4,158,932	\$ 3,659,953
		\$ 7,892,994	\$ 7,102,828

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,

	<i>Note</i>	2016	2015
Operating Revenues			
Revenue from investment properties		\$ 596,831	\$ 533,798
Operating Expenses			
Realty taxes		(65,462)	(59,337)
Property operating costs		(164,422)	(149,847)
		(229,884)	(209,184)
Net Rental Income			
		366,947	324,614
Trust expenses		(32,129)	(22,707)
Unit-based compensation expenses	12	(19,897)	(13,417)
Fair value adjustments of investment properties	6	227,335	173,242
Realized loss on disposition of investment properties	5	(1,813)	(639)
Amortization of property, plant and equipment		(4,249)	(2,799)
Severance and other employee costs	20	–	(5,237)
Fair value adjustments of Exchangeable Units	11	(731)	(276)
(Loss) gain on derivative financial instruments	16	(397)	282
Interest and other financing costs	21	(117,330)	(107,977)
Foreign currency translation		4,441	(7,447)
Dilution loss on equity accounted investments		–	(4,346)
Other income		17,236	12,340
Net Income		\$ 439,413	\$ 345,633
Other Comprehensive Income			
Items That May Be Reclassified Subsequently to Net Income			
Amortization of losses from AOCL			
to interest and other financing costs	19	\$ 3,105	\$ 3,311
Change in fair value of derivative financial instruments	16	1,644	(2,641)
Change in fair value of investments	19	3,109	652
Foreign currency translation	19	(5,914)	8,305
Reversal of foreign currency translation relating to IRES ownership dilution	19	–	3,127
Other Comprehensive Income		\$ 1,944	\$ 12,754
Comprehensive Income		\$ 441,357	\$ 358,387
Total Net Income Attributable to:			
Unitholders of the Trust		\$ 439,480	\$ 345,633
Shareholders of Subsidiaries		(67)	–
Net Income		\$ 439,413	\$ 345,633
Comprehensive Income Attributable to:			
Unitholders of the Trust		\$ 441,424	\$ 358,387
Shareholders of Subsidiaries		(67)	–
Comprehensive Income		\$ 441,357	\$ 358,387

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(CA\$ Thousands)		Unit Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total
	<i>Note</i>					
Unitholders' Equity, January 1, 2016		\$ 2,222,747	\$ 1,451,736	\$ (14,530)	\$ -	\$ 3,659,953
Unit Capital						
New Units issued	13	157,523	-	-	-	157,523
Distribution Reinvestment Plan	13	51,035	-	-	-	51,035
Deferred Unit Plan	12, 13	110	-	-	-	110
RUR Plan	12, 13	732	-	-	-	732
Long-Term Incentive Plan	12, 13	7,547	-	-	-	7,547
Employee Unit Purchase Plan	12	1,308	-	-	-	1,308
		218,255	-	-	-	218,255
Contribution from Non-controlling Interests		-	-	-	850	850
Retained Earnings and Other Comprehensive Income						
Net income		-	439,480	-	(67)	439,413
Other comprehensive income		-	-	1,944	-	1,944
		-	439,480	1,944	(67)	441,357
Distributions on Trust Units						
Distributions declared and paid	14	-	(147,360)	-	-	(147,360)
Distributions payable	14	-	(14,123)	-	-	(14,123)
		-	(161,483)	-	-	(161,483)
Unitholders' Equity, December 31, 2016		\$ 2,441,002	\$ 1,729,733	\$ (12,586)	\$ 783	\$ 4,158,932

(CA\$ Thousands)		Unit Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Non-Controlling Interest	Total
	<i>Note</i>					
Unitholders' Equity, January 1, 2015		\$ 1,761,313	\$ 1,249,076	\$ (27,284)	\$ -	\$ 2,983,105
Unit Capital						
New Units issued	13	386,988	-	-	-	386,988
Distribution Reinvestment Plan	13	44,206	-	-	-	44,206
Unit Option Plan	12, 13	6,473	-	-	-	6,473
Deferred Unit Plan	12, 13	116	-	-	-	116
RUR Plan	12, 13	963	-	-	-	963
Long-Term Incentive Plan	12, 13	14,380	-	-	-	14,380
Senior Executive						
Long-Term Incentive Plan	12, 13	7,162	-	-	-	7,162
Employee Unit Purchase Plan	12	1,146	-	-	-	1,146
		461,434	-	-	-	461,434
Retained Earnings and Other Comprehensive Income						
Net income		-	345,633	-	-	345,633
Other comprehensive income		-	-	12,754	-	12,754
		-	345,633	12,754	-	358,387
Distributions on Trust Units						
Distributions declared and paid	14	-	(129,900)	-	-	(129,900)
Distributions payable	14	-	(13,073)	-	-	(13,073)
		-	(142,973)	-	-	(142,973)
Unitholders' Equity, December 31, 2015		\$ 2,222,747	\$ 1,451,736	\$ (14,530)	\$ -	\$ 3,659,953

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(CA\$ Thousands)

For the Year Ended December 31,

	<i>Note</i>	2016	2015
<i>Cash Provided By (Used In):</i>			
Operating Activities			
Net income		\$ 439,413	\$ 345,633
Items related to operating activities not affecting cash:			
Fair value adjustment – investment properties		(227,335)	(173,242)
Fair value adjustment – Exchangeable Units		731	276
Loss on disposition of investment properties	5	1,813	639
Loss (gain) on derivative financial instruments	16	397	(282)
Amortization	7, 19, 21	12,029	9,722
Unit-based compensation expenses		19,897	13,417
Straight-line rent adjustment		138	122
Dilution loss on equity accounted investments		–	4,346
Foreign currency adjustment		(4,441)	7,447
		242,642	208,078
Net income items related to financing and investing activities	23	104,578	97,667
Changes in non-cash operating assets and liabilities	23	14,138	(12,921)
Cash Provided by Operating Activities		361,358	292,824
Investing Activities			
Acquisition of investment properties	23	(387,689)	(933,386)
Capital investments	23	(197,493)	(174,027)
Acquisition of investments		–	(32,305)
Disposition of investment properties	23	31,321	24,004
Change in restricted cash		(846)	(593)
Investment and other income received	23	4,519	1,611
Cash Used in Investing Activities		(550,188)	(1,114,696)
Financing Activities			
Mortgage financings		635,768	808,976
Mortgage principal repayments		(102,522)	(84,890)
Mortgages repaid on maturity		(130,810)	(143,328)
Financing costs on mortgages payable		(3,730)	(3,348)
CMHC premiums on mortgages payable		(11,492)	(14,130)
Interest paid	23	(109,097)	(100,467)
Bank indebtedness		(141,803)	54,644
Proceeds on issuance of Units	23	161,914	401,154
Net cash distributions to Unitholders	23	(109,398)	(96,739)
Cash Provided by Financing Activities		188,830	821,872
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, 2016

1. ORGANIZATION OF THE TRUST

Canadian Apartment Properties Real Estate Investment Trust (“CAPREIT”) owns interests in multi-unit residential rental properties, including apartments, townhomes and manufactured home communities (“MHC”), principally located in and near major urban centres across Canada. CAPREIT’s net assets and operating results are substantially derived from 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 established under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated June 26, 2007, and as amended on April 1, 2008, owns directly or indirectly the beneficial interest of all its properties along with the related mortgages and all the corporate debt obligations of CAPREIT.

CAPREIT’s wholly-owned subsidiary, IRES Fund Management Limited, entered into an external investment management agreement to perform property and asset management services for Irish Residential Properties REIT plc (“IRES”), an Irish residential REIT listed on the Irish Stock Exchange. As at December 31, 2016, CAPREIT holds 65.5 million ordinary shares representing 15.7% of the issued share capital of 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 policies have been consistently applied to all years presented, unless stated otherwise.

These consolidated annual financial statements were approved by CAPREIT’s Board of Trustees on February 27, 2017.

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. Where CAPREIT consolidates a subsidiary in which it does not have 100% ownership, the non-controlling interest is classified as a component of equity.

ii) Joint Arrangements

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

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

iii) Investment in Associates

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

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

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

d) Investment properties

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

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

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

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

e) Property asset acquisitions

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

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

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

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

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

g) Property, plant and equipment

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

h) Tenant inducements

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

i) Prepaid CMHC premiums

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

j) Financial instruments

Financial assets and financial liabilities

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

Classification of financial instruments

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

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

Cash and cash equivalents and restricted cash

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

Loans and 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.

FVTPL

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

Transaction costs

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

Determination of fair value

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

Derivatives

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

Derivatives not designated in a hedging relationship are measured at fair value with changes therein recognized directly through the consolidated statements of income and comprehensive income (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 a transaction, CAPREIT documents the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. CAPREIT also documents, both at hedge inception and on an ongoing basis, its assessment of whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The effective portion of changes in the fair value of derivatives that are designated and

qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statements of income and comprehensive income under net income. Should a hedging relationship become ineffective and/or hedge accounting become no longer appropriate, previously unrealized gains and losses remain within 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.

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

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, foreign currency translation relating to foreign operations, and the effective portion of cash flow hedges less any amounts reclassified to interest and other financing costs and the associated income taxes.

o) Accumulated Other Comprehensive Loss ("AOCL")

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

p) Revenue recognition

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

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

q) Borrowing costs and interest on mortgages payable

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

r) Distributions

Distributions represent the monthly cash distributions on outstanding Trust Units.

s) Unit-based compensation and incentive plans

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

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

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

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

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

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

t) Consolidated statements of cash flows

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

u) Income taxes

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

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

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

v) Earnings per Unit

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

w) Foreign currency translation

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

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

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

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

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

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

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

x) Non-controlling interest

Non-controlling interest represents equity interests in subsidiaries owned by outside parties. The share of net assets, net earnings and other comprehensive income of subsidiaries attributable to non-controlling interest is reported in equity.

y) IFRIC 21, Levies

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

z) Future accounting changes

As at February 27, 2017, 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, 2016:

IAS 12, Income Taxes – Deferred Tax

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

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

This amendment includes the requirement for disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. This amendment will come into effect on January 1, 2017.

IAS 40, Investment Property

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

IFRS 2, Share-based Payments

This will be amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a “net settlement” feature in respect of employee withholding taxes. This amendment is effective for years beginning on January 1, 2018.

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. This amendment is effective on adoption of IFRS 9.

IFRS 15, Revenue from Contracts with Customers

This new standard on revenue recognition supersedes IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The new standard provides a single, comprehensive revenue recognition model. While early adoption is permitted for IFRS reporters, this standard is effective for the interim periods within years beginning on or after January 1, 2018.

IFRS 16, Leases

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

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

3. CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS, AND JUDGEMENTS

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

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

i) Valuation of investment properties

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

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

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

ii) Valuation of financial instruments

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

iii) Unit-based compensation

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

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

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

v) Classification of Interest Paid on Consolidated Statements of Cash Flows

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

4. RECENT INVESTMENT PROPERTY ACQUISITIONS

CAPREIT completed the following investment property acquisitions since January 1, 2015, which have contributed to the operating results effective from their respective acquisition dates:

For the Year Ended December 31, 2016

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

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

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

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

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

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

For the Year Ended December 31, 2015

	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
January 28, 2015 ⁽³⁾	270	Dublin, Ireland	\$ 125,416	\$ — ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁴⁾
February 18, 2015	126	Edmonton	31,092	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁴⁾
March 31, 2015	285	Burlington	54,500	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁴⁾
June 15, 2015	32	Victoria	5,479	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁴⁾
June 30, 2015	108	Langley	13,010	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁴⁾
July 31, 2015	58	Langley	17,070	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁴⁾
September 14, 2015	919	Greater Vancouver Area	170,611	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁴⁾
September 30, 2015	3,661	Montréal	502,276	— ⁽⁵⁾	— ⁽⁵⁾	— ⁽⁵⁾
November 1, 2015	4	Bowmanville and Grand Bend	372	— ⁽⁴⁾	— ⁽⁴⁾	— ⁽⁴⁾
December 17, 2015	169	Victoria	29,474	3,030	1.8%	4.2
	5,632		\$ 949,300	\$ 3,030		

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

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

(3) The Rockbrook Portfolio acquisition is the first portfolio CAPREIT acquired for Irish Residential Properties REIT plc ("IRES") for €89,693 (including transaction costs) under the previously announced agreement entered into between IRES and CAPREIT on November 21, 2014 and as amended on February 9, 2015 (the "Pipeline Agreement"). Refer to note 5 for further details.

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

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

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, 2015. 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, 2016

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

Dispositions Completed During the Year Ended December 31, 2015

Disposition Date	Suite Count	Regions	Sale Price	Cash Proceeds	Mortgage Discharged
March 31, 2015	270	Dublin, Ireland ⁽¹⁾	\$ 123,450	\$ 362	\$ 123,016
February 18, 2015	260	Toronto	47,000	23,642	22,901
	530		\$ 170,450	\$ 24,004	\$ 145,917

(1) Pursuant to the terms of the Pipeline Agreement, on March 31, 2015, CAPREIT sold the Rockbrook Portfolio via the sale of its interest in its wholly-owned Irish subsidiary (“Rockbrook SPV”) to IRES at the original acquisition cost of €89,693 and earned an underwriters’ fee of €873. IRES repaid the loan to CAPREIT for €89,693, the original acquisition cost (for which CAPREIT had initially drawn from the Acquisition and Operating Facility for the purchase of the Rockbrook Portfolio). In total, IRES paid €90,566 for the acquisition of the Rockbrook Portfolio. CAPREIT repaid the euro LIBOR borrowings of €90,300 subsequent to the sale. Included in foreign currency translation on the consolidated statements of income and comprehensive income is a foreign exchange loss of \$3,155 relating to the disposition and a foreign exchange gain of \$3,142 in respect to the repayment of the euro LIBOR borrowings.

For the year ended December 31, 2016, a loss of \$1,813 was recognized in connection with the property dispositions in the third quarter of 2016. For the year ended December 31, 2015, a loss of \$639 was recognized in connection with the property disposition on February 18, 2015. 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 the actual location, size and quality of the property, taking into account any available market data at the valuation date. Generally, an increase in stabilized NOI will result in an increase to the fair value of an investment property. An increase in the capitalization rate will result in a decrease in the fair value of an investment property. The capitalization rate magnifies the effect of a change in stabilized NOI, with a lower capitalization rate 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 as at December 31, 2016 and December 31, 2015, is presented below:

As at December 31, 2016

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

As at December 31, 2015

Type of Interest	Fair Value	WA NOI / Cash Flow ⁽¹⁾	Rate Type	Max	Min	Weighted Average
Fee Simple Interests –						
Apartments and Townhomes	\$ 5,786,430	2,395	Capitalization rate	7.96%	3.25%	4.69%
MHC Land Lease Sites	282,820	2,428	Capitalization rate	7.14%	4.41%	6.23%
Operating Leasehold Interests ^{(2),(3),(4)}	598,690	3,254	Discount rate ⁽⁵⁾	6.50%	5.75%	5.92%
Land Leasehold Interests ⁽²⁾	195,200	3,665	Discount rate	6.75%	6.75%	6.75%
Total Investment Properties	\$ 6,863,140					

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

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

(3) The fair values of Operating Leasehold Interests include the fair values of the Options to purchase the related freehold interests of \$149,140 and \$127,700 as at December 31, 2016 and December 31, 2015, respectively.

(4) The weighted average remaining lease term on Operating Leasehold Interests is 16.8 years as at December 31, 2016 (December 31, 2015 – 17.8 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, 2016 and December 31, 2015.

Reconciliation of carrying amounts of investment properties by type

For the Year Ended December 31, 2016	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
Balance at the beginning of the year	\$ 6,069,250	\$ 598,690	\$ 195,200	\$ 6,863,140
Additions:				
Acquisitions	414,668	–	–	414,668
Property capital investments	172,629	16,073	7,040	195,742
Capitalized leasing costs ⁽¹⁾	700	33	185	918
Foreign currency translation	188	–	–	188
Dispositions	(58,793)	–	–	(58,793)
Realized loss on disposition of investment properties	(1,813)	–	–	(1,813)
Unrealized fair value adjustments	232,758	12,944	(17,735)	227,967
Balance of Investment Properties at end of the year	\$ 6,829,587	\$ 627,740	\$ 184,690	\$ 7,642,017

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

For the Year Ended December 31, 2015	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
Balance at the beginning of the year	\$ 4,986,030	\$ 559,560	\$ 204,050	\$ 5,749,640
Additions:				
Acquisitions	949,300	–	–	949,300
Property capital investments	140,205	18,087	4,916	163,208
Capitalized leasing costs ⁽¹⁾	271	17	(122)	166
Foreign currency translation	(3,155)	–	–	(3,155)
Dispositions	(168,622)	–	–	(168,622)
Realized loss on dispositions of investment properties	(639)	–	–	(639)
Unrealized fair value adjustments	165,860	21,026	(13,644)	173,242
Balance of Investment Properties at end of the year	\$ 6,069,250	\$ 598,690	\$ 195,200	\$ 6,863,140

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

7. OTHER ASSETS

As at December 31,	2016	2015
Other Non-Current Assets		
Property, plant and equipment ⁽¹⁾	\$ 34,526	\$ 26,350
Accumulated amortization of property, plant and equipment	(21,365)	(17,109)
Net property, plant and equipment	13,161	9,241
Prepaid CMHC premiums, net ⁽²⁾	74,174	66,787
Deferred loan costs, net ⁽³⁾	1,345	1,101
Investment	25,958	22,850
Investment in associates ⁽⁴⁾	107,434	105,960
Total	\$ 222,072	\$ 205,939
Other Current Assets		
Prepaid expenses	\$ 5,559	\$ 4,753
Other receivables	13,137	15,220
Restricted cash	6,975	6,129
Deposits	3,234	7,647
Total	\$ 28,905	\$ 33,749

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

(2) Represents prepaid CMHC premiums on mortgages payable, net of accumulated amortization, of \$20,250 (December 31, 2015 – \$16,900).

(3) Represents deferred loan costs related to the revolving credit facilities, net of accumulated amortization, of \$8,486 (December 31, 2015 – \$7,822).

(4) On March 25, 2015, IRES raised €215,000 from the secondary equity offering. CAPREIT recorded a loss on ownership dilution of \$1,219 (in dilution loss on equity accounted investments) representing the difference between CAPREIT's share of the fair value of the secondary equity offering (excluding CAPREIT's investment of €23,500 ordinary shares) and the carrying value of CAPREIT's disposed equity interest. Due to CAPREIT's ownership dilution, \$3,127 of accumulated foreign currency loss was reclassified from other comprehensive loss to dilution loss on equity accounted investments on the consolidated statements of income and comprehensive income. CAPREIT has determined that its investment in IRES should be accounted for using the equity method of accounting given the significant influence it has over IRES. In making the determination that CAPREIT does not control IRES, CAPREIT used judgement when considering the extent of its ownership interest in IRES, the level of its involvement, responsibilities and remuneration as IRES's investment manager and the control exerted over IRES by its independent Board of Directors. As at December 31, 2016, CAPREIT concluded that it continues to exert significant influence over IRES. CAPREIT will continue to reassess this conclusion should its ownership interest or terms of the investment management agreement change. Refer to note 24 for further details. The table below discloses CAPREIT's ownership in IRES and IRES's share price:

As at December 31,	2016	2015
IRES Investment		
Share ownership (%)	15.7%	15.7%
Number of IRES shares	65,500,000	65,500,000
IRES share price (€)	1.17	1.17

8. OTHER LIABILITIES

As at December 31,	Note	2016	2015
Other Non-Current Liabilities			
Hedge liability	16(a),(b),(c)	\$ 4,126	\$ 5,856
Total		\$ 4,126	\$ 5,856
Other Current Liabilities			
Mortgage interest payable		\$ 8,464	\$ 8,008
Total		\$ 8,464	\$ 8,008

9. MORTGAGES PAYABLE

As at December 31, 2016, mortgages payable bear interest at a weighted average effective rate of 3.30% (December 31, 2015 – 3.52%), and mature between 2017 and 2030. The effective interest rate as at December 31, 2016 includes 0.10% (December 31, 2015 – 0.12%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of \$32,494 included in AOCL. Approximately 97.9% of CAPREIT's mortgages payable are financed at fixed interest rates as at December 31, 2016. Investment properties at fair value of \$7,420,427 have been pledged as security as at December 31, 2016. CAPREIT has investment properties with a fair value of \$221,590 as at December 31, 2016 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. As at December 31, 2016, unamortized deferred financing costs of \$11,544 and fair value adjustments of (\$4,662) 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, 2016	Principal Amount	% of Total Principal
2017	\$ 227,454	6.5
2018	204,206	5.8
2019 ⁽¹⁾	511,246	14.6
2020	323,062	9.2
2021 ⁽²⁾	439,122	12.6
Subsequent to 2021	1,794,715	51.3
	3,499,805	100.0
Deferred financing costs and fair value adjustments	(6,882)	
Total Portfolio	\$ 3,492,923	
As at December 31,	2016	2015
Represented by:		
Mortgages Payable – non-current ^{(1),(2)}	\$ 3,265,469	\$ 2,858,622
Mortgages Payable – current	227,454	239,151
	\$ 3,492,923	\$ 3,097,773

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

(2) Included in mortgages payable as at December 31, 2016 is a \$65,000 non-amortizing credit facility on two of the MHC land lease sites.

10. BANK INDEBTEDNESS

Effective June 30, 2016, CAPREIT amended and restated its credit agreement to, among other things: (i) increase its credit facilities to \$505,000 in the aggregate; (ii) increase the maximum amount of its existing \$340,000 revolving credit facility to \$440,000 (the “Acquisition and Operating Facility”); (iii) add an additional lender in the syndicate thereto; (iv) amend the “conversion date”, for when the revolving facility converts to a two-year non-revolving term facility, to June 30, 2017; (v) amend the tangible net worth requirement to \$1,500,000; and (vi) extend the maturity date of the existing \$65,000 five-year non-revolving term credit facility to June 30, 2021. In respect to the Acquisition and Operating Facility, the aggregate amount of euro LIBOR borrowings at any time shall not exceed €70,000 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 \$440,000. Effective December 19, 2016, CAPREIT amended its credit agreement to increase the euro LIBOR borrowing limit to €150,000 from €70,000 while maintaining the Acquisition and Operating Facility limit at \$440,000.

CAPREIT's Credit Facilities include the \$440,000 Acquisition and Operating Facility, and the existing \$65,000 five-year non-revolving term credit facility (collectively, the “Credit Facilities”). The \$65,000 five-year non-revolving term credit facility bears interest at the bankers' acceptance rate plus 1.4% per annum (included in mortgages payable). As at December 31, 2016, CAPREIT has euro LIBOR borrowings of €92,900 that bears interest at the euro LIBOR rate plus a margin of 1.65% 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, 2019. 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,	2016	2015
Facility	\$ 440,000	\$ 340,000
Less:		
Euro LIBOR borrowings ⁽¹⁾	(131,630)	(95,434)
Bank indebtedness	(26,408)	(168,211)
Letters of credit	(6,040)	(6,040)
Available borrowing capacity	\$ 275,922	\$ 70,315
Weighted average floating interest rate	2.55%	2.56%

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

11. UNIT-BASED COMPENSATION FINANCIAL LIABILITIES AND EXCHANGEABLE UNITS

Units are issuable pursuant to CAPREIT's Unit-based compensation plans, namely, the Unit Option Plan ("UOP"), the Employee Unit Purchase Plan ("EUPP"), the Deferred Unit Plan ("DUP") and the Restricted Unit Rights Plan ("RUR Plan") (each of which is more fully described in note 12). As at December 31, 2016, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 9,500,000 Units (December 31, 2015 – 9,500,000). The maximum number of Units available for future issuance under all Unit incentive plans as at December 31, 2016 is 1,346,980 Units (December 31, 2015 – 1,750,051 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, 2016 and 2015 are as follows:

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

(Number of Units) Year Ended December 31, 2015	UOP	DUP	RUR	SELTIP / LTIP ⁽¹⁾	Exch. Units ⁽²⁾	Total
Units, Unit Rights and Unit Options outstanding as at January 1, 2015	1,134,182	206,726	506,041	2,225,597	161,311	4,233,857
Issued, cancelled or granted during the year:						
Issued or granted	428,250	37,488	123,620	–	–	589,358
Exercised or settled	(228,000)	(5,802)	(67,438)	(780,199)	–	(1,081,439)
Cancelled	–	–	(2,285)	–	–	(2,285)
Distributions reinvested	–	9,664	26,375	–	–	36,039
Units, Unit Rights and Unit Options outstanding as at December 31, 2015	1,334,432	248,076	586,313	1,445,398	161,311	3,775,530

(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 \$5,061 as at December 31, 2016 (December 31, 2015 – \$4,330), which approximates the closing price of the Trust Units.

The table below summarizes the change in the total Unit-based compensation financial liabilities for the years ended December 31, 2016 and December 31, 2015, including the settlement of such liabilities through the issuance of Trust Units.

As at December 31,	2016	2015
Total Unit-based compensation financial liabilities, beginning of the year	\$ 46,163	\$ 48,686
Unit-based compensation expenses	19,679	13,226
Early vesting of RURs ⁽¹⁾	–	1,307
Settlement of Unit-based compensation awards for Trust Units	(5,564)	(17,056)
Total Unit-based compensation financial liabilities, end of the year	\$ 60,278	\$ 46,163

The Unit-based compensation financial liabilities comprise:

As at December 31,	2016	2015
Current		
LTIP	\$ 13,757	\$ 14,309
SELTIP	11,192	8,414
DUP	8,968	6,657
RUR Plan	5,391	5,453
UOP	8,253	4,350
	47,561	39,183
Non-Current		
RUR Plan	12,717	6,980
Total Unit-based compensation financial liabilities, end of the year	\$ 60,278	\$ 46,163

(1) Represents the accelerated vesting of previously-granted RUR Units relating to the departure of the former Chief Accounting Officer which has been recognized in severance and other employee costs in the consolidated statements of income and comprehensive income.

Units or Unit-based compensation financial liabilities held by trustees, officers and other senior management
As at December 31, 2016, 3.2% (December 31, 2015 – 3.3%) 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, 2015. No Trust Units were acquired and cancelled under these NCIB programs.

Period Covered under the NCIB	Approval Limit
July 28, 2015 to July 27, 2016	11,493,069
July 8, 2014 to July 7, 2015	10,659,524

12. UNIT-BASED COMPENSATION EXPENSES

These costs represent Unit-based compensation expenses, which include fair value remeasurement at each reporting date recognized over the respective vesting periods for each plan for the years ended December 31, 2016 and 2015, as follows:

Year Ended December 31,	2016	2015
UOP	\$ 3,903	\$ 2,461
LTIP	3,913	4,047
SELTIP	2,778	1,149
DUP	2,544	1,644
RUR Plan	6,541	3,925
EUPP	218	191
Unit-based compensation expenses	\$ 19,897	\$ 13,417

a) UOP

Under the terms of the UOP, options are granted to trustees, officers and key employees based on a performance incentive for improved service and enhancing profitability. In February 2010, the 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 percent (3%) of the number of Units issued by the Trust pursuant to any equity offering or acquisition transaction (not including pursuant to any compensation arrangements) at the market price of the Units at the time of completion of each such treasury issuance, in accordance with the terms of the UOP, as amended from time to time.

On August 3, 2016, the President and CEO was granted 153,780 options at an exercise price of \$32.40 with an expiration date of August 2, 2026 with a fair value of \$4.07 per option at the date of grant. The vesting of the options granted in 2016 is subject to satisfaction of performance criteria over the annual reporting period before they may be exercisable. As at December 31, 2016, the options granted in 2016 have vested.

On March 25, 2015, the President and CEO was granted 166,650 options at an exercise price of \$29.00 with an expiration date of March 24, 2025. On October 9, 2015, the President and CEO was granted 261,600 options at an exercise price of \$28.70 with an expiration date of October 8, 2025. The vesting of the options granted in 2015 is subject to satisfaction of performance criteria over the annual reporting period before they may be exercisable. As at December 31, 2015, the options granted in 2015 have vested. 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, 2016 and 2015 is presented below. All Unit options are exercisable as at December 31, 2016 and 2015.

(Number of Units) For the Year Ended December 31,	2016	2015
Balance, beginning of the year	1,334,432	1,134,182
Granted	153,780	428,250
Exercised	–	(228,000)
Balance, end of the year	1,488,212	1,334,432

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

As at December 31,	2016	2015
Number of Units	1,488,212	1,334,432
Weighted average issue price	\$ 25.33	\$ 24.52
Weighted average risk-free rate (%)	1.4	1.1
Weighted average distribution yield (%)	4.0	4.5
Weighted average expected years	7.0	7.7
Weighted average volatility (%)	19.4	20.6
Weighted average Unit option value	\$ 5.55	\$ 3.26

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

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

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

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

Year Ended December 31, (Number of Units)	2016		2015	
	LTIP	SELTIP	LTIP	SELTIP
Balance, beginning of the year	890,683	554,715	1,407,683	817,914
Settled during the year	(260,000)	–	(517,000)	(263,199)
Balance, end of the year	630,683	554,715	890,683	554,715

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

Year Ended December 31, (Instalment Receipts)	2016		2015	
	LTIP	SELTIP	LTIP	SELTIP
Balance, beginning of the year	\$ 9,800	\$ 7,499	\$ 16,095	\$ 11,309
Principal repayments during the year	(3,607)	(319)	(6,295)	(3,810)
Balance, end of the year	\$ 6,193	\$ 7,180	\$ 9,800	\$ 7,499

The Instalment Receipts are recognized as a deduction from Unit-based compensation liability. During the years ended December 31, 2016 and 2015, interest payments in the amounts of \$696 and \$982, 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.

<i>LTIP</i>			
As at December 31,	2016		2015
Number of Units	630,683		890,683
Weighted average loan rate (%)	4.62		4.61
Weighted average issue price	\$ 15.15		\$ 15.56
Weighted average loan balance per Unit – current	\$ 9.57		\$ 10.78
Weighted average loan balance per Unit – at maturity	\$ 8.13		\$ 8.89
Weighted average risk-free rate (%)	0.8		0.5
Weighted average distribution yield (%)	4.0		4.5
Weighted average expected years	1.6		2.3
Weighted average volatility (%)	19.1		18.3
Weighted average Unit value	\$ 21.81		\$ 16.06

<i>SELTIP</i>			
As at December 31,	2016		2015
Number of Units	554,715		554,715
Weighted average loan rate (%)	4.96		4.96
Weighted average issue price	\$ 17.84		\$ 17.84
Weighted average loan balance per Unit – current	\$ 12.74		\$ 13.35
Weighted average loan balance per Unit – at maturity ⁽¹⁾	\$ 1.80		\$ 2.20
Weighted average risk-free rate (%)	1.7		1.4
Weighted average distribution yield (%)	4.0		4.5
Weighted average expected years	19.3		20.3
Weighted average volatility (%)	23.7		24.8
Weighted average Unit value	\$ 20.18		\$ 15.15

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

c) DUP

The DUP gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred units (“Deferred Units”). Each trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the “Elected Percentage”) of their annual retainer payable in respect of a calendar year (the “Elected Amount”), subject to an annual maximum Elected Percentage established by the Human Resources and Compensation Committee, in the form of Deferred Units, in lieu of cash. CAPREIT will match the Elected Amount in the form of Deferred Units having a value equal to the volume weighted average price of all Units traded on the TSX for the five trading days immediately preceding the date on which board compensation is payable. The maximum Elected Percentage in respect of 2016 is 100% (2015 – 100%) of a trustee’s annual board compensation of \$75 for 2016 and 2015.

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,	2016			2015		
	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	\$ 21.87	\$ 26.84	248,076	\$ 20.48	\$ 25.13	206,726
Granted during the year	30.94	–	34,481	27.99	–	37,488
Additional Unit distributions	30.02	–	10,819	27.63	–	9,664
Settled during the year	21.24	–	(7,500)	21.54	–	(5,802)
Outstanding, end of the year	\$ 23.85	\$ 31.37	285,876	\$ 21.87	\$ 26.84	248,076

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 Resource 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,	2016			2015		
	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	\$ 22.78	\$ 26.84	586,313	\$ 21.19	\$ 25.13	506,041
Granted during the year	28.64	–	131,772	27.27	–	123,620
Additional Unit distributions	29.95	–	28,677	27.53	–	26,375
Settled or cancelled during the year	20.14	–	(28,364)	22.53	–	(69,723)
Outstanding, end of the year	\$ 24.25	\$ 31.37	718,398	\$ 22.78	\$ 26.84	586,313

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,		2016	2015
	<i>Ref</i>		
Units outstanding, beginning of the year		127,139,897	110,088,079
Issued or granted during the year in connection with the following:			
New Units issued	(a)	5,126,000	14,275,000
Distribution Reinvestment Plan ("DRIP")	(b)	1,791,680	1,688,603
EUPP	(c)	43,542	41,385
DUP	(d)	3,529	4,061
RUR Plan	(e)	23,810	34,570
UOP	(f)	–	228,000
LTIP	(g)	260,000	517,000
SELTIP	(h)	–	263,199
Units outstanding, end of the year		134,388,458	127,139,897

a) New Units Issued

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
August 2016 (the "August 2016 Equity Offering")					
Bought-Deal (August 3, 2016)	\$ 32.20	\$ 150,052	\$ 6,902	\$ 143,150	4,660,000
Over-allotment (August 3, 2016)	\$ 32.20	15,005	600	14,405	466,000
Total		\$ 165,057	\$ 7,502	\$ 157,555	5,126,000
October 2015 (the "October 2015 Equity Offering")					
Bought-Deal (October 9, 2015)	\$ 28.70	\$ 250,264	\$ 10,943	\$ 239,321	8,720,000
Total		\$ 250,264	\$ 10,943	\$ 239,321	8,720,000
March 2015 (the "March 2015 Equity Offering")					
Bought-Deal (March 25, 2015)	\$ 27.85	\$ 140,643	\$ 6,491	\$ 134,152	5,050,000
Over-allotment (March 25, 2015)	\$ 27.85	14,064	563	13,501	505,000
Total		\$ 154,707	\$ 7,054	\$ 147,653	5,555,000

b) 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.

c) Employee Unit Purchase Plan ("EUPP")

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

d) Deferred Unit Plan ("DUP")

During 2016, in accordance with the DUP, one trustee exercised 7,500 Deferred Units, out of which 3,529 DUP Units were settled for an equivalent number of Trust Units, and the remaining DUP Units were cancelled in consideration for withholding taxes owed on the Trust Units issued. During 2015, in accordance with the DUP, one trustee exercised 5,802 Deferred Units, out of which 4,061 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.

e) Restricted Unit Rights Plan ("RUR Plan")

During 2016, 28,364 RUR Units were settled, out of which 23,810 RUR Units were settled for an equivalent number of Trust Units, and the remaining RUR Units were cancelled in consideration of withholding taxes owned to the Trust Units issued. During 2015, 67,438 RUR Units were settled, out of which 34,570 RUR Units were settled for an equivalent number of Trust Units, and the remaining RUR Units were cancelled in consideration of withholding taxes owed on the Trust Units issued. In addition, during 2015, 2,285 RUR Units were cancelled.

f) Unit Option Plan ("UOP Plan")

During 2015, 228,000 options were exercised and an equivalent number of Trust Units were issued.

g) Long-Term Incentive Plan ("LTIP")

During 2016, 260,000 Units previously issued were settled. During 2015, 497,000 Units previously issued were settled. The remaining instalments were repaid in full in respect of the settled Units.

h) Senior Executive Long-Term Incentive Plan ("SELTIP")

During 2015, 263,199 Units previously issued were settled. The remaining instalments were repaid in full in respect of the settled Units.

14. DISTRIBUTIONS ON TRUST UNITS

CAPREIT paid distributions to its Unitholders in accordance with its DOT. Distributions declared by its Board of Trustees were paid monthly, on or about the 15th day of each month. Effective June 2016, monthly cash distributions declared to Unitholders increased to \$0.1042 (\$1.25 annually) compared to \$0.1017 (\$1.22 annually) since May 2015 and \$0.098 per Unit (\$1.18 annually) since June 2014.

Year Ended December 31,	2016	2015
Distributions declared		
on Trust Units	\$ 161,483	\$ 142,973
Distributions per Unit	\$ 1.238	\$ 1.207

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, 2016, the fair value of CAPREIT's mortgages payable is estimated to be \$3,569,000 (December 31, 2015 – \$3,237,000) due to changes in interest rates since the dates the individual mortgages were financed and the impact of the passage of time on the primarily fixed rate nature of CAPREIT's mortgages. The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions, which are considered Level 2 inputs (as described below).

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

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

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

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

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

The following table presents CAPREIT's estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as at December 31, 2016, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts CAPREIT could ultimately realize.

	Level 1 Quoted prices in active markets for identical assets and liabilities	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Total
Recurring Measurements				
<i>Assets</i>				
Investment properties				
Fee simple and MHC land lease sites	\$ –	\$ –	\$ 6,829,587 ⁽¹⁾	\$ 6,829,587
Operating leasehold interests	–	–	627,740 ⁽¹⁾	627,740
Land leasehold interests	–	–	184,690 ⁽¹⁾	184,690
Investments	25,958 ⁽²⁾	–	–	25,958
<i>Liabilities</i>				
Derivative financial instruments – interest	–	(2,608) ⁽³⁾	–	(2,608)
Derivative financial instruments – interest euro	–	(1,518) ⁽³⁾	–	(1,518)
Total	\$ 25,958	\$ (4,126)	\$ 7,642,017	\$ 7,663,849

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

Although CAPREIT has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by CAPREIT itself. As at December 31, 2016, CAPREIT has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of the derivative. As a result, CAPREIT has determined that the derivative valuations in their entirety should be classified as Level 2 of the fair value hierarchy.

b) Risk management

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

Interest rate risk

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

For the years ended December 31, 2016 and 2015, 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	
		2016	2015	2016	2015
Floating rate debt	+100	\$ (1,382)	\$ (933)	\$ –	\$ –
Floating rate debt	-100	\$ 1,382	\$ 933	\$ –	\$ –
Interest rate swap agreements	+100	\$ –	\$ –	\$ 3,550	\$ 4,160
Interest rate swap agreements	-100	\$ –	\$ –	\$ (3,757)	\$ (4,155)
Euro interest rate swap agreements	+100	\$ 1,150	\$ 1,623	\$ –	\$ –
Euro interest rate swap agreements	-100	\$ (1,116)	\$ (1,592)	\$ –	\$ –

CAPREIT's objective in managing interest rate risk is to minimize the volatility of earnings. As at December 31, 2016, interest rate risk has been minimized as approximately 97.9% (December 31, 2015 – 98.9%) of the mortgages payable are financed at fixed interest rates, with maturities staggered over a number of years.

Liquidity risk

Liquidity risk is the risk that CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 96.6% of CAPREIT's mortgages are CMHC-insured (excluding \$261,859 of mortgages on the MHC), which reduces the risk in refinancing mortgages. CAPREIT's overall risk for mortgage refinancings is further reduced as the unamortized mortgage insurance premiums are transferable between approved lenders and are effective for the full amortization period of the underlying mortgages, ranging between 25 and 35 years. To mitigate the risk associated with the refinancing of maturing debt, CAPREIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAPREIT manages its overall liquidity risk by maintaining sufficient available credit facilities and unencumbered assets to fund its ongoing operational and capital commitments, distributions to Unitholders, and to provide future growth in its business. As at December 31, 2016, CAPREIT had undrawn lines of credit in the amount of \$275,922 (December 31, 2015 – \$70,315).

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at December 31, 2016 are as follows:

	2017	2018–2019	2020–2021	2022 onward
Mortgages payable	\$ 227,454	\$ 715,452	\$ 762,184	\$ 1,794,715
Bank indebtedness	–	26,408	–	–
Mortgage interest ⁽¹⁾	103,146	183,058	135,862	139,536
Bank indebtedness interest ⁽¹⁾	673	673	333	–
Other liabilities	101,168	1,518	–	2,608
Security deposits	29,975	–	–	–
Exchangeable Units	5,061	–	–	–
Distributions payable	14,123	–	–	–
	\$ 481,600	\$ 927,109	\$ 898,379	\$ 1,936,859

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

Credit risk

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

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

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

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

Foreign currency risk

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

CAPREIT manages and mitigates the exposure to foreign currency risk on its investment in IRES and subsidiary in The Netherlands with its Euro LIBOR borrowings. The gain or loss on foreign currency translation relating to CAPREIT's IRES investment is recognized in other comprehensive income while the foreign exchange translation on the Euro LIBOR borrowings is recognized in the consolidated statement of income. The gain or loss on foreign currency translation relating to CAPREIT's Netherlands subsidiary and the euro LIBOR borrowings is recognized in other comprehensive income.

16. REALIZED AND UNREALIZED GAINS AND LOSSES ON DERIVATIVE FINANCIAL INSTRUMENTS

a) Contracts for which hedge accounting is no longer effective

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

CAPREIT settled these Interest Rate Forward Contracts in 2009. The associated cumulative unamortized loss of \$9,908 included in AOCL at September 30, 2008 is being amortized to mortgage interest expense over the original terms of the hedged contracts. For the year ended December 31, 2016, \$784 (December 31, 2015 – \$986) was amortized from AOCL to mortgage interest expense.

b) Contracts for which hedge accounting is being applied

- (i) CAPREIT has a \$65,000 interest rate swap agreement fixing the bankers’ acceptance rate at 2.20%, which matures in September 2022, for which hedge accounting is being applied. The agreement effectively converts borrowings on a bankers’ acceptance-based floating rate credit facility to a fixed rate facility for a 10-year term (see note 9 for further details). The related floating rate credit facility is for a five-year non-revolving term with an effective interest rate of 3.60%, and any principal that is repaid may not be reborrowed. The credit facility was amended effective June 30, 2016 and expires on June 30, 2021. On expiry of the term, it is expected to be refinanced to match the term of the interest rate swap. The ineffective loss component of the hedge of \$725 has been recorded under (loss) gain on derivative financial instruments on the consolidated statements of income and comprehensive income for the year ended December 31, 2016 and the cumulative mark-to-market loss of \$2,608 is in other non-current liabilities as at December 31, 2016.

The interest rate swap agreement has been summarized as follows:

As at December 31,	2016	2015
Hedge liability, beginning of the year	\$ (3,527)	\$ (886)
Change in intrinsic value	919	(2,641)
Hedge liability, end of the year	\$ (2,608)	\$ (3,527)
Hedge liability in AOCL, beginning of the year	\$ (3,527)	\$ (886)
Change in intrinsic value in OCI	1,644	(2,641)
Hedge liability in AOCL, end of the year	\$ (1,883)	\$ (3,527)

- (ii) CAPREIT’s Netherlands subsidiary owns and operates properties in The Netherlands, a foreign jurisdiction. It is exposed to foreign currency fluctuations arising between the functional currency of the foreign operation (the euro) and the functional currency of CAPREIT (the Canadian dollar). As such, CAPREIT entered into a hedge effective at the date of The Netherlands acquisition (December 23, 2016). CAPREIT hedged the net investment in The Netherlands foreign operations with €22,500 euro-denominated debt on CAPREIT’s consolidated balance sheets. Any foreign currency gains/losses arising from the euro-denominated debt will be offset by the foreign currency gain/loss arising from the investment in The Netherlands foreign operations. The effective portion of foreign exchange gains and losses on the €22,500 euro-denominated debt was recognized in OCI.
- (iii) In June 2011, CAPREIT entered into a hedging program, which effectively hedged interest rates on approximately \$312,000 of mortgages maturing between September 2011 and June 2013. The maturing mortgages have been refinanced for 10-year terms and as a result bear interest rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before the credit spread. The change in the intrinsic value of the forward interest rate hedge has been included in OCI (see note 19). The hedging program matured in June 2013, for which hedge accounting was being applied. The ineffective portion and the difference between the settled amount and the mark-to-market has been recognized in net income. All contracts have been settled.

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

As at December 31,	2016	2015
Hedge liability in AOCL, beginning of the year	\$ (15,121)	\$ (17,409)
Amortization from AOCL to interest and other financing costs	2,288	2,288
Hedge liability in AOCL, end of the year	\$ (12,833)	\$ (15,121)

c) Contracts for which hedge accounting is not being applied

- (i) CAPREIT had quarterly foreign currency exchange contracts aggregating to €2,800, which settled between December 2013 and matured quarterly up till September 2015, which fixed the exchange rate between the euro and the Canadian dollar, for which hedge accounting was not being applied. All foreign currency exchange contracts have settled since September 2015. The mark-to-market gain of \$23 has been recognized in net income for the year ended December 31, 2015.
- (ii) As at December 31, 2016, 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 gain for 2016 of \$328 has been recorded in net income and the cumulative mark-to-market loss of \$1,518 (including \$693 of crystallized loss previously recognized) is in other liabilities as at December 31, 2016.
- (iii) In October 2015, CAPREIT settled the \$100,000 forward interest hedge agreement fixing the Government of Canada 10-year bond at 1.44% effective October 29, 2015 and the realized gain for 2015 of \$416 has been recorded in net income. The agreement effectively converted anticipated mortgage financings of \$100,000 for a 10-year term.

17. CAPITAL MANAGEMENT

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

CAPREIT's Credit Facilities (see note 10) require compliance with certain financial covenants. In addition, borrowings must not exceed the borrowing base, calculated at a predefined percentage 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,		2016	2015
Mortgages payable		\$ 3,492,923	\$ 3,097,773
Bank indebtedness		26,408	168,211
Unit-based compensation financial liabilities		60,278	46,163
Exchangeable Units		5,061	4,330
Unitholders' equity		4,158,932	3,659,953
Total capital		\$ 7,743,602	\$ 6,976,430
	Threshold		
Total debt to gross book value ⁽¹⁾	Maximum 70.00%	44.31%	45.71%
Tangible net worth ⁽³⁾	Minimum \$1,500,000	\$ 4,224,271	\$ 3,710,446
Debt service coverage ratio (times) ^{(2),(4)}	Minimum 1.20	1.63	1.63
Interest coverage ratio (times) ^{(2),(5)}	Minimum 1.50	3.09	2.96

(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. As at December 31, 2015 the tangible net worth requirement was \$1,200,000 and was amended to \$1,500,000 effective June 30, 2016.

(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 2015 and 2016, CAPREIT is taxed as a "mutual fund trust" as defined under the Income Tax Act (Canada) (the "Tax Act") and continues to meet the prescribed conditions relating to the nature of its assets and revenues in order qualify as a Real Estate Investment Trust eligible for the REIT Exception to the SIFT rules. The Trust expects to distribute all of its taxable income to its unitholders, accordingly no provision for income tax has been made. Income tax obligations relating to the distributions from CAPREIT are with the individual unitholder.

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

19. ACCUMULATED OTHER COMPREHENSIVE LOSS

As at December 31,	2016	2015
AOCL balance, beginning of the year	\$ (14,530)	\$ (27,284)
Other comprehensive income:		
Amortization from AOCL to interest and other financing costs ^{(1),(2)}	3,105	3,311
Change in fair value of derivative financial instruments (note 16(b))	1,644	(2,641)
Change in fair value of investments	3,109	652
Foreign currency translation	(5,914)	8,305
Reversal of cumulative foreign currency translation relating to IRES ownership dilution	–	3,127
Other comprehensive income	1,944	12,754
AOCL balance, end of the year	\$ (12,586)	\$ (14,530)

As at December 31,	2016	2015
AOCL comprises:		
Loss on derivative financial instruments		
Cumulative realized loss ⁽¹⁾	\$ (9,908)	\$ (9,908)
Accumulated amortization to interest and other financing costs	7,920	7,136
Unamortized balance of loss on cash flow hedges previously settled	(130)	(163)
Loss on interest rate swap agreements	(1,883)	(3,527)
Loss on forward interest rate hedge ⁽²⁾	(22,884)	(22,884)
Accumulated amortization to interest and other financing costs	10,051	7,763
Change in fair value of investments	6,733	3,624
Cumulative (loss) gain on foreign currency translation	(2,781)	3,133
Reversal of cumulative foreign currency translation relating to IRES ownership dilution	3,127	3,127
Cumulative realized gain on sale of investments	(2,831)	(2,831)
AOCL balance, end of the year	\$ (12,586)	\$ (14,530)

(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 2016 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 \$713.

(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 \$2,283.

20. SEVERANCE AND OTHER EMPLOYEE COSTS

For the year ended December 31, 2015, \$5,237 of severance and other employee costs were incurred including compensation costs related to the accelerated vesting of previously-granted RUR Units.

21. INTEREST AND OTHER FINANCING COSTS

Year Ended December 31,	2016	2015
Interest on mortgages payable ⁽¹⁾	\$ 108,927	\$ 100,886
Amortization of CMHC premiums and fees	3,499	2,909
Interest on bank indebtedness and deferred loan costs ⁽²⁾	4,705	3,988
Interest on Exchangeable Units	199	194
	\$ 117,330	\$ 107,977

(1) Includes amortization of deferred financing costs, fair value adjustments and OCI hedge interest of \$3,616 (December 31, 2015 – \$2,976).

(2) Includes amortization of deferred loan costs of \$664 (December 31, 2015 – \$1,038).

22. 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,	2016	2015
Assets	\$ 203,874	\$ 196,113
Liabilities	75,493	77,462
Revenues	15,938	15,612
Expenses	4,289	(2,455)
Net income	11,649	18,067
Cash provided by (used in):		
Operating activities	\$ 8,914	\$ 9,011
Financing activities	\$ (7,071)	\$ (7,100)
Investing activities	\$ (2,566)	\$ (1,564)

23. SUPPLEMENTAL CASH FLOW INFORMATION

a) Net income items related to investing and financing activities

Year Ended December 31,	2016	2015
Dividend and interest income	\$ 4,519	\$ 1,611
Interest paid on		
Exchangeable Units	(199)	(194)
Interest paid on		
mortgages payable	(104,853)	(97,300)
Interest paid on bank		
indebtedness	(4,045)	(2,973)
Net disbursement	\$ (104,578)	\$ (98,856)

Note: Included in disposition of investment properties is the underwriters' fee of €873 (\$1,189 in CAD) for 2015 relating to the sale of the Rockbrook SPV.

b) Changes in non-cash operating assets and liabilities

Year Ended December 31,	2016	2015
Prepaid expenses	\$ (807)	\$ (1,763)
Tenant inducements,		
direct leasing costs, and		
other adjustments	(1,826)	2,866
Other receivables	2,002	(8,360)
Deferred loan costs	(908)	(644)
Deposits on purchases	4,906	(6,417)
Deposits	(493)	(21)
Accounts payable and		
other liabilities	8,330	(581)
Security deposits	2,934	1,999
Net proceeds (disbursement)	\$ 14,138	\$ (12,921)

c) Net cash distributions to Unitholders

Year Ended December 31,	2016	2015
Distributions declared		
to Unitholders	\$ (161,483)	\$ (142,973)
Add:		
Distributions payable		
at beginning of year	(13,073)	(11,045)
Less:		
Distributions payable		
at end of year	14,123	13,073
Less:		
Distributions to		
participants in the DRIP	51,035	44,206
Net disbursement	\$ (109,398)	\$ (96,739)

d) Capital investments

Year Ended December 31,	2016	2015
Capital investments	\$ (203,918)	\$ (169,456)
Change in capital investments		
included in accounts payable		
and other liabilities	6,425	(4,571)
Net disbursement	\$ (197,493)	\$ (174,027)

e) Acquisition of investment properties

Year Ended December 31,	2016	2015
Acquired properties	\$ (414,668)	\$ (949,300)
Fair value adjustment		
of assumed debt	773	374
Assumed debt	25,356	3,030
Deposit on purchases	–	12,510
Contributions from		
non-controlling interest	850	–
Net disbursement	\$ (387,689)	\$ (933,386)

f) Disposition of investment properties

Year Ended December 31,	2016	2015
Proceeds	\$ 60,606	\$ 170,450
Closing costs	(2,878)	(529)
Mortgages assumed by		
purchasers and discharged	(26,407)	(145,917)
Net proceeds	\$ 31,321	\$ 24,004

g) Issuance of Trust Units

Year Ended December 31,	2016	2015
Issuance of Trust Units	\$ 167,220	\$ 417,228
Settlement of Unit-based		
Compensation Awards		
for Trust Units	(5,306)	(16,074)
Net proceeds	\$ 161,914	\$ 401,154

24. RELATED PARTY TRANSACTIONS

a) On March 25, 2015, CAPREIT invested €23,500 in addition to its initial investment in Ordinary Shares in IRES as part of IRES's €215,000 secondary equity offering. As at December 31, 2016, CAPREIT has a 15.7% share ownership in IRES and has determined that it has significant influence over IRES. The share ownership is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. See note 5 for a more detailed description.

Effective April 11, 2014, CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited ("IRES FM"), entered into an external management agreement, amended from time to time, to perform certain property and asset management services for IRES. On October 28, 2015, IRES FM became authorized by the Irish Central Bank as an alternative investment fund manager under the European Union (Alternative Investment Fund Managers) Regulation, 2013 (the "AIFM Regulations"). On November 1, 2015, IRES FM was appointed by IRES as its new alternative investment fund manager in accordance with the AIFM Regulations, and replaced the existing alternative investment fund manager. The investment management agreement between IRES FM and IRES came into effect, pursuant to which IRES pays 3.0% per annum of its gross rental income as property management fees and 0.5% per annum of its net asset value as asset management fees to IRES FM. The investment management agreement governs the provision of portfolio management, risk management and other related services to IRES by IRES FM. It has an initial term of five years, unless it is duly terminated pursuant to a provision of the investment management agreement, and thereafter shall continue in force for consecutive five-year periods.

Included in other income for the year ended December 31, 2016 is \$5,188 (2015 – \$3,316) from asset management and property management fees. Expenses related to the asset and property management services are included in trust expenses for the year ended December 31, 2016. The amount receivable from IRES as at December 31, 2016 is \$8,024 (2015 – \$5,544).

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 Canadian subsidiaries and director of each of its Irish subsidiaries. Officers and key management of CAPREIT were granted options of IRES relating to the initial and secondary equity offerings.

CAPREIT entered into 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. The €150,000 facility commitment provided by CAPREIT to IRES under the Pipeline Agreement terminated on March 26, 2015 on completion of IRES's secondary equity offering. The facility commitment may be reauthorized by CAPREIT's Board of Trustees at a later date.

On January 28, 2015, CAPREIT, through a wholly-owned Irish subsidiary ("Rockbrook SPV"), acquired the Rockbrook Portfolio, consisting of 270 residential suites and approximately 50,214 square feet of mixed-use commercial space located in Dublin, Ireland under the Pipeline Agreement for €87,303 (including VAT) and other acquisition costs of €2,390. Pursuant to the terms of the Pipeline Agreement, IRES acquired the Rockbrook SPV for the underwriters' fee of €873 and repaid the loan of €89,693 to CAPREIT on March 31, 2015.

b) CAPREIT had 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, 2016 were \$7,180 and \$5,953, respectively (December 31, 2015 – \$7,499 and \$6,417, respectively). These amounts are taken into consideration when calculating the fair value of the Unit-based compensation financial liabilities. Key management personnel are eligible to participate in the EUPP. In addition, certain key management personnel also participate in the RUR, and trustees currently participate in the DUP. Pursuant to employee contracts, key management personnel are entitled to termination benefits that provides for payments of up to 36 months of benefits (based on base salary, bonus and other benefits) depending on cause.

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

Year Ended December 31,	2016	2015
Short-term employee benefits	\$ 3,400	\$ 4,468
Unit-based compensation		
– grant date amortization	3,763	4,012
	7,163	8,480
Unit-based compensation		
– fair value remeasurement	13,662	6,103
Severance and other benefits ⁽¹⁾	–	2,074
Total	\$ 20,825	\$ 16,657

(1) Costs related to the departure of the former Chief Accounting Officer are included in severance and other employee costs for 2015.

c) In 2012, as previously disclosed, Intraurban Management Services Inc., a company owned by a senior officer and trustee of CAPREIT, terminated its contract for construction management services with CAPREIT and effectively sold its business to a third party. That transaction contemplated aggregate payments by such third party of \$1,850. The final payment of \$364 was paid in the fourth quarter of 2016.

d) 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, 2016 and 2015 was \$1,035 and \$942, respectively, excluding property operating costs, and has been expensed as trust expenses. The lease expires on October 31, 2017. CAPREIT is in the process of renewing the lease. Minimum annual rental payments for next year are as follows:

	2017
Minimum annual rent	\$ 419

25. COMMITMENTS

Natural gas

Through the combination of fixed and variable price contracts, CAPREIT is committed as at December 31, 2016, in the aggregate amount of \$14,572 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.

	2017	2018	2019	2020
Gas Commodity				
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 2.91	\$ 2.95	\$ 2.84	\$ 2.79
Total of CAPREIT's Estimated Requirements	58.5%	50.7%	48.8%	32.9%
Transport				
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 1.25	\$ 1.00	\$ 0.96	\$ 0.95
Total of CAPREIT's Estimated Requirements	69.9%	49.2%	47.6%	32.9%

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

Land Leasehold Interests

Four of the investment properties have ground leases with various expiry dates (subject to revisions at periodic intervals) between March 31, 2045 and March 31, 2070. One land lease matures in 2045, two mature in 2068 and another matures in 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. During the years ended December 31, 2016 and 2015, total expenses under these four leases were \$2,716 and \$2,808, 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:

	2017	2018	2019	2020	2021	Thereafter
Minimum annual rent	\$ 1,323	\$ 1,323	\$ 1,323	\$ 1,323	\$ 1,323	\$ 38,676

Property capital investments

Commitments primarily related to capital investments in investment properties of \$36,484 were outstanding as at December 31, 2016 (December 31, 2015 – \$29,247).

26. 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.

27. SUBSEQUENT EVENTS

On February 15, 2017, CAPREIT completed the disposition of a 31-suite property located in Saskatoon, Saskatchewan for a sale price of \$2,025. The mortgage was repaid with proceeds of the sale totalling approximately \$1,356 with an interest rate of 4.12% and the remaining proceeds were used to repay a portion of the Acquisition and Operating Facility.

On February 16, 2017, CAPREIT announced it has waived conditions and will acquire a luxury 256-suite residential apartment property located in the Côte-Saint-Luc neighbourhood in the Greater Montréal Area. The purchase price, to be initially financed in cash from CAPREIT's Acquisition and Operating credit facility, is \$23,500. Closing of the transaction is expected on or before May 3, 2017.

On February 27, 2017, CAPREIT announced that its Board of Trustees had approved a 2.4% increase in monthly cash distributions to \$0.1067 per Unit, or \$1.28 per Unit on an annualized basis. The increase is effective with the March 2017 distribution payable on April 17, 2017 to Unitholders of record as at March 31, 2017.

FIVE YEAR REVIEW

(\$ Thousands, except per Unit amounts)

Year Ended December 31,	2016	2015	2014	2013	2012
Operating Revenues	\$ 596,831	\$ 533,798	\$ 506,411	\$ 477,023	\$ 412,421
Net Operating Income (“NOI”)	\$ 366,947	\$ 324,614	\$ 303,885	\$ 273,854	\$ 237,916
Net Operating Income Margin (%)	61.5	60.8	60.0	57.4	57.7
Net Income	\$ 439,413	\$ 345,633	\$ 317,975	\$ 267,678	\$ 412,263
Normalized Funds From Operations (“NFFO”)	\$ 231,808	\$ 200,027	\$ 183,353	\$ 159,375	\$ 132,553
Cash Distributions	\$ 164,413	\$ 146,198	\$ 131,044	\$ 119,256	\$ 101,210
NFFO Payout Ratio (%)	70.9	73.1	71.5	74.8	76.4
Non-taxable Distributions (%)	72.9	84.5	74.3	89.0	74.2
Normalized Funds From Operations					
NFFO per Unit – Basic	\$ 1.772	\$ 1.692	\$ 1.675	\$ 1.562	\$ 1.486
Cash Distributions per Unit	\$ 1.238	\$ 1.207	\$ 1.168	\$ 1.138	\$ 1.097
Weighted Average Number of Units (000s)	130,794	118,220	109,456	102,064	89,215
Number of Suites and Sites – total	48,767	46,790	41,688	41,552	37,225
Number of Suites and Sites – CAPREIT’s share	47,612	45,635	40,533	40,397	36,070
Investment Properties	\$ 7,642,017	\$ 6,863,140	\$ 5,749,640	\$ 5,459,218	\$ 4,826,355
Unitholders’ Equity	\$ 4,158,149	\$ 3,659,953	\$ 2,983,105	\$ 2,757,469	\$ 2,429,214
Overall Portfolio Occupancy (%)	98.6	97.5	97.9	98.0	97.9
Mortgage Debt to Gross Book Value (%)	44.0	43.4	44.6	44.0	44.3
Interest Coverage (times)	3.09	2.96	2.82	2.62	2.51
Weighted Average Mortgage Interest Rate (%) ⁽¹⁾	3.20	3.39	3.66	3.76	3.87
Weighted Average Mortgage Term (years)	6.1	6.3	6.3	6.0	5.4
Cumulative Compounded Return Since Inception (%)	1,182	950	839	652	736
Unit Price at End of Year	\$ 31.37	\$ 26.84	\$ 25.13	\$ 21.25	\$ 24.90

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

UNITHOLDER INFORMATION

BOARD OF TRUSTEES

Michael Stein
*Chairman and Chief Executive
Officer of MPI Group Inc.*

Thomas Schwartz
*President and Chief
Executive Officer*

David Ehrlich
*Chief Executive Officer, Irish
Residential Properties REIT plc*

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

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

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

David Sloan^{1, 2}
Corporate Director

Edwin Hawken^{1, 2}
Corporate Director

Paul Harris^{1, 3, 4}
*Partner, Davis, Ward, Phillips
and Vineberg LLP (a law firm)*

OFFICERS

Thomas Schwartz
*President and Chief
Executive Officer*

Michael Stein
Chairman

Scott Cryer
Chief Financial Officer

Mark Kenney
Chief Operating Officer

Roberto Israel
Chief Information Officer

Jodi Lieberman
*Chief Human Resources
Officer*

Corinne Pruzanski
*General Counsel and
Corporate Secretary*

NOTES TO BOARD OF TRUSTEES:

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

HEAD OFFICE

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

INVESTOR INFORMATION

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

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

Website
www.caprent.com or
www.capreit.net

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

Auditor

PricewaterhouseCoopers LLP

Legal Counsel
Stikeman Elliott LLP

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

Monthly Distribution per Unit
June 2014 – April 2015:
\$0.098 (\$1.18 annually)

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

June 2016 – December 2016:
\$0.104 (\$1.25 annually)

Annual Unitholders' Meeting
The Annual Meeting of Unitholders will be held at 4:30 p.m. EDT on Wednesday, May 24, 2017 at One King West Hotel, 1 King Street West, Toronto, Ontario M5H 1A1



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We are very proud to have been selected as one of Canada's Best Employers for the fourth consecutive year in 2016. Our people are our most important asset, and it is their engagement and commitment that allow us to continue striving for excellence and to be the best in our business.



CAPREIT

www.capreit.net