



# 2018 ANNUAL REPORT

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST



CAPREIT

# CAPREIT PROFILE

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

## 2018 HIGHLIGHTS AND OBJECTIVES

### HIGHLIGHTS

- Revenues up on continuing high occupancies and steady increases in average monthly rents
- Net Operating Income (“NOI”) rose 11.6% due to contributions from acquisitions, increased same property monthly rents, and lower operating expenses
- Same property NOI increased significantly by 8.0%
- Normalized Funds From Operations (“NFFO”) up 15.5%
- Strong accretive growth as NFFO per Unit up almost 10.0%
- Conservative 65.7% NFFO payout ratio underpins strength and sustainability of monthly cash distributions to Unitholders
- Strong, flexible financial position with conservative debt and coverage ratios with a low 3.05% weighted average interest rate
- Increased ownership position in Irish Residential Properties REIT plc (“IRES”) to 18.0%
- Enhanced opportunity for European growth through proposed sale of Netherlands portfolio and majority ownership interest in ECREIT

### OBJECTIVES

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

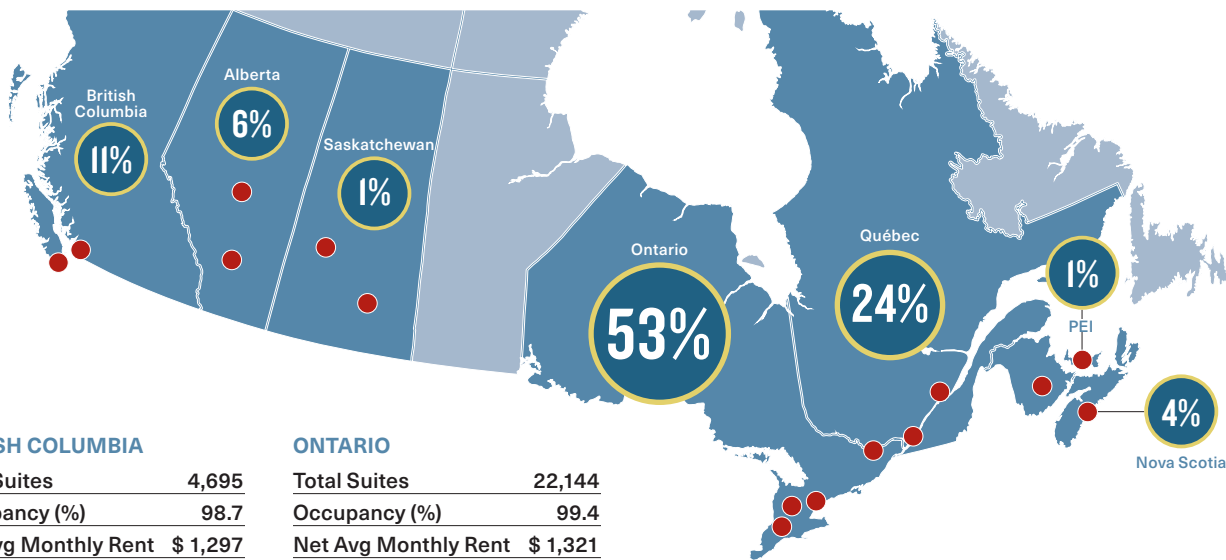
## 2018 SELECTED FINANCIAL HIGHLIGHTS

**SINCE 1997 CAPREIT HAS MET ITS GOAL OF DELIVERING PROFITABLE GROWTH AND STABLE, SUSTAINABLE CASH DISTRIBUTIONS TO ITS UNITHOLDERS. 2018 WAS YET ANOTHER RECORD YEAR, DRIVEN BY CONTINUING PORTFOLIO GROWTH, NEAR-FULL OCCUPANCIES, INCREASING MONTHLY RENTS AND AN EXPERIENCED, PROVEN MANAGEMENT TEAM.**

Year Ended December 31,	2018	2017
<b>Portfolio Performance</b>		
Overall Portfolio Occupancy <sup>(1)</sup>	98.9%	98.7%
Overall Portfolio Net Average Monthly Rents <sup>(1)</sup>	\$ 1,103	\$ 1,044
Operating Revenues (000s)	\$ 688,585	\$ 638,842
NOI (000s)	\$ 439,056	\$ 393,258
NOI Margin	63.8%	61.6%
<b>Financial Performance</b>		
FFO per Unit – Basic <sup>(2)</sup>	\$ 1.995	\$ 1.806
NFFO per Unit – Basic <sup>(2)</sup>	\$ 2.024	\$ 1.842
Cash Distributions per Unit	\$ 1.313	\$ 1.275
FFO Payout Ratio <sup>(2)</sup>	66.7%	71.7%
NFFO Payout Ratio <sup>(2)</sup>	65.7%	70.3%
<b>Liquidity and Leverage</b>		
Total Debt to Gross Book Value <sup>(1)</sup>	39.37%	43.57%
Total Debt to Gross Historical Cost <sup>(1)</sup>	54.54%	56.24%
Weighted Average Mortgage Interest Rate <sup>(1)</sup>	3.05%	3.08%
Weighted Average Mortgage Term (years) <sup>(1)</sup>	5.10	5.66
Debt Service Coverage (times) <sup>(3)</sup>	1.75	1.63
Interest Coverage (times)	3.44	3.19
Available Liquidity – Acquisition and Operating Facility (000s) <sup>(1)</sup>	\$ 266,325	\$ 86,792
<b>Other</b>		
Weighted Average Number of Units – Basic (000s)	142,974	135,962
Number of Suites and Sites Acquired	1,791	1,924
Number of Suites Disposed	900	81
Closing Price of Trust Units <sup>(1)</sup>	\$ 44.30	\$ 37.32
Market Capitalization (millions) <sup>(1)</sup>	\$ 6,491	\$ 5,182
<b>Notes</b>		
(1) As at December 31.		
(2) These measures are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see MD&A Section I – Non-IFRS Financial Measures). For a reconciliation to IFRS, see MD&A Section IV – Non-IFRS Financial Measures.		
(3) Based on the trailing four quarters.		

# CAPREIT'S HIGH-QUALITY CANADIAN PORTFOLIO

CAPREIT'S high-quality property portfolio is well-diversified both demographically and by property type, and is strongly positioned in key Canadian urban markets. Since 1997 CAPREIT has increased its presence in the higher-return luxury and mid-tier demographic segments while entering the stable and growing manufactured home communities market.



## BRITISH COLUMBIA

Total Suites	4,695
Occupancy (%)	98.7
Net Avg Monthly Rent	\$ 1,297

## ONTARIO

Total Suites	22,144
Occupancy (%)	99.4
Net Avg Monthly Rent	\$ 1,321

## ALBERTA

Total Suites	2,319
Occupancy (%)	98.3
Net Avg Monthly Rent	\$ 1,086

## QUÉBEC

Total Suites	9,999
Occupancy (%)	99.2
Net Avg Monthly Rent	\$ 970

## SASKATCHEWAN

Total Suites	234
Occupancy (%)	96.2
Net Avg Monthly Rent	\$ 1,035

## NOVA SCOTIA

Total Suites	1,659
Occupancy (%)	98.6
Net Avg Monthly Rent	\$ 1,125

## PRINCE EDWARD ISLAND

Total Suites	537
Occupancy (%)	98.9
Net Avg Monthly Rent	\$ 1,027



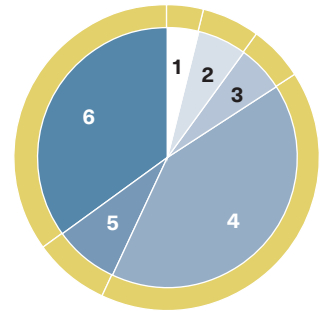


## MANUFACTURED HOME COMMUNITIES

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

### ACROSS CANADA

Total Sites	6,593
Occupancy (%)	97.6
Net Avg Monthly Rent	\$ 395



### 1. BRITISH COLUMBIA

Total Sites	272
Occupancy (%)	100.0
Net Avg Monthly Rent	\$ 455

### 4. ONTARIO

Total Sites	2,703
Occupancy (%)	99.9
Net Avg Monthly Rent	\$ 537

### 2. ALBERTA

Total Sites	418
Occupancy (%)	99.3
Net Avg Monthly Rent	\$ 436

### 5. PRINCE EDWARD ISLAND

Total Sites	504
Occupancy (%)	99.6
Net Avg Monthly Rent	\$ 149

### 3. SASKATCHEWAN

Total Sites	380
Occupancy (%)	99.7
Net Avg Monthly Rent	\$ 400

### 6. NEW BRUNSWICK

Total Sites	2,316
Occupancy (%)	93.5
Net Avg Monthly Rent	\$ 268



**JODI LIEBERMAN**  
Chief Human  
Resources Officer

**MARK KENNEY**  
President and  
Chief Operating  
Officer

**SCOTT CRYER**  
Chief Financial  
Officer

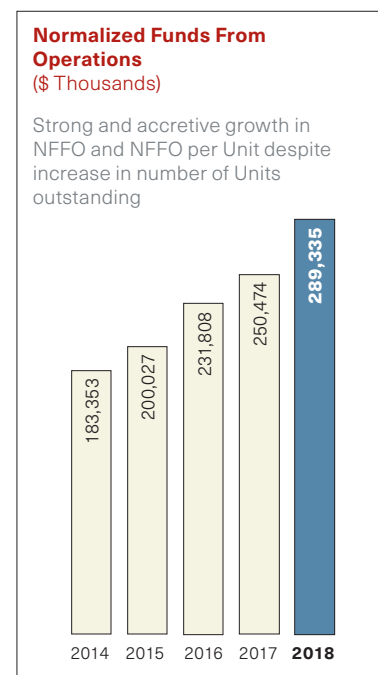
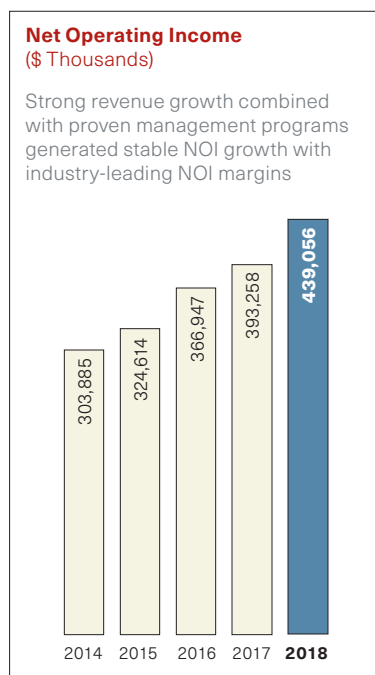
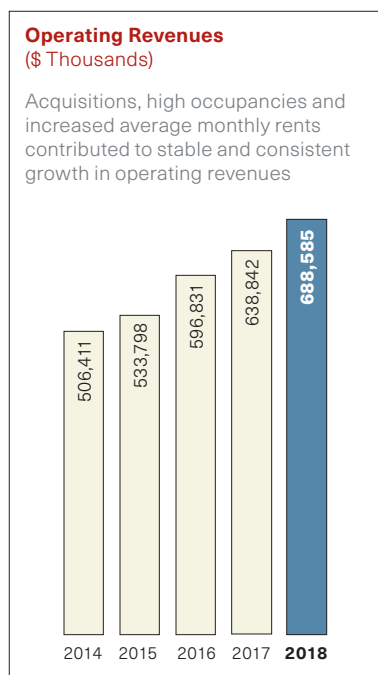
**CORINNE PRUZANSKI**  
General Counsel  
and Corporate Secretary

**AT CAPREIT WE HAVE ONE OF THE BEST MANAGEMENT TEAMS AND OPERATING PLATFORMS IN THE INDUSTRY, WITH DECADES OF PROVEN EXPERIENCE IN ALL ASPECTS OF THE RESIDENTIAL RENTAL BUSINESS.**

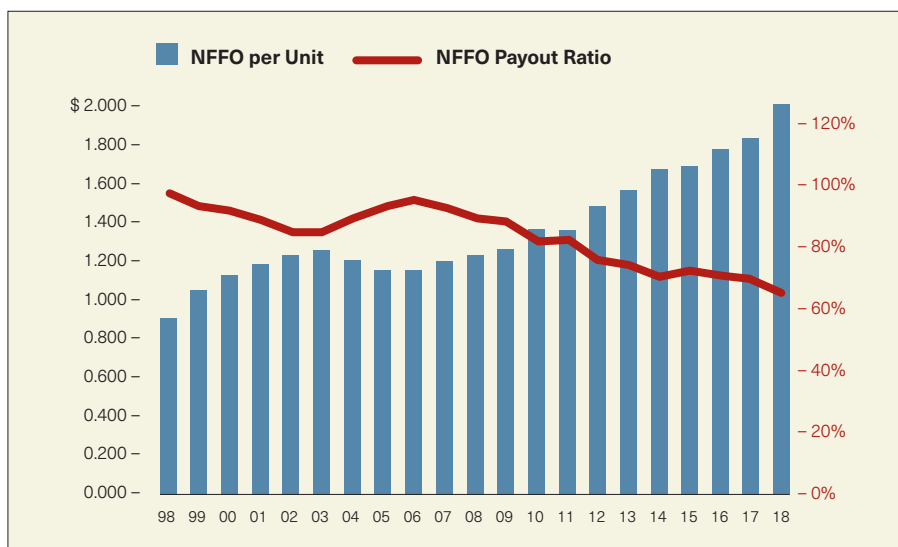
# REPORT TO UNITHOLDERS

In 2017 we celebrated twenty years of profitable growth and delivering stable, sustainable and increasing cash distributions to our Unitholders, transforming CAPREIT into Canada's largest multi-family residential REIT. CAPREIT had yet another record year in 2018, with strong and profitable growth in all our performance benchmarks. Looking ahead, we will continue to build and strengthen our future through programs and investments that ensure CAPREIT is the best place to work for our people, the best place to live for our residents and the best place to invest for our Unitholders.

## KEY METRICS



**STRONG ACCRETIVE GROWTH**  
**CAPREIT HAS GENERATED SOLID ACCRETIVE GROWTH WITH CONSERVATIVE PAYOUT RATIOS THROUGH ALL ECONOMIC CYCLES.**



**ANOTHER RECORD YEAR**

Operating revenues for the year ended December 31, 2018 rose 7.8% to \$688.6 million, driven by the contribution from acquisitions, strong rents on turnovers, and higher rental guidelines increases in Ontario and British Columbia. With this revenue growth, combined with our focus on innovation, our proven property management programs, operating efficiency and cost control, NOI rose a very strong 11.6% to \$439.1 million for the year. We also generated another year of industry-leading organic growth as NOI for our stabilized property portfolio increased 8.0% compared to the prior year.

NFFO, our key performance benchmark, increased 15.5% in 2018 to \$289.3 million, resulting in another year of accretive growth as NFFO per Unit rose 9.9% to \$2.024 despite the 5.2% 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 65.7%.

Importantly, we continue to maintain one of the strongest balance sheets in our business. Total debt to gross book value ratio was a conservative 39.4% at year end, well within our guidelines. Our mortgage portfolio remained well-balanced with a weighted average term to maturity of 5.1 years, adding to the stability of

our long-term cash flows. We also continue to benefit from a low cost of debt, with a weighted average interest rate of only 3.05% at December 31, 2018.

Looking ahead, we will continue to generate value for our Unitholders by capitalizing on the growth and success demonstrated over the past 21 years and focusing on initiatives that build and strengthen our future. Through portfolio growth and accretive property developments that modernize our asset base, investments in innovative technology solutions and, most importantly, by leveraging the skills and experience of our people, we are confident we will build a very exciting future.

**STRENGTHENING OUR FUTURE THROUGH PORTFOLIO GROWTH AND MODERNIZATION**

In 2018 we further enhanced the scale of our property portfolio with the purchase of 1,791 suites and sites, well-located in our key target markets, for a total purchase price of \$504.7 million. A number of these acquisitions were newer properties, helping to meet our goal of modernizing our asset base. With these purchases, our total property portfolio rose to 51,528 suites and sites at year end, with a fair value of \$10.5 billion. From an initial



# CAPREIT'S EUROPEAN PORTFOLIO

## NETHERLANDS

Since acquiring its first properties in 2016, CAPREIT has grown its Netherlands portfolio to 3,348 rental suites in this strong and diverse market. In a proposed transaction, CAPREIT entered into an agreement pursuant to which European Commercial Real Estate Investment Trust ("ECREIT") will acquire a portfolio of 2,091 rental suites located in the Netherlands from CAPREIT in 2019. The transaction will be satisfied through the issuance of ECREIT units to CAPREIT, which will result in CAPREIT gaining control over ECREIT. This transaction is contingent on approval by ECREIT unitholders and the TSX/V.



**PORTFOLIO BREAKDOWN**

Total Suites	3,348
Occupancy (%)	97.9
Net Avg Monthly Rent	\$ 1,268



**PORTFOLIO BREAKDOWN**

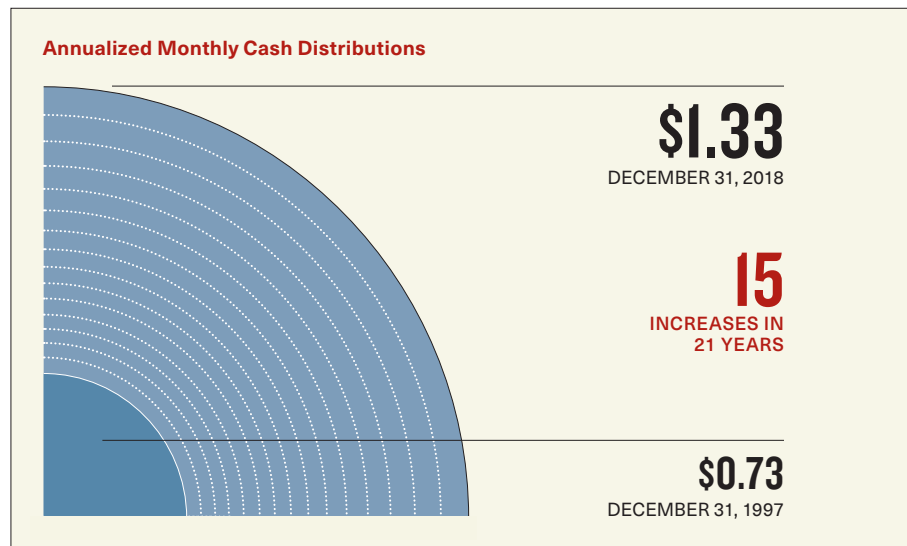
Total Suites	2,679
Occupancy (%)	99.8
Net Avg Monthly Rent	€ 1,599

## DUBLIN, IRELAND

CAPREIT's investment in IRES continues to generate significant benefits for Unitholders. In 2018 fees for management services rose to \$7.3 million, up 17.7% from 2017. CAPREIT also increased its ownership interest to 18.0%, and has generated strong returns including dividends of \$5.9 million for 2018.



**INCREASING CASH DISTRIBUTIONS**  
**CAPREIT REMAINS FOCUSED ON GENERATING STABLE, SUSTAINABLE AND GROWING CASH DISTRIBUTIONS FOR ITS UNITHOLDERS.**



portfolio of 2,900 apartment suites at the time of our initial public offering in November 1997, we have significantly expanded and diversified our asset base, transforming CAPREIT into Canada's largest multi-family residential REIT.

During the year we also sold certain older, non-core buildings where we believe we had maximized value, raising funds for more accretive growth opportunities. We continue to evaluate every property in our portfolio, selling those that no longer fit our overall growth strategy and recycling the capital raised into future growth.

To further diversify, we increased our ownership position in IRES to 18.0%. We continue to manage this high-quality and profitable property portfolio in Dublin, generating \$7.3 million in fees in 2018, up 17.7% from the prior year. Dividends from our investment in IRES were \$5.9 million for 2018, and with our increased ownership we expect to see further growth in dividend income going forward.

We also generated significant portfolio growth in our Netherlands portfolio in 2018, adding 1,257 rental suites in what remains a very strong and diverse market. CAPREIT entered into an agreement pursuant to which European Commercial Real Estate Investment Trust ("ECREIT") has agreed to acquire a portfolio

of multi-residential properties located in the Netherlands from CAPREIT, comprising 2,091 suites in 41 properties. The proposed transaction would provide CAPREIT with a larger, more direct and more diverse means to realize opportunities in the vibrant European multi-residential sector and, as with our investment in IRES, generate stable and growing cash flows from fees and dividends.

**STRENGTHENING OUR FUTURE THROUGH ACCRETIVE DEVELOPMENT OPPORTUNITIES**

In 2018 we launched an innovative program to accretively grow our business and build value for our Unitholders through the selective development of new rental buildings and apartment suites. We own a number of properties where there is sufficient land on which to develop new apartment buildings or where we can create new suites through property intensification. These investments will generate strong and accretive returns as there are no land costs associated with this growth. Over the long term we believe we can add in excess of 10,000 new rental suites, primarily in Vancouver and Toronto, where demand remains strong and monthly rents support profitable investment.

# MODERNIZING OUR PORTFOLIO

## ACQUIRING NEW PROPERTIES

The acquisition of newer, more modern properties helps lower the average age of our portfolio and reduce our overall capital investments.

An example is our agreement to acquire a joint venture interest in King's Club in downtown Toronto, a brand-new luxury property that is currently being completed and is in lease-up mode.

In 2018 we further expanded our presence in the vibrant Vancouver market with the acquisition of The Meridian, a fully occupied luxury property built in 2017, and Fraser Flats, two brand-new luxury buildings connected by a state-of-the-art recreation and amenities pavilion.



## ACCRETIVE DEVELOPMENTS

We own a number of properties where there is sufficient land on which to develop new apartment buildings or where we can create new suites through property intensification. These investments will generate strong and accretive returns as there are no land costs associated with this growth.

Over the long term we believe we can add in excess of 10,000 new rental suites, primarily in Vancouver and Toronto, where demand remains strong and monthly rents support profitable investment.

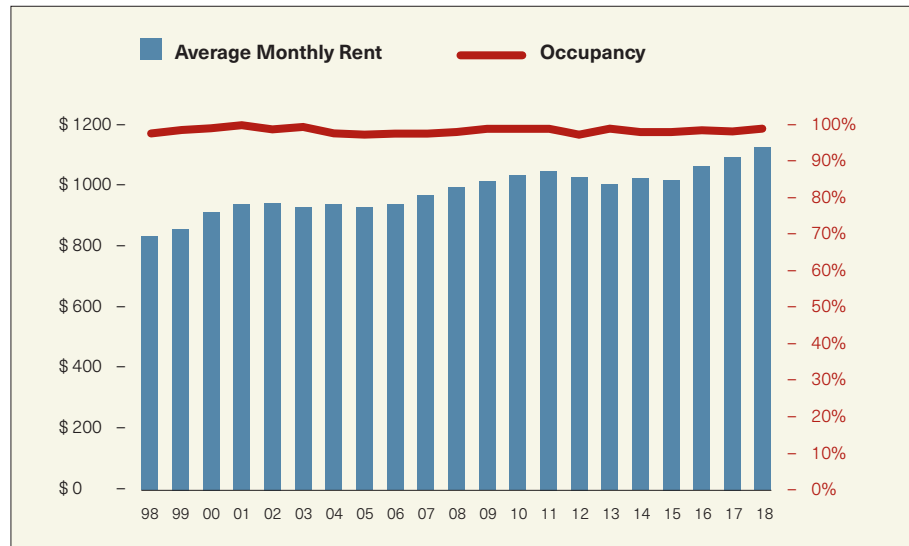
## RECYCLING CAPITAL

We continue to evaluate every property in our portfolio, selling those that no longer fit our overall growth strategy and recycling the capital raised into more accretive growth in the future.

Over the past two years we have sold eight older, non-core buildings where we believe we had maximized value. The disposition of these properties generated approximately \$98.6 million in funds that have been invested in more accretive and more modern growth opportunities, while reducing the average age of our overall property portfolio.



**STRONG AND STABLE ORGANIC GROWTH**  
**AS CAPREIT HAS GROWN AND DIVERSIFIED ITS PORTFOLIO, IT HAS GENERATED CONSISTENTLY HIGH OCCUPANCIES WITH GROWING AVERAGE MONTHLY RENTS.**



For example, two CAPREIT properties are currently under rezoning applications in Toronto. At 141 Davisville, we can add 146 suites in a new 16-storey infill building as well as new, modern shared amenities for residents in both the existing and new building. At 100 Wellesley, a new 10-storey infill building will add 120 suites to the portfolio, with new shared amenities for all residents.

We have also identified other properties where we can maximize density and realize the highest and best use, including a seven-acre waterfront site in Etobicoke with convenient access to transit, 11 acres in Pickering, Ontario adjacent to the Pickering Town Centre and a major GO Transit hub, and a four-acre site in Surrey, British Columbia ideally located near a prime hub for Vancouver’s new lower mainland transit extension.

**STRENGTHENING OUR FUTURE THROUGH INNOVATIVE TECHNOLOGIES**

We continue to invest in and adopt the latest technologies to enhance our risk management, market research and operating efficiency, reduce costs, strengthen relationships with our residents and, most importantly, do more with less. We exhaustively test any new technology to ensure it aligns with our systems

and our culture of performance. We then roll out the new solution in a measured approach, matching people with the appropriate training to maximize the benefits of these investments.

A key example is our in-suite turnover tablet, a software solution that allows a property manager to maximize revenue by reducing vacancy time and proactively manage repair and maintenance costs. The solution saves time by automatically generating purchase requisitions, improves data quality by reducing errors and creates a suite history to better manage our resources. Another new technology, our Operations Manager Checklist, drives efficient on-site inspections and upgrading of common areas by consolidating a wide range of tasks and procedures and generating data to enhance asset utilization analysis.

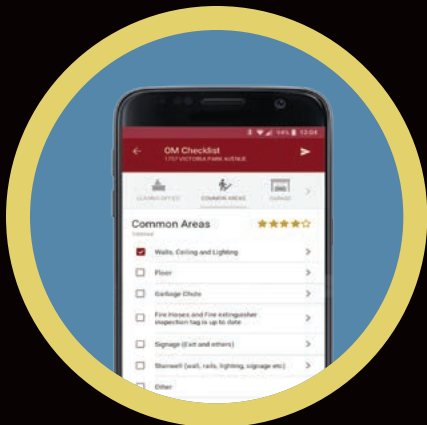
Going forward, we will be launching innovative technologies aimed at enhancing our resident experience. Potential new tenants will be able to review and process their leases online, while existing residents can access and reserve specific CAPREIT services for their homes. These new resident portals will enable a lease tracking and request management system and a centralized building management system that further strengthen the efficiency of our operating platform.

# INVESTING IN TECHNOLOGY



## IN-SUITE TURNOVER TABLET

Our recently launched in-suite turnover tablet allows our site staff to maximize revenue by reducing vacancy time and proactively managing repair and maintenance activities to minimize disruption for new residents moving in. It saves time by automatically creating purchase requisitions, reduces errors in repair scheduling, improves data quality and generates an accurate suite history for more efficient asset management.



## OPERATIONS MANAGER CHECKLIST

Our new, phone-based solution creates an efficient system for the on-site inspection of common areas. It consolidates a wide range of tasks, procedures, paperwork and approvals, and monitors task status to ensure completion. Photographs can be added to enhance clarity and improve a manager's focus on specific tasks. The system also provides enhanced and accurate data across the portfolio to improve asset management analytics.



## NEW TENANT PORTAL

New solutions are being developed to enhance our resident experience. An online leasing system will allow prospective residents to complete their lease application using their phone or computer. For current residents, the portal will enable access to and reservation of CAPREIT services, and allow us to tailor personalized messages for them. The data from the portal will be accessed by new analysis software that tracks leases and resident service requests through a new centralized building management system.

**OVER THE PAST 21 YEARS WE HAVE BUILT ONE OF THE MOST EFFICIENT OPERATING PLATFORMS IN THE BUSINESS. LOOKING AHEAD, WE WILL CONTINUE TO STRENGTHEN OUR OPERATIONS TO ENSURE WE ARE ACHIEVING THE HIGHEST POSSIBLE RETURNS FOR OUR UNITHOLDERS.**

## **LOOKING AHEAD AN EXCITING FUTURE**

Over the past 21 years we have built what we believe is one of the most efficient and effective operating platforms in the business. Through further investments in technology, innovation and our people, we will continue to strengthen and enhance our operations to ensure we are achieving the highest possible returns for our Unitholders. We will continue to drive resident satisfaction to maintain our high occupancies and steady increases in average monthly rents. We will modernize our asset base and reduce the average age of our portfolio with the acquisition of newer, well-maintained properties, the sale of older buildings where we have maximized our investment and the accretive development of new buildings and suites on our owned properties.

In closing, we thank everyone at CAPREIT for their ongoing commitment and effort over the past year. It is the hard work of our people that has led to our 21-year track record of profitable growth and will continue to drive our success in the years ahead. We also remember Tom Schwartz, our former Chief Executive Officer and a founder of CAPREIT, whose vision, leadership

and guidance transformed CAPREIT into one of Canada's largest residential landlords with an enviable track record of performance. We look forward to building on Tom's legacy through continued profitable growth and increasing Unitholder value in the years ahead.



**Mark Kenney**  
*President and Chief Operating Officer*



**Michael Stein**  
*Chairman*

# FINANCIAL REPORTING



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## IBC Unitholder Information



## Management's Discussion and Analysis

### SECTION I

#### OVERVIEW AND DISCLAIMER

##### Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") of Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") results of operations and financial condition for the year ended December 31, 2018, dated February 26, 2019, should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2018.

##### Forward-Looking Disclaimer

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, occupancy rates, productivity, projected costs, capital investments, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to acquisition and capital investment strategies and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including: that the Canadian, Irish and Dutch economies will generally experience growth, which, however, may be adversely impacted by the global economy; that inflation will remain low; that interest rates will remain low in the medium term; that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates; that the Canadian capital markets will continue to provide CAPREIT with

access to equity and/or debt at reasonable rates; that vacancy rates for CAPREIT properties will be consistent with historical norms; that rental rates on renewal will grow at levels similar to the rate of inflation; 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, investment restrictions, operating risk, energy costs, environmental matters, catastrophic events, insurance, capital investments, indebtedness, taxation-related risks, government regulations, controls over financial reporting, other legal and regulatory risks, the nature of units of CAPREIT ("Trust Units"), unitholder liability, liquidity and price fluctuation of Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, risks related to acquisitions, cyber security risk and foreign operation and currency risks. There can be no assurance that the expectations of CAPREIT's Management will prove to be correct. For a detailed discussion of risk factors, refer to CAPREIT's MD&A contained in CAPREIT's 2018 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, earnings releases and investor conference calls, CAPREIT discloses financial measures not recognized under IFRS which do not have standard meanings prescribed by IFRS. These include stabilized net rental income ("Stabilized NOI"), Funds From Operations ("FFO"), Normalized Funds From Operations ("NFFO"), Adjusted Cash Flow from Operations ("ACFO"), FFO and NFFO per Unit amounts and FFO, NFFO and ACFO payout ratios, and Adjusted Cash Generated from Operating Activities (collectively, the "Non-IFRS Measures"). Since these measures are not recognized under IFRS, they may not be comparable to similar measures reported by other issuers. CAPREIT presents Non-IFRS measures because Management believes Non-IFRS measures are relevant measures of the ability of CAPREIT to earn revenue and to evaluate its performance and cash flows. A reconciliation of these Non-IFRS measures to the comparable IFRS measures, along with further definitions and discussion, is provided in Section 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 residents in over 51,500 suites and sites across Canada and in the Netherlands. CAPREIT owns and operates a portfolio of 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 concentration on the residential real estate market is aimed at solid year-over-year income growth in a portfolio with stable occupancy. In addition, CAPREIT mitigates risk through demographic diversification by operating properties across the affordable, mid-tier and luxury sectors, as well as through geographic diversification.

CAPREIT'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 primarily 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 by employing successful operational strategies aimed at long-term ownership. This focus has contributed to growing net operating income, NFFO 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 May 24, 2017. As at December 31, 2018, CAPREIT owned interests in 51,528 residential units, comprised of 44,935 residential suites, and 32 MHC, comprised of 6,593 land lease sites. As at December 31, 2018, CAPREIT had 897 employees (883 employees as at December 31, 2017).

## Objectives and Business Strategy

CAPREIT's objectives are to:

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

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 of 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, 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. These initiatives are further enhanced by CAPREIT's strong information technology platform.

## 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 newer properties at prices 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 sustain the portfolio's rental income-generating potential over its useful life. CAPREIT continues to invest in innovative technology solutions that enhance productivity as well as environment-friendly and energy-saving initiatives that improve 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 aims to grow and modernize its portfolio over the long term through accretive acquisitions of newer properties that meet its

strategic criteria and, where possible, enhance geographic diversification and reduce the average age of the portfolio 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, older properties for divestiture. The funds from these divestitures will primarily be used to acquire additional, more modern 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 and to further modernize the overall portfolio. In addition, Management investigates opportunities to enter into joint venture relationships which could potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT.

## 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.

## Acquisitions and Dispositions

The following tables summarize property acquisitions and dispositions for the years ended December 31, 2018 and 2017:

### ACQUISITIONS COMPLETED DURING THE YEAR ENDED DECEMBER 31, 2018

(\$ Thousands)

	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate <sup>(1)</sup>	Term to Maturity (Years) <sup>(2)</sup>
April 24, 2018	134	Swift Current, SK	\$ 5,744	\$ — <sup>(3)</sup>	\$ —	— <sup>(3)</sup>	— <sup>(3)</sup>
April 30, 2018	2	Burlington, ON	2,404	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
August 7, 2018	90	Langley, BC	34,310	21,088	—	2.56%	8.83
August 15, 2018	3	New Westminster, BC	2,536	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
September 27, 2018	269	Vancouver, BC	103,169	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
November 13, 2018	11	New Westminster, BC	3,373	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
December 3, 2018	881	The Netherlands	253,410	—	104,796 <sup>(4)</sup>	1.98% <sup>(4)</sup>	7.00 <sup>(4)</sup>
December 5, 2018	376	The Netherlands	93,396	—	46,456 <sup>(5)</sup>	1.98% <sup>(5)</sup>	7.00 <sup>(5)</sup>
December 5, 2018	25	New Westminster, BC	6,368	1,827	—	2.49%	6.17
<b>Total</b>	<b>1,791</b>		<b>\$ 504,710</b>	<b>\$ 22,915</b>	<b>\$ 151,252</b>		
<b>Acquisition Financing</b>					<b>\$ 178,018<sup>(6)</sup></b>	<b>2.21%<sup>(6)</sup></b>	<b>7.5<sup>(6)</sup></b>

(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 of 881 suites, was financed by a new non-amortizing mortgage of €67.6 million (\$104.8 million) with a term to maturity of 7.0 years with an interest rate of 1.98% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(5) The acquisition, comprised of 376 suites, was financed by a new non-amortizing mortgage of €29.9 million (\$46.5 million) with a term to maturity of 7.0 years with an interest rate of 1.98% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(6) Subsequent acquisition financing of \$26.8 million with a weighted average interest rate of 3.49% and a weighted average term to maturity of 10.0 years relates to properties acquired in 2016 and 2017.

**ACQUISITIONS COMPLETED DURING THE YEAR ENDED DECEMBER 31, 2017**

(\$ Thousands)

	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate <sup>(1)</sup>	Term to Maturity (Years) <sup>(2)</sup>
February 28, 2017	32	Victoria, BC	\$ 4,934	\$ — <sup>(3)</sup>	\$ 2,999	2.66%	9.42
May 3, 2017	256	Montréal, QC	24,059	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
June 1, 2017	44	Maple Ridge, BC	11,241	3,713	—	1.94%	3.33
July 12, 2017	849	The Netherlands	257,881	— <sup>(4)</sup>	147,360	2.04% <sup>(4)</sup>	7.00 <sup>(4)</sup>
August 8, 2017	54	The Netherlands	12,691	— <sup>(6)</sup>	7,474	1.95% <sup>(6)</sup>	7.00 <sup>(6)</sup>
August 18, 2017	77	The Netherlands	20,384	— <sup>(6)</sup>	11,856	1.87% <sup>(6)</sup>	7.00 <sup>(6)</sup>
November 17, 2017	16	Summerside, PEI	2,379	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
November 27, 2017	56	Summerside, PEI	7,814	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
December 1, 2017	540	The Netherlands	129,127	— <sup>(7)</sup>	75,540	1.37%	5.00 <sup>(7)</sup>
<b>Total</b>	<b>1,924</b>		<b>\$ 470,510</b>	<b>\$ 3,713</b>	<b>\$ 245,229<sup>(8)</sup></b>		

(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 of 849 suites, was financed by a new non-amortizing mortgage of €100.8 million (\$147.4 million) with a term to maturity of 7.5 years with an interest rate of 2.04%, a contribution from a non-controlling interest of €600 thousand (\$889 thousand) and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(5) The acquisition was financed by a new non-amortizing mortgage of €5.0 million (\$7.5 million) with a term to maturity of 7.5 years with an interest rate of 1.95% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(6) The acquisition, comprised of 77 suites, was financed by a new non-amortizing mortgage of €8.0 million (\$11.9 million) with a term to maturity of 7.5 years with an interest rate of 1.87% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(7) The acquisition, comprised of 540 suites, was financed by a new non-amortizing mortgage of €49.9 million (\$75.5 million) with a term to maturity of 5.0 years with an interest rate of 1.37% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(8) Total acquisition financing in 2017 amounted to \$253.4 million, of which \$8.1 million related to properties acquired in 2015 with a weighted average interest rate of 2.47% and a weighted average term to maturity of 9.9 years.

**DISPOSITIONS COMPLETED DURING THE YEAR ENDED DECEMBER 31, 2018**

(\$ Thousands)

	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
August 15, 2018	102	Saskatoon, SK	\$ 10,195	\$ 2,425	\$ 7,476
September 6, 2018	162	Vancouver, BC	70,000	49,900	19,948
October 11, 2018	419	Longueuil, QC	35,831	15,168	20,564
December 12, 2018	217	Québec City, QC	24,900	14,404	10,224
<b>Total</b>	<b>900</b>		<b>\$ 140,926</b>	<b>\$ 81,897</b>	<b>\$ 58,212</b>

**DISPOSITIONS COMPLETED DURING THE YEAR ENDED DECEMBER 31, 2017**

(\$ Thousands)

	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
February 15, 2017	31	Saskatoon, SK	\$ 2,025	\$ 575	\$ 1,356
October 12, 2017	50	Vancouver, BC	19,800	16,160	3,595
<b>Total</b>	<b>81</b>		<b>\$ 21,825</b>	<b>\$ 16,735</b>	<b>\$ 4,951</b>

## SECTION II KEY HIGHLIGHTS

### Summary of Year End 2018 Results of Operations

#### Strong Operating Results Supported by Strong Market Fundamentals

- Growth in revenue and NOI from stabilized properties driven by higher monthly rents and stronger occupancies compared to last year
- On turnovers, monthly residential rents for the year ended December 31, 2018 increased by 11.4% on 21.5% of the Canadian portfolio, compared to an increase of 7.2% on 24.0% of the Canadian portfolio for the year ended December 31, 2017
- On renewals, monthly residential rents for the year ended December 31, 2018 increased by 2.2% on 85.4% of the Canadian portfolio, compared to an increase of 1.9% on 82.9% of the Canadian portfolio for the year ended December 31, 2017
- Net Average Monthly Rent ("Net AMR") for the stabilized portfolio as at December 31, 2018 increased by 4.9% compared to December 31, 2017, while occupancy increased to 99.0%
- Net AMR increased due to the strong rents on turnovers, higher rental guideline increases in Ontario and British Columbia, and above guideline increases
- Year-over-year NOI increased significantly by 8.0% for the stabilized portfolio for the year ended December 31, 2018, compared to a year-over-year NOI increase of 2.9% for the stabilized portfolio for the year ended December 31, 2017
- NOI increased by 11.6% for the year ended December 31, 2018 compared to last year due to contributions from acquisitions, increased same property monthly rents, and lower operating expenses
- NOI margin increased to 63.8% for the year ended December 31, 2018 due to higher monthly rents and lower vacancies, repair and maintenance ("R&M") costs, wages, utility expenses and realty taxes as a percentage of operating revenues

#### Continued Fair Value Increases in Investment Properties

- For the year ended December 31, 2018, the fair value of investment properties increased by \$990.5 million, primarily as a result of significant NOI growth in 2018 compared to 2017 driven by (i) significant rental increases on turnovers as current rents are substantially below market rents, especially in GTA and British Columbia, (ii) improved NOI margins due to operating efficiencies, and (iii) continued cap rate compression

#### Strong and Flexible Balance Sheet

- CAPREIT's financial position continues to strengthen, with reduced leverage ratios
- Debt to Gross Book Value ("GBV") reduced to 39.37% as at December 31, 2018 from 43.57% at December 31, 2017, due to increases in fair value of investment properties and equity raise

- Debt Service Coverage ("DSC") ratio improved to 1.75 compared to 1.63 as at December 31, 2017 mainly due to significant organic NOI growth
- Liquidity available on our Credit Facilities is \$266.3 million as at December 31, 2018
- Closed mortgage refinancing for \$213.2 million for the year, with top-ups of \$109.5 million, a weighted average term to maturity of 7.0 years and a weighted average interest rate of 3.22%
- CAPREIT's mortgage weighted average term to maturity and the weighted average interest rate for the year ended December 31, 2018 are 5.1 years and 3.05%. CAPREIT continues to fix long-term mortgages to defend against the risk of rising interest rate environment

#### Delivering Unitholder Value

- NFFO up 15.5% for the year ended December 31, 2018
- Growth highly accretive as NFFO per Unit was up 9.9% despite a 5.2% increase in weighted average number of Units outstanding
- NFFO payout ratio for the year ended December 31, 2018 improved to 65.7% from 70.3% last year

#### Other Key Highlights

- Increased investment in Irish Residential Properties REIT plc ("IRES") from 15.7% as at December 31, 2017 to 18.0% as at December 31, 2018, funded through CAPREIT's Acquisition and Operating Facility
- Entered into an agreement pursuant to which European Commercial Real Estate Investment Trust ("ECREIT") has agreed to acquire a portfolio of multi-residential properties located in the Netherlands from CAPREIT, comprising 2,091 suites in 41 properties, subject to shareholder approval

#### 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 for achieving occupancies matching or greater than market conditions in each of the geographic regions CAPREIT operates in. Management believes annual occupancies can be maintained in the 97% to 99% range over the long term and the trend for gradual increases in same-property Net AMR will continue, providing the basis for sustainable year-over-year increases in revenue.

### **Net AMR (previously defined as "AMR")**

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

### **Net 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 expects to achieve an annual NOI margin in the range of 60% to 64% 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 65% and 75%. This ratio is not meant to be a measure of the sustainability of CAPREIT's distributions. Although CAPREIT intends to continue to sustain and grow distributions, the actual amount of distributions in respect to the CAPREIT Units will depend upon numerous factors including, but not limited to, the amount of debt refinancings, tenant inducements, capital expenditures and other factors that may be beyond the control of CAPREIT.

### **Portfolio Growth**

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

### **Leverage Ratios and Terms**

CAPREIT takes a proactive approach with its mortgage portfolio, striving to manage interest expense volatility risk by fixing the lowest possible average interest rates for long-term mortgages, while mitigating refinancing risk by prudently managing the portfolio's average term to maturity and staggering the maturity dates. For this purpose, CAPREIT strives to ensure its overall leverage ratios and interest and debt service coverage ratios are maintained at a sustainable level. CAPREIT focuses on maintaining capital adequacy by complying with investment and debt restrictions in its DOT, Large Borrower Agreement with CMHC ("LBA") and the financial covenants in its credit agreement. These are all comprised of an acquisition and operating facility which includes Euro LIBOR and US LIBOR borrowings ("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 V.

## Performance Measures

The following table presents an overview of certain non-IFRS financial measures of CAPREIT for the years ended December 31, 2018 and 2017. Management believes these measures are useful in assessing CAPREIT's performance in relation to its objectives and business strategy. Effective May 2018, monthly cash distributions declared to Unitholders increased to \$0.1108 per unit (\$1.33 annually) compared to \$0.1067 per unit (\$1.28 annually) effective March 2017 and \$0.1042 (\$1.25 annually) as of June 2016.

For the Year Ended December 31,	2018	2017
<b>Portfolio Performance</b>		
Overall Portfolio Occupancy <sup>(1)</sup>	98.9%	98.7%
Overall Portfolio Net Average Monthly Rents <sup>(1)</sup>	\$ 1,103	\$ 1,044
Operating Revenues (000s)	\$ 688,585	\$ 638,842
NOI (000s)	\$ 439,056	\$ 393,258
NOI Margin	63.8%	61.6%
<b>Financial Performance</b>		
FFO per Unit – Basic <sup>(2)</sup>	\$ 1.995	\$ 1.806
NFFO per Unit – Basic <sup>(2)</sup>	\$ 2.024	\$ 1.842
Cash Distributions Per Unit	\$ 1.313	\$ 1.275
FFO Payout Ratio <sup>(2)</sup>	66.7%	71.7%
NFFO Payout Ratio <sup>(2)</sup>	65.7%	70.3%
<b>Liquidity and Leverage</b>		
Total Debt to Gross Book Value <sup>(1)</sup>	39.37%	43.57%
Total Debt to Gross Historical Cost <sup>(1)</sup>	54.54%	56.24%
Weighted Average Mortgage Interest Rate <sup>(1)</sup>	3.05%	3.08%
Weighted Average Mortgage Term (years) <sup>(1)</sup>	5.10	5.66
Debt Service Coverage (times) <sup>(3)</sup>	1.75	1.63
Interest Coverage (times)	3.44	3.19
Available Liquidity – Acquisition and Operating Facility (000s) <sup>(1)</sup>	\$ 266,325	\$ 86,792
<b>Other</b>		
Weighted Average Number of Units – Basic (000s)	142,974	135,962
Number of Suites and Sites Acquired	1,791	1,924
Number of Suites Disposed	900	81
Closing Price of Trust Units <sup>(1)</sup>	\$ 44.30	\$ 37.32
Market Capitalization (millions) <sup>(1)</sup>	\$ 6,491	\$ 5,182

(1) As at December 31.

(2) These measures are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see Section I – Non-IFRS Financial Measures). For a reconciliation to IFRS, see Section IV – Non-IFRS Financial Measures.

(3) Based on the trailing four quarters.

SECTION III  
OPERATIONAL AND FINANCIAL RESULTS

**Net and Occupied Average Monthly Rents and Occupancy**

Net 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.

Occupied AMR is defined as actual residential rents, net of vacancies, divided by the total number of occupied suites in the property, and does not include revenues from parking, laundry or other sources.

**TOTAL PORTFOLIO: NET AMR, OCCUPIED AMR AND OCCUPANCY BY GEOGRAPHY**

As at December 31,	Net AMR			Occupied AMR			Occupancy %	
	2018 AMR (\$)	2017 AMR (\$)	AMR % Change	2018 AMR (\$)	2017 AMR (\$)	AMR % Change	2018	2017
<b>Residential Suites</b>								
<b>ONTARIO</b>								
Greater Toronto Area	1,383	1,315	5.2	1,390	1,323	5.1	99.5	99.4
Ottawa	1,260	1,217	3.5	1,261	1,220	3.4	99.9	99.8
London / Kitchener / Waterloo	998	946	5.5	1,013	962	5.3	98.5	98.3
Other Ontario	1,284	1,229	4.5	1,295	1,234	4.9	99.1	99.6
	1,321	1,258	5.0	1,329	1,267	4.9	99.4	99.4
<b>QUÉBEC</b>								
Greater Montréal Region	941	902	4.3	948	917	3.4	99.3	98.4
Québec City	1,054	998	5.6	1,065	1,021	4.3	99.0	97.8
	970	927	4.6	977	944	3.5	99.2	98.2
<b>BRITISH COLUMBIA</b>								
Greater Vancouver Region	1,336	1,235	8.2	1,356	1,238	9.5	98.5	99.8
Victoria	1,211	1,136	6.6	1,220	1,138	7.2	99.3	99.9
	1,297	1,202	7.9	1,313	1,205	9.0	98.7	99.8
<b>ALBERTA</b>								
Edmonton	1,165	1,105	5.4	1,181	1,118	5.6	98.6	98.9
Calgary	1,068	1,041	2.6	1,088	1,068	1.9	98.2	97.5
	1,086	1,053	3.1	1,105	1,077	2.6	98.3	97.8
<b>NOVA SCOTIA</b>								
Halifax	1,125	1,101	2.2	1,141	1,127	1.2	98.6	97.7
<b>SASKATCHEWAN</b>								
Saskatoon <sup>(1)</sup>	-	1,024	(100.0)	-	1,024	(100.0)	-	100.0
Regina	1,035	1,066	(2.9)	1,076	1,075	0.1	96.2	99.1
	1,035	1,053	(1.7)	1,076	1,060	1.5	96.2	99.4
<b>PRINCE EDWARD ISLAND</b>								
Charlottetown	1,027	1,005	2.2	1,038	1,019	1.9	98.9	98.7
<b>EUROPE</b>								
The Netherlands <sup>(2)</sup>	1,268	1,122	13.0	1,295	1,184	9.4	97.9	94.8
<b>Total Residential Suites</b>	<b>1,209</b>	<b>1,142</b>	<b>5.9</b>	<b>1,221</b>	<b>1,157</b>	<b>5.5</b>	<b>99.1</b>	<b>98.8</b>
<b>MHC Land Lease Sites</b>								
Ontario	537	525	2.3	538	525	2.5	99.9	100.0
British Columbia	455	441	3.2	455	441	3.2	100.0	100.0
Alberta	436	427	2.1	439	429	2.3	99.3	99.5
Saskatchewan	400	399	0.3	401	399	0.5	99.7	100.0
Prince Edward Island	149	145	2.8	149	145	2.8	99.6	100.0
New Brunswick	268	267	0.4	287	280	2.5	93.5	95.3
<b>Total MHC Land Lease Sites</b>	<b>395</b>	<b>388</b>	<b>1.8</b>	<b>405</b>	<b>395</b>	<b>2.5</b>	<b>97.6</b>	<b>98.3</b>
<b>Total Suites and Sites</b>	<b>1,103</b>	<b>1,044</b>	<b>5.7</b>	<b>1,115</b>	<b>1,058</b>	<b>5.4</b>	<b>98.9</b>	<b>98.7</b>

(1) The Saskatoon property was disposed of on August 15, 2018.

(2) Includes foreign exchange impact and service charge income. The amounts in Euros for the total portfolio for Net AMR are €812 and €746 as at December 31, 2018 and December 31, 2017, respectively, and for Occupied AMR are €829 and €787 as at December 31, 2018 and December 31, 2017, respectively.



**STABILIZED PORTFOLIO: NET AMR, OCCUPIED AMR AND OCCUPANCY BY GEOGRAPHY**

As at December 31,	Net AMR			Occupied AMR			Occupancy %	
	2018 AMR (\$)	2017 <sup>(1)</sup> AMR (\$)	AMR % Change	2018 AMR (\$)	2017 <sup>(1)</sup> AMR (\$)	AMR % Change	2018	2017
<b>Residential Suites</b>								
<b>ONTARIO</b>								
Greater Toronto Area	1,383	1,315	5.2	1,390	1,323	5.1	99.5	99.4
Ottawa	1,260	1,217	3.5	1,261	1,220	3.4	99.9	99.8
London / Kitchener / Waterloo	998	946	5.5	1,013	962	5.3	98.5	98.3
Other Ontario	1,284	1,229	4.5	1,295	1,234	4.9	99.1	99.6
	1,321	1,258	5.0	1,329	1,267	4.9	99.4	99.4
<b>QUÉBEC</b>								
Greater Montréal Region	941	914	3.0	948	928	2.2	99.3	98.4
Québec City	1,054	1,018	3.5	1,065	1,040	2.4	99.0	97.8
	970	940	3.2	977	956	2.2	99.2	98.3
<b>BRITISH COLUMBIA</b>								
Greater Vancouver Region	1,279	1,205	6.1	1,292	1,208	7.0	99.0	99.8
Victoria	1,211	1,136	6.6	1,220	1,138	7.2	99.3	99.9
	1,256	1,182	6.3	1,267	1,184	7.0	99.1	99.8
<b>ALBERTA</b>								
Edmonton	1,165	1,105	5.4	1,181	1,118	5.6	98.6	98.9
Calgary	1,068	1,041	2.6	1,088	1,068	1.9	98.2	97.5
	1,086	1,053	3.1	1,105	1,077	2.6	98.3	97.8
<b>NOVA SCOTIA</b>								
Halifax	1,125	1,101	2.2	1,141	1,127	1.2	98.6	97.7
<b>SASKATCHEWAN<sup>(2)</sup></b>								
Regina	1,035	1,066	(2.9)	1,076	1,075	0.1	96.2	99.1
<b>PRINCE EDWARD ISLAND</b>								
Charlottetown	1,027	1,005	2.2	1,038	1,019	1.9	98.9	98.7
<b>EUROPE</b>								
The Netherlands <sup>(3)</sup>	1,308	1,122	16.6	1,325	1,184	11.9	98.7	94.8
<b>Total Residential Suites</b>	<b>1,204</b>	<b>1,146</b>	<b>5.1</b>	<b>1,215</b>	<b>1,161</b>	<b>4.7</b>	<b>99.2</b>	<b>98.8</b>
<b>MHC Land Lease Sites</b>								
Ontario	537	525	2.3	538	525	2.5	99.9	100.0
British Columbia	455	441	3.2	455	441	3.2	100.0	100.0
Alberta	436	427	2.1	439	429	2.3	99.3	99.5
Saskatchewan	414	399	3.8	416	399	4.3	99.6	100.0
Prince Edward Island	149	145	2.8	149	145	2.8	99.6	100.0
New Brunswick	268	267	0.4	287	280	2.5	93.5	95.3
<b>Total MHC Land Lease Sites</b>	<b>396</b>	<b>388</b>	<b>2.1</b>	<b>406</b>	<b>395</b>	<b>2.8</b>	<b>97.5</b>	<b>98.3</b>
<b>Total Suites and Sites</b>	<b>1,097</b>	<b>1,046</b>	<b>4.9</b>	<b>1,109</b>	<b>1,060</b>	<b>4.6</b>	<b>99.0</b>	<b>98.7</b>

(1) Prior year comparable Net and Occupied AMR and occupancy have been restated for properties disposed of since December 31, 2017.

(2) The Saskatoon property was disposed of on August 15, 2018.

(3) Includes foreign exchange impact and service charge income. The amounts in Euros for the stabilized portfolio for Net AMR are €838 and €746 as at December 31, 2018 and December 31, 2017, respectively, resulting in a Net AMR change of 12.3%. The Occupied AMR for the stabilized portfolio is €849 (€803 excluding service charge income) and €787 (€759 excluding service charge income) as at December 31, 2018 and December 31, 2017, respectively, resulting in an Occupied AMR change of 7.9%.

Overall Net AMR for the stabilized residential suite portfolio as at December 31, 2018 increased by approximately 5.1% (including the Netherlands) and 4.5% (excluding the Netherlands) compared to last year, while occupancies increased to 99.2%.

The rate of growth in Net AMR has been primarily due to (i) significant rental increases on turnover in the strong rental markets of British Columbia, Ontario and the Netherlands, (ii) a higher rental guideline increase in Ontario and British Columbia for 2018 compared to 2017, and (iii) increases due to above guideline increases ("AGI") achieved in Ontario.

### Annual Rental Guidelines as per Rental Board

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

	2019	2018	2017
Ontario	1.8%	<b>1.8%</b>	1.5%
British Columbia	2.5% <sup>(1)</sup>	<b>4.0%</b>	3.7%

(1) On September 26, 2018, British Columbia announced that effective January 1, 2019, the annual allowable rent increase will be 2.5% instead of the previously announced 4.5%.

### Suite Turnovers and Lease Renewals – Total Portfolio

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

#### CANADIAN PORTFOLIO

For the Year Ended December 31,

	2018			2017		
	Change in monthly rent		Turnovers and Renewals <sup>(1)</sup>	Change in monthly rent		Turnovers and Renewals <sup>(1)</sup>
	\$	%		\$	%	
Suite Turnovers	<b>131.3</b>	<b>11.4</b>	<b>21.5</b>	79.4	7.2	24.0
Lease Renewals	<b>26.1</b>	<b>2.2</b>	<b>85.4</b>	21.7	1.9	82.9
Weighted Average of Turnovers and Renewals	<b>47.2</b>	<b>4.1</b>		34.6	3.1	

(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.

#### THE NETHERLANDS PORTFOLIO

For the Year Ended December 31,

	2018			2017		
	Change in monthly rent		Turnovers and Renewals <sup>(1)</sup>	Change in monthly rent		Turnovers and Renewals <sup>(1)</sup>
	€	%		€	%	
Suite Turnovers	<b>89.1</b>	<b>11.4</b>	<b>7.6</b>	166.7	27.2	4.4
Lease Renewals	<b>23.6</b>	<b>3.1</b>	<b>54.4</b>	18.2	2.7	25.2
Weighted Average of Turnovers and Renewals	<b>31.6</b>	<b>4.1</b>		40.1	6.4	

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

Overall, suite turnovers in the Canadian residential suite portfolio (excluding co-ownerships) during the year ended December 31, 2018 resulted in monthly rent increasing by approximately \$131 or 11.4% compared to an increase of approximately \$79 or 7.2% last year, primarily due to the strong rental markets in British Columbia and Ontario.

Monthly rents on lease renewals on the Canadian residential portfolio (excluding co-ownerships) for the year ended December 31, 2018 increased by approximately \$26 or 2.2% compared to an increase of approximately \$22 or 1.9% last year.

For the Netherlands portfolio, suite turnovers in the residential suite portfolio during the year ended December 31, 2018 resulted in monthly rent increasing by approximately €89 or 11.4% compared to an increase of €167 or 27.2% last year. Monthly rents on lease renewals for the Netherlands portfolio for the year ended December 31, 2018 increased by approximately €24 or 3.1% compared to an increase of €18 or 2.7% last year.

### Above Guideline Increases

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

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

	January 1, 2018 – December 31, 2018	January 1, 2017 – December 31, 2017
<b>Applications Settled:</b>		
Number of Suites and Sites	5,309	3,314
Weighted Average Total Increase Approved <sup>(1), (2)</sup>	3.36%	2.76%
Weighted Average Total Increase Applied for <sup>(1), (3)</sup>	3.86%	2.98%
<b>Applications Outstanding:</b>		
Number of Suites and Sites	2,252	5,992
Term Weighted Average Total Increase Applied for <sup>(1), (4)</sup>	4.90%	3.75%

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

(2) For applications settled during the year ended December 31, 2018, the weighted average total increase approved is to apply over a weighted average of 1.68 years (1.60 years for the year ended December 31, 2017).

(3) For applications settled during the year ended December 31, 2018, the weighted average total increase applied for was to apply over a weighted average of 1.64 years (1.57 years for the year ended December 31, 2017).

(4) For applications outstanding as at December 31, 2018, the weighted average total increase applied for was to apply over a weighted average of 1.96 years (1.44 years as at the year ended December 31, 2017).

### Tenant Inducements, Vacancy Loss and Bad Debt Expense

The table below shows the new tenant inducements incurred during the years ended December 31, 2018 and 2017 as well as the amortization of tenant inducements, loss from vacancies and bad debt expense included in net rental revenue for the same years.

(\$ Thousands)

For the Year Ended December 31,	2018	% <sup>(1)</sup>	2017	% <sup>(1)</sup>
New Tenant Inducements Incurred – Residential	\$ 1,243		\$ 1,417	
New Tenant Inducements Incurred – Commercial	1,111		1,292	
Total New Tenant Inducements Incurred	\$ 2,354		\$ 2,709	
Tenant Inducements Amortized	\$ 1,840	0.3	\$ 2,118	0.3
Vacancy Loss Incurred	10,568	1.5	12,419	1.9
Total Amortization and Loss	\$ 12,408	1.8	\$ 14,537	2.2
Bad Debt Expense	\$ 2,445	0.4	\$ 2,175	0.3

(1) As a percentage of total operating revenues.

## Results of Operations

### TOTAL OPERATING REVENUES BY GEOGRAPHY

(\$ Thousands)

For the Year Ended December 31,	2018	2018 Revenue (%)	2017
<b>Residential Suites</b>			
<b>ONTARIO</b>			
Greater Toronto Area	\$ 266,013	38.6	\$ 253,327
Ottawa	24,828	3.6	23,925
London / Kitchener / Waterloo	28,921	4.2	27,534
Other Ontario	28,217	4.1	27,010
	\$ 347,979	50.5	\$ 331,796
<b>QUÉBEC</b>			
Greater Montréal Region	\$ 97,227	14.1	\$ 93,364
Québec City	36,342	5.3	35,256
	\$ 133,569	19.4	\$ 128,620
<b>BRITISH COLUMBIA</b>			
Greater Vancouver Region	\$ 50,837	7.4	\$ 47,207
Victoria	22,668	3.3	21,362
	\$ 73,505	10.7	\$ 68,569
<b>ALBERTA</b>			
Edmonton	\$ 6,854	1.0	\$ 6,667
Calgary	28,573	4.2	28,167
	\$ 35,427	5.2	\$ 34,834
<b>NOVA SCOTIA</b>			
Halifax	\$ 22,816	3.3	\$ 21,848
<b>SASKATCHEWAN</b>			
Saskatoon <sup>(1)</sup>	\$ 725	0.1	\$ 1,223
Regina	2,916	0.4	2,921
	\$ 3,641	0.5	\$ 4,144
<b>PRINCE EDWARD ISLAND</b>			
Charlottetown	\$ 6,661	1.0	\$ 5,712
<b>EUROPE</b>			
The Netherlands <sup>(2)</sup>	\$ 33,147	4.8	\$ 12,623
<b>Total Residential Suites</b>	<b>\$ 656,745</b>	<b>95.4</b>	<b>\$ 608,146</b>
<b>MHC Land Lease Sites</b>			
Ontario	\$ 17,547	2.6	\$ 17,362
British Columbia	1,466	0.2	1,419
Alberta	2,273	0.3	2,125
Saskatchewan	1,628	0.2	1,165
Prince Edward Island	898	0.1	873
New Brunswick	8,028	1.2	7,752
<b>Total MHC Land Lease Sites</b>	<b>\$ 31,840</b>	<b>4.6</b>	<b>\$ 30,696</b>
<b>Total Residential Suites and MHC Land Lease Sites</b>	<b>\$ 688,585</b>	<b>100.0</b>	<b>\$ 638,842</b>

(1) The Saskatoon property was disposed of on August 15, 2018.

(2) In € Thousands, €21,658 and €8,547 for year ended December 31, 2018 and December 31, 2017, respectively.

### Estimated Net Rental Revenue Run-Rate

The table below shows the estimated net rental revenue run-rate (net of average historical vacancy loss, tenant inducements and bad debt) based on Net AMRs in place for CAPREIT's share of residential suites and sites as at December 31, 2018 and 2017.

(\$ Thousands)

As at December 31,	2018	2017
Residential Rent Roll <sup>(1), (2)</sup>	\$ 662,687	\$ 615,246
Commercial Rent Roll <sup>(1), (2)</sup>	23,068	22,596
Annualized Net Rental Revenue Run-Rate	\$ 685,755	\$ 637,842

(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 estimated annualized net rental revenue run-rate grew by 7.5% to \$685.8 million from \$637.8 million, primarily as a result of acquisitions within the last 12 months and higher rents. Net rental revenue net of dispositions for the 12 months ended December 31, 2018 was \$643.6 million (2017 – \$605.0 million).

### NOI for the Total Portfolio

(\$ Thousands)

For the Year Ended December 31,	2018	% <sup>(1)</sup>	2017	% <sup>(1)</sup>
<b>Operating Revenues</b>				
Net Rental Revenues	\$ 651,203	94.6	\$ 605,498	94.8
Other <sup>(2)</sup>	37,382	5.4	33,344	5.2
Total Operating Revenues	\$ 688,585	100.0	\$ 638,842	100.0
<b>Operating Expenses</b>				
Realty Taxes	(68,488)	9.9	(67,078)	10.5
Utilities	(56,913)	8.3	(56,744)	8.9
Other <sup>(3)</sup>	(124,128)	18.0	(121,762)	19.0
Total Operating Expenses	\$ (249,529)	36.2	\$ (245,584)	38.4
NOI	\$ 439,056	63.8	\$ 393,258	61.6

(1) As a percentage of total operating revenues.

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

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

### Operating Revenues

For the year ended December 31, 2018, total operating revenues increased by 7.8% compared to last year, due to the contributions from acquisitions, increased same-property monthly rents and continuing high occupancies.

### Operating Expenses

**Realty Taxes** For the year ended December 31, 2018, realty taxes as a percentage of operating revenues improved to 9.9% compared to 10.5% last year, partially due to reduced realty taxes in Alberta.

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

(\$ Thousands)

For the Year Ended December 31,	2018	% <sup>(1)</sup>	2017	% <sup>(1)</sup>
Electricity	\$ 21,135	3.1	\$ 22,490	3.5
Natural Gas	15,837	2.3	15,584	2.4
Water	19,941	2.9	18,670	2.9
Total	\$ 56,913	8.3	\$ 56,744	8.9

(1) As a percentage of total operating revenues.

For the year ended December 31, 2018, operating revenues increased, and electricity costs decreased resulting in a higher NOI margin. For the year ended December 31, 2018, electricity costs decreased compared to last year, primarily due to lower electricity rates and reduced consumption, as well as the positive impacts of energy-saving initiatives and sub-metering.

As at December 31, 2018, tenants who pay their hydro charges directly represented 69% of the total 16,638 recently sub-metered suites in Ontario, Alberta and Halifax.

For the year ended December 31, 2018, natural gas costs as a percentage of total operating revenues decreased compared to last year, primarily due to higher operating revenues.

The table below provides information on CAPREIT's fixed natural gas contracts for the fiscal years 2019, 2020 and 2021:

	Actual <sup>(2)</sup> 2017	Actual 2018	Estimated 2019	Estimated 2020	Estimated 2021
<b>Gas Commodity</b>					
Fixed Weighted Average Cost per GJ <sup>(1)</sup>	\$ 2.87	\$ <b>2.82</b>	\$ 2.50	\$ 2.26	\$ 1.68
Total of CAPREIT's Actual/Estimated Requirements	65.0%	<b>69.1%</b>	81.1%	73.3%	61.0%
<b>Transport</b>					
Fixed Weighted Average Cost per GJ <sup>(1)</sup>	\$ 1.36	\$ <b>1.20</b>	\$ 1.15	\$ 1.19	\$ 1.42
Total of CAPREIT's Actual/Estimated Requirements	75.3%	<b>80.6%</b>	81.3%	73.3%	61.0%

(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 include R&M costs, wages and benefits, insurance and advertising expenses. For the year ended December 31, 2018, other operating expenses improved as a percentage of operating revenues to 18.0% from 19.0% last year, primarily due to lower R&M costs, and wages in dollar terms.

#### **NOI Margin**

For the year ended December 31, 2018, the NOI margin on the total portfolio was 63.8% compared to 61.6% last year. The increase in the NOI margin was due to (i) higher monthly rents on a stabilized basis, (ii) lower vacancies and (iii) lower R&M costs, wages and realty taxes as a percentage of operating revenues.

#### **NOI by Region**

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

The following table shows each region's NOI and the NOI margin for the years ended December 31, 2018 and 2017.

**NOI BY GEOGRAPHY**

For the Year Ended December 31,

(\$ Thousands)	2018			2017			Increase (Decrease)
	NOI	NOI % <sup>(1)</sup>	NOI Margin (%)	NOI	NOI % <sup>(1)</sup>	NOI Margin (%)	NOI Change (%)
<b>Residential Suites</b>							
<b>ONTARIO</b>							
Greater Toronto Area	\$ 171,457	39.1	64.5	\$ 159,065	40.4	62.8	7.8
Ottawa	16,472	3.7	66.3	14,608	3.7	61.1	12.8
London / Kitchener / Waterloo	18,377	4.2	63.5	16,443	4.2	59.7	11.8
Other Ontario	17,617	4.0	62.4	16,367	4.2	60.6	7.6
	<b>\$ 223,923</b>	<b>51.0</b>	<b>64.4</b>	<b>\$ 206,483</b>	<b>52.5</b>	<b>62.2</b>	<b>8.5</b>
<b>QUÉBEC</b>							
Greater Montréal Region	\$ 56,466	12.8	58.1	\$ 53,073	13.5	56.9	6.4
Québec City	21,396	4.9	58.9	19,732	5.0	56.0	8.4
	<b>\$ 77,862</b>	<b>17.7</b>	<b>58.3</b>	<b>\$ 72,805</b>	<b>18.5</b>	<b>56.6</b>	<b>7.0</b>
<b>BRITISH COLUMBIA</b>							
Greater Vancouver Region	\$ 35,630	8.1	70.1	\$ 31,478	8.0	66.7	13.2
Victoria	16,600	3.8	73.2	14,975	3.8	70.1	10.9
	<b>\$ 52,230</b>	<b>11.9</b>	<b>71.1</b>	<b>\$ 46,453</b>	<b>11.8</b>	<b>67.8</b>	<b>12.4</b>
<b>ALBERTA</b>							
Edmonton	\$ 4,667	1.1	68.1	\$ 4,430	1.1	66.5	5.4
Calgary	16,820	3.8	58.9	16,431	4.2	58.3	2.4
	<b>\$ 21,487</b>	<b>4.9</b>	<b>60.7</b>	<b>\$ 20,861</b>	<b>5.3</b>	<b>59.9</b>	<b>3.0</b>
<b>NOVA SCOTIA</b>							
Halifax	\$ 14,004	3.2	61.4	\$ 13,115	3.3	60.0	6.8
<b>SASKATCHEWAN</b>							
Saskatoon <sup>(2)</sup>	\$ 269	0.1	37.1	\$ 606	0.2	49.6	(55.6)
Regina	1,745	0.4	60.0	1,770	0.5	60.6	(1.4)
	<b>\$ 2,014</b>	<b>0.5</b>	<b>55.3</b>	<b>\$ 2,376</b>	<b>0.7</b>	<b>57.3</b>	<b>(15.2)</b>
<b>PRINCE EDWARD ISLAND</b>							
Charlottetown	\$ 3,355	0.8	50.4	\$ 2,807	0.7	49.1	19.5
<b>EUROPE</b>							
The Netherlands <sup>(3)</sup>	\$ 23,760	5.3	71.7	\$ 9,288	2.4	73.6	155.8
<b>Total Residential Suites</b>	<b>\$ 418,635</b>	<b>95.3</b>	<b>63.7</b>	<b>\$ 374,188</b>	<b>95.2</b>	<b>61.5</b>	<b>11.9</b>
<b>MHC Land Lease Sites</b>							
Ontario	\$ 11,895	2.7	67.8	\$ 11,172	2.8	64.4	6.5
British Columbia	1,152	0.3	78.6	1,101	0.3	77.6	4.6
Alberta	1,490	0.4	65.6	1,322	0.3	62.2	12.7
Saskatchewan	1,042	0.2	64.0	758	0.2	65.1	37.5
Prince Edward Island	428	0.1	47.7	415	0.1	47.5	3.1
New Brunswick	4,414	1.0	55.0	4,302	1.1	55.5	2.6
<b>Total MHC Land Lease Sites</b>	<b>\$ 20,421</b>	<b>4.7</b>	<b>64.1</b>	<b>\$ 19,070</b>	<b>4.8</b>	<b>62.1</b>	<b>7.1</b>
<b>Total Suites and Sites</b>	<b>\$ 439,056</b>	<b>100.0</b>	<b>63.8</b>	<b>\$ 393,258</b>	<b>100.0</b>	<b>61.6</b>	<b>11.6</b>

(1) Represents percentage of the portfolio by NOI.

(2) The Saskatoon property was disposed of on August 15, 2018.

(3) In € Thousands, €15,537 and €6,296 for the year ended December 31, 2018 and December 31, 2017, respectively.

The significant improvement in the NOI contribution in 2018 was primarily the result of acquisitions, higher operating revenues and reduced operating expenses in certain regions in the current year. CAPREIT remains focused on continuing to further improve NOI and NOI margin through a combination of accretive and value-enhancing

acquisitions, successful sales and marketing strategies to further improve revenues, and investment in capital programs to further reduce costs and enhance the quality and value of its portfolio. For a comprehensive analysis of stabilized NOI growth or decline compared to last year by region, refer to the Stabilized NOI by Region section.

## Stabilized NOI by Region

Stabilized properties for the year ended December 31, 2018 are defined as all properties owned by CAPREIT continuously since December 31, 2016 and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2018 and 2017. As at December 31, 2018, stabilized suites and sites represented 92.6% of CAPREIT's total portfolio excluding co-ownerships.

For the Year Ended December 31, (\$ Thousands)	2018		2017		Increase (Decrease)		
	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
<b>Residential Suites</b>							
<b>ONTARIO</b>							
Greater Toronto Area	\$ 171,457	64.5	\$ 159,065	62.8	5.0	0.3	7.8
Ottawa	16,472	66.3	14,608	61.1	3.8	(10.3)	12.8
London / Kitchener / Waterloo	18,377	63.5	16,443	59.7	5.0	(4.9)	11.8
Other Ontario	17,617	62.4	16,367	60.6	4.5	(0.4)	7.6
	\$ 223,923	64.4	\$ 206,483	62.2	4.9	(1.0)	8.4 <sup>(1)</sup>
<b>QUÉBEC</b>							
Greater Montréal Region	\$ 53,437	58.7	\$ 50,690	57.6	3.5	0.9	5.4
Québec City	20,359	59.2	18,634	56.2	3.6	(3.7)	9.4
	\$ 73,796	58.8	\$ 69,324	57.2	3.5	(0.4)	6.5 <sup>(2)</sup>
<b>BRITISH COLUMBIA</b>							
Greater Vancouver Region	\$ 31,663	69.4	\$ 28,155	65.8	6.6	(4.6)	12.5
Victoria	16,358	73.3	14,800	70.2	5.9	(5.1)	10.5
	\$ 48,021	70.7	\$ 42,955	67.2	6.4	(4.8)	11.8 <sup>(3)</sup>
<b>ALBERTA</b>							
Edmonton	\$ 4,667	68.1	\$ 4,430	66.5	2.8	(2.2)	5.3
Calgary	16,820	58.9	16,431	58.3	1.4	0.1	2.4
	\$ 21,487	60.7	\$ 20,861	59.9	1.7	(0.2)	3.0 <sup>(4)</sup>
<b>NOVA SCOTIA</b>							
Halifax	\$ 14,004	61.4	\$ 13,115	60.0	4.4	0.9	6.8 <sup>(5)</sup>
<b>SASKATCHEWAN<sup>(6)</sup></b>							
Regina	\$ 1,745	60.0	\$ 1,770	60.6	(0.2)	1.5	(1.4)
<b>PRINCE EDWARD ISLAND</b>							
Charlottetown	\$ 2,823	49.3	\$ 2,753	49.0	1.9	1.3	2.5
<b>EUROPE</b>							
The Netherlands <sup>(7)</sup>	\$ 5,599	70.1	\$ 4,753	68.8	15.7	11.0	17.8 <sup>(8)</sup>
<b>Total Residential Suites</b>	<b>\$ 391,398</b>	<b>63.5</b>	<b>\$ 362,014</b>	<b>61.5</b>	<b>4.6</b>	<b>(0.9)</b>	<b>8.1</b>
<b>MHC Land Lease Sites</b>							
Ontario	\$ 11,895	67.8	\$ 11,172	64.4	1.1	(8.7)	6.5 <sup>(9)</sup>
British Columbia	1,152	78.6	1,101	77.6	3.3	(1.3)	4.6
Alberta	1,490	65.6	1,322	62.2	7.0	(2.5)	12.7
Saskatchewan	773	63.8	758	65.1	4.0	7.9	2.0
Prince Edward Island	428	47.7	415	47.5	2.9	2.6	3.1
New Brunswick	4,414	55.0	4,302	55.5	3.6	4.8	2.6
Total MHC Land Lease Sites	\$ 20,152	64.1	\$ 19,070	62.1	2.4	(3.0)	5.7
<b>Total Suites and Sites</b>	<b>\$ 411,550</b>	<b>63.5</b>	<b>\$ 381,084</b>	<b>61.5</b>	<b>4.5</b>	<b>(1.0)</b>	<b>8.0</b>
<b>Stabilized Suites and Sites</b>	<b>46,648</b>		<b>46,648</b>				

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

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

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

(4) Lower expenses: lower realty taxes and wages, partially offset by higher insurance costs and utility costs.

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

(6) The Saskatoon property was disposed of on August 15, 2018.

(7) In € Thousands, €3,663 and €3,248 for the year ended December 31, 2018 and December 31, 2017, respectively.

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

(9) Lower expenses: lower R&M costs, partially offset by higher utility costs.

For the year ended December 31, 2018, stabilized NOI increased by 8.0% compared to last year. Furthermore, the NOI margin for the year ended December 31, 2018 increased to 63.5% from 61.5% last year.



The following table reconciles stabilized NOI and NOI from net acquisitions to total NOI for the years ended December 31, 2018 and 2017:

(\$ Thousands)				
For the Year Ended December 31,	2018	NOI Margin (%)	2017	NOI Margin (%)
Stabilized NOI	\$ 411,550	63.5	\$ 381,084	61.5
Net Acquisitions NOI <sup>(1)</sup>	27,506	67.3	12,174	63.8
<b>Total NOI</b>	<b>\$ 439,056</b>	<b>63.8</b>	<b>\$ 393,258</b>	<b>61.6</b>

(1) Represents the NOI of acquisitions and dispositions completed during 2018 and 2017.

## Net Income and Other Comprehensive Income

(\$ Thousands)		
For the Year Ended December 31,	2018	2017
NOI	\$ 439,056	\$ 393,258
<i>(Less) Plus:</i>		
Trust Expenses	(39,515)	(32,569)
Fair Value Adjustments of Investment Properties	990,529	626,953
Realized Loss on Disposition of Investment Properties	(2,594)	(488)
Fair Value Adjustments of Exchangeable Units	(840)	(852)
Fair Value Adjustments of Investments <sup>(1)</sup>	3,740	-
Unit-based Compensation Expenses	(34,672)	(26,074)
Interest on Mortgages Payable and Other Financing Costs	(116,676)	(117,145)
Interest on Bank Indebtedness and Other Financing Costs	(18,440)	(8,813)
Interest on Exchangeable Units	(95)	(186)
Other Income	42,310	22,921
Amortization of property, plant and equipment	(4,976)	(4,434)
Gain (Loss) on Derivative Financial Instruments	13,141	(11,866)
Foreign Currency Translation	(34,489)	3,515
<b>Net Income Before Income Taxes</b>	<b>\$ 1,236,479</b>	<b>\$ 844,220</b>
Current and Deferred Income Tax Expense	(18,808)	(7,409)
<b>Net Income</b>	<b>\$ 1,217,671</b>	<b>\$ 836,811</b>

### Other Comprehensive Income,

#### Including Items That May Be Reclassified Subsequently to Net Income

Amortization of Losses from AOCL to Interest and Other Financing Costs	\$ 2,659	\$ 3,024
Change in Fair Value of Derivative Financial Instruments	-	630
Change in Fair Value of Investments <sup>(1)</sup>	-	4,957
Foreign Currency Translation	28,530	10,490
<b>Other Comprehensive (Loss) Income</b>	<b>31,189</b>	<b>19,101</b>
<b>Comprehensive Income</b>	<b>\$ 1,248,860</b>	<b>\$ 855,912</b>

(1) Effective January 1, 2018, CAPREIT adopted IFRS 9 Financial Instruments. Under this standard, this investment has been designated as Fair Value through Profit and Loss ("FVTPL") whereas previously it was designated as available-for-sale. Under the guidance in this new standard, any mark-to-market gains or losses are recorded in the statement of income and comprehensive income whereas previously they were recorded through Other Comprehensive Income ("OCI"). The cumulative mark to market gains/losses have also been reclassified from accumulated OCI to retained earnings on adoption of this standard.

### 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, 2018 to \$39.5 million from \$32.6 million last year, primarily due to higher salaries, consulting fees and office expenses. For the year ended December 31, 2018, trust expenses included approximately \$4.3 million related to non-routine items including severances, consulting, legal and general expenses.

### 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 upon remeasurement recognized in the consolidated statement of income for the period. A description of the key components of the change in the fair value of investment properties is included in the Investment Properties section.

### Realized Loss on Disposition of Investment Properties

For the year ended December 31, 2018, a loss of \$2.6 million was recognized in connection with property dispositions in the third and fourth quarters of 2018. A loss of \$0.5 million was recognized in connection with property dispositions completed in the first and fourth quarters of 2017. The loss represents the difference between the net proceeds after transaction costs from the disposition of each property compared to the fair value of the respective properties at the date of disposition.

### 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 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 in CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2018, contained in CAPREIT's 2018 Annual Report). On April 4, 2014, the LTIP, SELTIP and UPP were terminated by the trustees of CAPREIT. As of December 31, 2018, the UOP, LTIP and SELTIP were all settled and no further awards remain outstanding.

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

(\$ Thousands)

For the Year Ended December 31,	2018	2017
Remeasurement of Unit-based Compensation Liabilities	\$ 29,428	\$ 18,934
Amortization of Fair Value on Grant Date of Unit-based Compensation	5,244	7,140
<b>Total</b>	<b>\$ 34,672</b>	<b>\$ 26,074</b>

CAPREIT's remeasurement of unit-based compensation liabilities for the year ended December 31, 2018 increased to \$29.4 million compared to a remeasurement expense of \$18.9 million in the prior year, primarily due to significant increases in the market price of the underlying CAPREIT Trust Units in 2018. CAPREIT's amortization of fair value on grant date of unit-based compensation expense for the year ended December 31, 2018 decreased to \$5.2 million compared to \$7.1 million in the prior year, primarily due to accelerated RUR amortization expense relating to a former President and CEO.

### Interest on Mortgages Payable and Other Financing Costs

Information on the interest on mortgages payable and other financing costs is included in note 20 to the accompanying audited consolidated annual financial statements and included in Liquidity and Financial Condition in Section V of this report.

### Interest on Bank Indebtedness

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

### Other Income

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

(\$ Thousands)

For the Year Ended December 31,	2018	2017
Investment Income	\$ 1,384	\$ 1,341
Net Profit from Equity-Accounted Investment <sup>(1)</sup>	32,633	15,345
Asset and Property Management Fees <sup>(2)</sup>	7,285	6,173
Other	1,008	62
<b>Total</b>	<b>\$ 42,310</b>	<b>\$ 22,921</b>

(1) CAPREIT's share of IRES' investment property fair value change, earnings and foreign exchange effects thereon. For the year ended December 31, 2018, CAPREIT's share of IRES' investment property fair value gain is \$25.2 million (\$9.7 million gain for the year ended December 31, 2017).

(2) Based on investment management agreement with IRES, which owns properties in Ireland.

## Amortization

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

## Unrealized and Realized Loss on Derivative Financial Instruments

(\$ Thousands)

	Loan Balance	Start Date <sup>(2)</sup>	End Date <sup>(2)</sup>	Credit Facility Rate	All-in Swap Rate	Net Income (unrealized gain/(loss))			
						Three Months Ended December 31,		Year Ended December 31,	
						2018	2017	2018	2017
MHC Loan	\$ 65,000	9/28/2012	6/30/2021	BA + 1.65%	3.60%	\$ (1,011)	\$ 1,590	\$ 165	\$ 1,922
US LIBOR <sup>(1)</sup>	US\$ 186,436	6/30/2017	6/30/2019	US LIBOR + 1.65%	1.20%	3,636	(4,577)	12,976	(14,015)
Euro LIBOR	€ 40,000	6/30/2014	6/30/2017	LIBOR + 1.22%	2.42%				227
<b>Total</b>						<b>\$ 2,625</b>	<b>\$ (2,987)</b>	<b>\$ 13,141</b>	<b>\$ (11,866)</b>

(1) US based loan of USD \$186,436 hedged into euros of €163,540 effective July 2017.

(2) The start and end dates represent the term of the swap.

## Gain (Loss) on Foreign Currency Translation

(\$ Thousands)

As of December 31,

	Balance	2018					
		Other Comprehensive Gain/(Loss)		FX Net Income Gain/(Loss)		Total Foreign Exchange Exposure Gain/(Loss)	
		Three Months Ended	Year Ended	Three Months Ended	Year Ended	Three Months Ended	Year Ended
Total Foreign Assets <sup>(1)</sup>	€ 799,105	\$ 44,806	\$ 40,912	\$ -	\$ -	\$ 44,806	\$ 40,912
Total Foreign Liabilities <sup>(2)</sup>	664,374	(13,034)	(12,382)	(28,011)	(34,489)	(41,045)	(46,871)
Net Equity	134,731	31,772	28,530	(28,011)	(34,489)	3,761	(5,959)
Cross Currency Swap	-	-	-	3,636	12,976	3,636	12,976
<b>Net FX Gain/(Loss) Exposure</b>	<b>€ 134,731</b>	<b>\$ 31,772</b>	<b>\$ 28,530</b>	<b>\$ (24,375)</b>	<b>\$ (21,513)</b>	<b>\$ 7,397</b>	<b>\$ 7,017</b>

	Balance	2017					
		Other Comprehensive Gain/(Loss)		FX Net Income Gain/(Loss)		Total Foreign Exchange Exposure Gain/(Loss)	
		Three Months Ended	Year Ended	Three Months Ended	Year Ended	Three Months Ended	Year Ended
Total Foreign Assets <sup>(1)</sup>	€ 475,167	\$ 18,055	\$ 23,033	\$ -	\$ -	\$ 18,055	\$ 23,033
Total Foreign Liabilities <sup>(2)</sup>	414,950	(13,012)	(12,543)	(1,494)	3,515	(14,506)	(9,028)
Net Equity	60,217	5,043	10,490	(1,494)	3,515	3,549	\$ 14,005
Cross Currency Swap	-	-	-	(4,577)	(14,015)	(4,577)	(14,015)
<b>Net FX Gain/(Loss) Exposure</b>	<b>€ 60,217</b>	<b>\$ 5,043</b>	<b>\$ 10,490</b>	<b>\$ (6,071)</b>	<b>\$ (10,500)</b>	<b>\$ (1,028)</b>	<b>\$ (10)</b>

(1) Foreign assets are comprised of the Netherlands properties and investment in IRES. Gains or losses due to foreign exchange movements are recorded in foreign currency translation under OCI.

(2) Foreign liabilities are comprised of third-party loans secured by the Netherlands properties and Euro LIBOR borrowings and US LIBOR borrowings: (a) FX gains or losses related to loans secured by the Netherlands properties are recorded in foreign currency translation under OCI; (b) gain or losses on Euro LIBOR and US LIBOR borrowings are recorded as foreign currency translation under Net Income; (c) US LIBOR borrowing has a cross-currency swap which converts the USD loan into a fixed euro-based borrowing. The mark-to-market on the cross-currency swap is recorded as gain or loss on derivative financial instruments in Net Income.

## SECTION IV

## UNIT CALCULATIONS, NON-IFRS FINANCIAL MEASURES

## Per Unit Calculations

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

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

(Thousands)	Weighted Average Number of Units		Outstanding Number of Units
	2018	2017	2018
For the Year Ended December 31,			
Trust Units	142,618	135,549	145,654
Exchangeable Units <sup>(1)</sup>	85	146	–
Units under the DUP <sup>(2)</sup>	271	267	287
Basic Number of Units	142,974	135,962	145,941
Plus:			
Dilutive Units under the LTIP <sup>(2), (3)</sup>	288	397	–
Dilutive Units under the SELTIP <sup>(2), (3)</sup>	290	344	–
Unit Rights under the RUR Plan <sup>(2)</sup>	579	826	578
Dilutive Unexercised Options under the UOP <sup>(2), (4)</sup>	44	299	– <sup>(5)</sup>
Diluted Number of Units	144,175	137,828	146,519

(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 audited consolidated annual financial statements for the year ended December 31, 2018 contained in CAPREIT's 2018 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 nil unexercised options outstanding under the UOP.

#### DISTRIBUTION REINVESTMENT PLAN ("DRIP") AND NET DISTRIBUTIONS PAID

(\$ Thousands)

For the Year Ended December 31,	2018	2017
Distributions Declared on Trust Units	\$ 187,848	\$ 173,072
Distributions Declared on		
Exchangeable Units	95	186
Distributions Declared on Awards		
Outstanding Under Unit-based		
Compensation Plans <sup>(1)</sup>	2,181	2,766
Total Distributions Declared	190,124	176,024
Less:		
Distributions on Trust Units Reinvested	(52,216)	(51,305)
Distributions on Unit Awards Reinvested <sup>(1)</sup>	(2,181)	(2,766)
Net Distributions Paid	\$ 135,727	\$ 121,953
Percentage of Distributions Reinvested	28.6%	30.7%

(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, 2018 contained in CAPREIT's 2018 Annual Report for a discussion of these plans).

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

The average participation rate in the DRIP and other plans under which distributions are reinvested decreased for the year ended December 31, 2018 to 28.6% from 30.7% last year. The DRIP participation rate is subject to factors beyond Management's control and varies among investors.

## Non-IFRS Financial Measures

### Funds From Operations

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

As noted in the Changes in New Accounting Standards section of this MD&A, CAPREIT has adopted the new standard IFRS 9, Financial Instruments ("IFRS 9") on the required effective date of January 1,

2018. One impact of adopting this new standard is that the unrealized gains or losses on marketable securities classified as FVTPL are now included in net income, whereas they were recorded in other comprehensive income ("OCI") in 2017 and prior years consolidated financial statements. Based on the FFO definition currently set forth by REALpac, which was amended in April 2014 and restated in February 2017, the unrealized gains or losses on FVTPL marketable securities should be included in FFO. However, CAPREIT believes that including such unrealized gains or losses in FFO does not represent the recurring operating performance of CAPREIT. As a result of the adoption of IFRS 9, effective January 1, 2018, CAPREIT's method of calculating FFO will be in compliance with REALpac's definition of FFO with the exception of (i) the adjustment for unrealized gains or losses on FVTPL marketable securities in its calculation of FFO and (ii) the adjustment for amortization of certain other assets consistent with prior years.

A reconciliation of net income to FFO is as follows:

(\$ Thousands, except per Unit amounts)

For the Year Ended December 31,

	2018	2017
Net Income	\$ 1,217,671	\$ 836,811
Adjustments:		
Unrealized Gain on Remeasurement of Investment Properties	(990,529)	(626,953)
Realized Loss on Disposition of Investment Properties	2,594	488
Remeasurement of Exchangeable Units	840	852
Remeasurement of Investments <sup>(1)</sup>	(3,740)	-
Remeasurement of Unit-based Compensation Liabilities	29,428	18,934
Interest on Exchangeable Units	95	186
Corporate and Deferred Income Taxes	17,872	7,409
(Gain)/Loss on Foreign Currency Translation	34,489	(3,515)
FFO Adjustment for Income from Equity-Accounted Investments <sup>(2)</sup>	(25,159)	(9,707)
Unrealized and Realized Loss on Derivative Financial Instruments	(13,141)	11,866
Net FFO Impact Attributable to Non-Controlling Interest	9,821	4,718
Amortization of Property, Plant and Equipment	4,976	4,434
FFO	\$ 285,217	\$ 245,523
FFO per Unit – Basic	\$ 1.995	\$ 1.806
FFO per Unit – Diluted	\$ 1.978	\$ 1.781
Total Distributions Declared	\$ 190,124	\$ 176,024
FFO Payout Ratio	66.7%	71.7%
Net Distributions Paid	\$ 135,727	\$ 121,953
Excess FFO over Net Distributions Paid	\$ 149,490	\$ 123,570
FFO Effective Payout Ratio	47.6%	49.7%

(1) Effective January 1, 2018, CAPREIT adopted IFRS 9 Financial Instruments. Under this standard, this investment has been designated as FVTPL whereas previously it was designated as available-for-sale. Under the guidance in this new standard, any mark-to-market gains or losses are recorded in the statement of income and comprehensive income whereas previously they were recorded through OCI. The cumulative mark to market gains/losses have also been reclassified from accumulated OCI to retained earnings on adoption of this standard.

(2) Relates to unrealized gain on remeasurement of investment properties.

### 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, accelerated vesting of previously-granted RUR units, pre-development costs and large acquisition research costs relating to transactions that were not completed. As it is an operating performance metric, no adjustment is made to NFFO for capital expenditures. NFFO facilitates better comparability to prior year's performance and provides a better indicator of CAPREIT's long-term operating performance. For further information on CAPREIT's total property capital investments, please refer to the Property Capital Investments in Section V. See discussions under the Net Income and Other Comprehensive Income in Section III for additional information on hedging instruments currently in place. NFFO is not a measure of sustainability of distributions.

A reconciliation of FFO to NFFO is as follows:

(\$ Thousands, except per Unit amounts)

For the Year Ended December 31,	2018	2017
FFO	\$ 285,217	\$ 245,523
Adjustments:		
Amortization of losses from AOCL to interest and other financing costs	2,659	3,023
Net Mortgage Prepayment Cost	1,459	324
Other Employee Costs <sup>(1)</sup>	-	1,604
NFFO	\$ 289,335	\$ 250,474
NFFO per Unit – Basic	\$ 2.024	\$ 1.842
NFFO per Unit – Diluted	\$ 2.007	\$ 1.817
Total Distributions Declared	\$ 190,124	\$ 176,024
NFFO Payout Ratio	65.7%	70.3%
Net Distributions Paid	\$ 135,727	\$ 121,953
Excess NFFO over Net Distributions Paid	\$ 153,608	\$ 128,521
Effective NFFO Payout Ratio	46.9%	48.7%

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

NFFO for the year ended December 31, 2018 increased by 15.5% compared to last year, primarily due to the contribution from acquisitions and higher NOI for properties owned prior to December 31, 2017.

For the year ended December 31, 2018, basic NFFO per Unit increased by 9.9% compared to last year, despite an approximate 5.2% increase in the weighted average number of Units outstanding, due primarily to strong organic NOI growth and contributions from acquisitions. Management expects per Unit FFO and NFFO and related payout ratios to strengthen further in the medium term as a result of NOI contributions from recent acquisitions.

Comparing total distributions declared to NFFO, the NFFO payout ratio for the year ended December 31, 2018 improved to 65.7% compared to 70.3% last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the year ended December 31, 2018 to 46.9% from 48.7% last year.

### Adjusted Cash Flows From Operations and Distributions Declared

As a measure of economic cash flows, CAPREIT calculates ACFO using guidelines from the white paper published by REALpac, "White Paper on Adjusted Cashflow From Operations (ACFO) for IFRS", dated February 2017 and updated as of February 2018.

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

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

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

(\$ Thousands, except per Unit amounts)

For the Year Ended December 31,	2018	2017
Cash Generated From Operating Activities	\$ 431,177	\$ 358,941
Adjustments: <sup>(1)</sup>		
Interest expense included in cash flow from financing activities	(114,271)	(111,138)
Non-Discretionary Property Capital Investments <sup>(2)</sup>	(51,252)	(38,724)
Capitalized Leasing Costs <sup>(3)</sup>	(1,046)	(3,234)
Amortization of Other Financing Costs <sup>(4)</sup>	(6,464)	(5,689)
Non-controlling Interest	(216)	(184)
Investment Income	7,442	8,478
ACFO	\$ 265,370	\$ 208,450
Total Distributions Declared	\$ 190,124	\$ 176,024
Excess (Deficit) ACFO over Distributions Declared	\$ 75,246	\$ 32,426
ACFO Payout Ratio	71.6%	84.4%

(1) On a quarterly basis, a review of working capital is performed to determine whether changes in prepaids, receivables, deposits, accounts payable and other liabilities, security deposits and other non-cash operating assets and liabilities were attributed to items which were not indicative of sustainable cash flows available for distribution in line with the ACFO guidance provided by REALpac. Based on review, it was concluded that no adjustments were needed.

(2) Non-Discretionary Property Capital Investments for the years ended December 31, 2018 and 2017 are based on the actual annual 2018 and annual 2017, respectively. For a reconciliation of actual non-discretionary property capital investments incurred during the period to forecast, see the table on the next page.

(3) Comprises tenant inducements and direct leasing costs.

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

For the year ended December 31, 2018, CAPREIT's ACFO were in excess of distributions declared by \$75.2 million.

The table below reconciles actual non-discretionary capital investments incurred to the forecasted amount used in the above ACFO calculation:

### NON-DISCRETIONARY PROPERTY CAPITAL ACTUALS TO FORECAST RECONCILIATION

(\$ Thousands)

Year Ended December 31,	2018	2017
Actual	\$ 51,252	\$ 38,724
Forecast	56,029	56,800
Difference	\$ (4,777)	\$ (18,076)

For the year ended December 31, 2018, CAPREIT's actual non-discretionary property capital investments of \$51.3 million were lower than the forecast by approximately \$4.8 million, mainly related to deferral of certain structural and roof projects.

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

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

### Discretionary and Non-Discretionary Property Capital Investments

Management does not differentiate between maintenance and value-enhancing property capital investments. Maintenance property capital investments are generally not clearly identifiable, nor do they have

a common definition and would require significant judgement to classify property capital investments as maintenance or value-enhancing capital investments. In addition, there is no generally accepted definition of maintenance capital investments in the Canadian real estate industry. Management has decided to classify property capital investments into two categories: discretionary and non-discretionary. Management is of the view that this classification, while still requiring a degree of professional judgement, provides a better measure of economic cash flows.

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

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

The following table reconciles the actual 2018, 2017 and 2016 Non-Discretionary Property Capital Investments per suite and site:

(\$ Thousands)	2018 Actual	2017 Actual	2016 Actual
Non-Discretionary Property Capital Investments <sup>(1)</sup>	\$ 51,252	\$ 38,724	\$ 58,501
Discretionary Property Capital Investments <sup>(1), (2)</sup>	142,202	112,643	133,295
Total Property Capital Investments <sup>(2)</sup>	\$ 193,454	\$ 151,367	\$ 191,796
Non-Discretionary Property Capital Investments	\$ 51,252	\$ 38,724	\$ 58,501
Weighted Average Number of Suites and Sites	49,595	48,307	46,780
Non-Discretionary Property Capital Investments per Suite and Site	\$ 1,033	\$ 802	\$ 1,251

(1) See Property Capital Investments section for further details.

(2) Excludes property capital investments relating to development and intensification.

## Adjusted Cash Generated From Operating Activities

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

(\$ Thousands)

Year Ended December 31,	2018	2017
Cash Generated From Operating Activities	\$ 431,177	\$ 358,941
Adjustments:		
Interest expense included in cash flow from financing activities	(114,271)	(111,138)
Adjusted Cash Generated from Operating Activities	\$ 316,906	\$ 247,803
Total Distributions Declared	\$ 190,124	\$ 176,024
Excess (shortfall)	\$ 126,782	\$ 71,779

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

(\$ Thousands)

Year Ended December 31,	2018	2017
Net Income	\$ 1,217,671	\$ 836,811
Adjusted Cash Generated from Operating Activities	\$ 316,906	\$ 247,803
Total Distributions Declared	\$ 190,124	\$ 176,024
Net Distributions Paid	\$ 135,727	\$ 121,953
Excess of Net Income over Total Distributions Declared	\$ 1,027,547	\$ 660,787
Excess of Net Income over Net Distributions Paid	\$ 1,081,944	\$ 714,858
Excess of Adjusted Cash Generated from Operating Activities over Total Distributions Declared	\$ 126,782	\$ 71,779
Excess of Adjusted Cash Generated from Operating Activities over Net Distributions Declared	\$ 181,179	\$ 125,850

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

For the year ended December 31, 2018, CAPREIT's Adjusted Cash Generated from Operating Activities exceeded distributions declared by \$126.8 million compared to the prior year, when Adjusted Cash Generated from Operating Activities exceeded distributions declared by \$71.8 million. As per OSC Staff Notice 51-724, if distributions are in excess of Adjusted Cash Generated from Operating Activities, then it represents a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated from CAPREIT's continuing operations during the period.

Management believes, should it occur, there is adequate overall liquidity to fund excess distributions given Adjusted Cash Generated from Operating Activities on an annual basis and through: (i) mortgage debt secured by its investment properties; and (ii) secured short-term debt financing with three Canadian chartered banks.



## SECTION V:

## CAPITAL INVESTMENT, INVESTMENT PROPERTY, CAPITAL STRUCTURE AND FINANCIAL CONDITION

## Property Capital Investments

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

An important component of CAPREIT's property capital investment strategy is to acquire properties significantly below current replacement cost and improve their operating performance by investing

annually. This ensures sustainable growth to maximize the portfolio's future rental income-generating potential.

For the year ended December 31, 2018, CAPREIT made property capital investments (excluding head office assets) of \$193.5 million compared to \$151.4 million for last year. Energy-saving initiatives and suite and common area improvement costs generally tend to increase NOI more quickly compared to other capital investment categories.

A breakdown of property capital investments (excluding head office assets) is summarized by category below:

**PROPERTY CAPITAL INVESTMENTS BY CATEGORY**

(\$ Thousands)

Year Ended December 31, 2018	Actual Total Portfolio	% of Actual
<b>Non-Discretionary Property Capital Investments:</b>		
Building Improvements	47,612	24.6
MHC Infrastructural	1,653	0.9
Life and Safety	1,987	1.0
	51,252	26.5
<b>Discretionary Property Capital Investments:</b>		
Suite Improvements	53,863	27.9
Common Area	44,342	22.9
Energy-saving Initiatives	20,140	10.4
Equipment	13,243	6.8
Elevators and Risers	9,056	4.7
Others	1,031	0.5
MHC Common Area	527	0.3
	142,202	73.5
<b>Total</b>	<b>193,454</b>	<b>100.0</b>

(\$ Thousands)

Year Ended December 31, 2017	Actual Total Portfolio <sup>(1)</sup>	% of Actual
<b>Non-Discretionary Property Capital Investments:</b>		
Building Improvements	35,665	23.6
MHC Infrastructural	2,438	1.6
Life and Safety	621	0.4
	38,724	25.6
<b>Discretionary Property Capital Investments:</b>		
Suite Improvements	56,520	37.4
Common Area	25,752	17.0
Energy-saving Initiatives	12,389	8.2
Equipment	10,461	6.9
Elevators and Risers	6,936	4.6
Others	220	0.1
MHC Common Area	365	0.2
	112,643	74.4
<b>Total</b>	<b>151,367</b>	<b>100.0</b>

(1) Prior year figures have been restated in accordance with the current year classification methodology for comparative purposes.

The table below includes estimated 2019 capital expenditures for buildings expected to be completed in 2019. The following budgeted capital expenditures may vary from actuals as the planned expenditures may be accelerated or adjusted as necessary.

**2019 CAPITAL EXPENDITURE BUDGET**

(\$ Thousands)

Investment Properties	Actual Total Portfolio <sup>(1)</sup>	% of Actual
<b>Non-Discretionary Property</b>		
<b>Capital Investments:</b>		
Building Improvements	59,472	30.1
MHC Infrastructural	1,705	0.9
Life and Safety	1,925	1.0
	63,102	32.0
<b>Discretionary Property Capital Investments:</b>		
Suite Improvements	50,948	25.8
Common Area	41,509	21.0
Energy-saving Initiatives	18,804	9.5
Equipment	7,602	3.8
Elevators and Risers	11,903	6.0
Others	3,230	1.6
MHC Common Area	523	0.3
	134,519	68.0
<b>Total</b>	<b>197,621</b>	<b>100.0</b>

(1) The 2019 Capital Expenditure Budget includes the Netherlands budget.

Set out in the next table is Management's current estimate, established through consultation with an independent engineering firm, of CAPREIT's investments in building improvements, including investments to MHC land lease sites, for 2019 through 2022 for properties owned as of December 31, 2018. The actual cost and timing may vary from the estimate.

**FUTURE INVESTMENTS IN BUILDING IMPROVEMENTS**

(\$ Thousands)

	Building Improvements Estimated Range
2019	\$52,000 – \$65,000
2020	\$39,000 – \$48,000
2021	\$27,000 – \$33,000
2022	\$15,000 – \$19,000

Management believes CAPREIT has sufficient liquidity (see the Liquidity and Financial Condition section) to execute the above property capital investments strategy.

**Investment Properties**

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

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

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, 2018.

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

(\$ Thousands)	2018	2017
As at December 31,		
Balance, Beginning of the Year	\$ 8,886,556	\$ 7,642,017
<b>Add:</b>		
Acquisitions	504,710	470,510
Property Capital Investments <sup>(1)</sup>	198,110	154,883
Foreign Currency Translation	35,324	12,998
Gain on Remeasurement at Fair Value	990,529	626,953
Capitalized Leasing Costs <sup>(2)</sup>	1,046	1,020
<b>Less:</b>		
Dispositions	(140,137)	(21,337)
Realized Loss on Dispositions	(2,594)	(488)
Investment Properties at Fair Value,		
End of the Year	\$ 10,473,544	\$ 8,886,556

(1) See Section V – Property Capital Investments, and intensification.

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

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,	Dec 2017 Fair Value	Change Due to Change in				Dec 2018 Fair Value	Dec 2017 Rates <sup>(1)</sup>	Dec 2018 Rates <sup>(1)</sup>
		Rates <sup>(1)(2)</sup>	Normalized NOI <sup>(2)(3)</sup>	Forex Translation	Net Acquisitions			
Greater Toronto Area	\$ 3,525	\$ 321	\$ 307	\$ –	\$ –	\$ 4,153	4.05%	3.78%
Other Ontario	1,013	56	99	–	2	1,170	4.58%	4.36%
Québec	1,493	80	70	–	(60)	1,583	4.89%	4.63%
British Columbia	1,196	(5)	96	–	80	1,367	3.65%	3.77%
Alberta	413	19	16	–	–	448	4.63%	4.46%
Nova Scotia	261	5	8	–	–	274	5.35%	5.25%
Saskatchewan	42	–	–	–	(10)	32	5.60%	5.70%
Prince Edward Island	64	3	(1)	–	–	66	6.06%	5.78%
The Netherlands	564	61	34	35	347	1,041	4.03%	3.80%
MHC Land Lease Sites	316	9	9	–	6	340	6.27%	6.11%
<b>Total</b>	<b>\$ 8,887</b>	<b>\$ 549</b>	<b>\$ 638</b>	<b>\$ 35</b>	<b>\$ 365</b>	<b>\$ 10,474</b>	<b>4.39%</b>	<b>4.17%</b>

(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, 2018 for Operating and Land Leasehold Interests.

(2) Represents normalized net operating income for valuation purposes.

(3) Fair Value changes due to changes in Rates and Normalized NOI exclude properties acquired and disposed of during the quarter.

For the years ended December 31, 2018 and 2017, the unrealized gain on remeasurement of investment properties is primarily the result of: (i) increases in net operating income primarily attributable to the significant growth in rents in 2018 compared to 2017, driven by the substantial rental increases on turnovers, as current rents are significantly below market rents, especially in major regions such as the GTA, other Ontario and British Columbia, along with higher NOI margins due to operating efficiencies; and (ii) further compressed capitalization rates supported by market transactions. The unrealized gain on remeasurement of investment properties is offset by certain capital investments not having an immediate effect on stabilized net operating income and thus not reflected in the fair value of the investment properties at the measurement date.

As at December 31, 2018, 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, 2018	Change (basis points) <sup>(1)</sup>	Estimated (Decrease) Increase
Weighted Average Capitalization Rate	+25	\$ (592)
Weighted Average Capitalization Rate	-25	\$ 663

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

## Development

Development is a key component in CAPREIT's growth and value creation strategy. CAPREIT's development program encompasses a combination of three different approaches that will add new units to the portfolio: (i) Forward purchase of properties developed by third parties, (ii) Intensification and infill on excess land with existing income-producing properties and (iii) Redevelopment. Through a highest and best use assessment, CAPREIT has identified approximately 85 potential development sites across Canada with the opportunity to build well in excess of 10,000 new units focused primarily in British Columbia and Ontario.

Two infill development projects located in high-priority Toronto sites are well underway with rezoning application approvals being negotiated with the city: 141 Davisville Avenue, and 100 Wellesley Street East. Site plan applications will follow. One conversion

development project has commenced construction, located in Montréal, Québec at 2525 Cavendish Boulevard.

**141 Davisville** – The application was submitted in November 2017 and continues to be diligently processed with City of Toronto staff departments. The proposed application under review includes 146 new units in a proposed 16-storey infill building, with modern indoor and outdoor amenities, and a number of improvements to the existing building and site.

**100 Wellesley** – The application was submitted in July 2017 and continues to be diligently processed with City of Toronto staff departments. The proposed application under review includes 120 new units in a 10-storey infill building and eight stand-alone townhouse units located in the downtown core of Toronto, with modern indoor and outdoor amenities, and a number of improvements to the existing building and site.

2525 Cavendish – A Building Permit has been approved and construction has commenced of 52 new residential rental units within the existing building's vacant commercial space. The target completion date is set and on target for the fall of 2019.

A pipeline of additional rezoning applications for key Canadian sites is planned to be initiated in 2019.

CAPREIT's intensification and development costs are summarized below:

#### **DEVELOPMENT SUMMARY**

(\$ Thousands)

Year Ended December 31, 2018	Actual Total Portfolio
Intensification	4,656
Development	1,735
<b>Total for Development</b>	<b>6,391</b>

Year Ended December 31, 2017	Actual Total Portfolio <sup>(1)</sup>
Intensification	3,516
Development	1,925
<b>Total for Development</b>	<b>5,441</b>

(1) Prior year figures have been restated in accordance with the current year classification methodology for comparative purposes.

Total development costs for 2018 were lower than the amount forecasted in the prior quarter due to Management's revised expectations of processing time for development applications. The regulatory and application processing is subject to factors beyond Management's control and varies between projects.

The table below presents the estimated intensification and development costs estimated for 2019, which include costs related to planning, rezoning, architectural surveys, application fees and building permits. The following budgeted intensification and development costs may vary from actuals as expectations of processing time for development applications become better defined.

#### **2019 DEVELOPMENT EXPENDITURE BUDGET**

(\$ Thousands)

	Budget Total Portfolio
Intensification <sup>(1)</sup>	10,208
Development <sup>(2)</sup>	26,190
<b>Total Development Budget</b>	<b>36,398</b>

(1) Intensification costs relate to capital expenditures incurred to convert non-residential elements to revenue-generating residential units, as well as capital expenditures incurred on the preparation of lots for MHC installation.

(2) Development costs relate primarily to pre-construction costs such as application and permit fees, consultant fees and levies.

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

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

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

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

As at December 31, 2018 CAPREIT is in compliance with all the investment and debt restrictions and financial covenants contained in the DOT, the LBA and the Credit Facilities. The total capital managed by CAPREIT and the results of compliance with the key covenants and liquidity metrics are summarized below:

(\$ Thousands)

As at December 31,	2018	2017
Mortgages Payable	\$ 3,728,333	\$ 3,581,501
Bank Indebtedness	567,365	446,895
Unit-based Compensation Liabilities	32,805	64,561
Exchangeable Units	–	4,876
Unitholders' Equity	6,316,700	4,923,406
Total Capital	\$ 10,645,203	\$ 9,021,239

	Threshold		
Total Debt to Gross Book Value <sup>(1)</sup>	Maximum 70.00%	39.37%	43.57%
Mortgage Debt to Gross Book Value		34.17%	38.73%
Total Debt to Gross Historical Cost <sup>(2)</sup>		54.54%	56.24%
Total Debt to Total Capitalization <sup>(3)</sup>		39.82%	41.81%
Tangible Net Worth <sup>(1), (4)</sup>	Minimum \$2,100,000	\$ 6,349,505	\$ 4,992,842

For the four quarters ended		December 31, 2018	December 31, 2017
Debt Service Coverage Ratio (times) <sup>(1)</sup>	Minimum 1.20	1.75	1.63
Interest Coverage Ratio (times) <sup>(1)</sup>	Minimum 1.50	3.44	3.19

(1) See note 17 to the accompanying audited consolidated annual financial statements for details.

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

(3) Based on market capitalization as defined in the Performance Measures table of the MD&A, plus total debt.

(4) The tangible net worth requirement as at December 31, 2017 was \$1,800,000.

## Liquidity and Financial Condition

### Liquidity and Capital Resources

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

- CAPREIT's business continues to be stable and is expected to generate sufficient ACFO on an annual basis to fund the current level of distributions.
- CAPREIT's liquidity position as at December 31, 2018 remains strong, as the following table highlights:

(\$ Thousands)

As at December 31, 2018	
Credit Facilities Available <sup>(1)</sup>	\$ 266,325
Mortgage Top-Ups Committed or Expected to be Completed in 2019	129,590
Total Available Liquidity	\$ 395,915

- (1) Includes the \$200 million temporary Bridge Facility available for three months, effective November 26, 2018; it cannot be renewed after expiry date. Subsequent to 2018 year end, CAPREIT closed on an equity raise with gross proceeds of \$287.8 million, which was used to partially pay the Acquisition and Operating Facility.

Investment properties with a fair value of \$10.1 billion have been pledged as security as at December 31, 2018. In addition, CAPREIT has investment properties with a fair value of approximately \$420.0 million as at December 31, 2018 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. We expect to have subsequent financings on acquisitions which are currently unencumbered for approximately \$130.3 million. CAPREIT intends to maintain unencumbered investment properties with an aggregate fair value in the range of \$180 million to \$250 million over the long term.

The working capital deficiency, as presented on CAPREIT's consolidated balance sheets as at December 31, 2018, is paid through the Credit Facilities as well as by the ongoing refinancing of mortgages payable. Management does a liquidity forecast on a monthly basis, which includes refinancings, property capital investments, potential acquisitions and potential dispositions to monitor the available liquidity capacity.

### Mortgages Payable

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

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

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

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

As at December 31,	2018	2017
Percentage of CMHC-Insured Mortgages <sup>(1)</sup>	97.5%	97.0%
Percentage of Fixed-Rate Mortgages	100.0%	100.0%
Weighted Average Mortgage Interest Rate <sup>(2)</sup>	3.05%	3.08%
Weighted Average Mortgage Term to Maturity (years)	5.10	5.66

(1) Excludes the mortgages on the MHC land lease sites and European financings.

(2) Weighted average mortgage interest rate includes deferred financing costs and fair value adjustments on an effective interest rate basis. Including the amortization of the realized component of the loss on settlement of \$32.5 million included in AOCL, the effective portfolio weighted average interest rate as at December 31, 2018 would be 3.13% (December 31, 2017 – 3.17%).

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

(\$ Thousands)

As at December 31,	2018	2017
Balance, Beginning of Period	\$ 3,581,501	\$ 3,492,923
Add:		
New Borrowings on Acquisitions	178,018	253,375
Assumed	22,915	3,713
Refinanced	213,216	211,141
Foreign Currency Translation	12,382	12,543
Less:		
Mortgage Principal Amortization <sup>(1)</sup>	(116,877)	(119,458)
Mortgages Matured	(103,734)	(266,575)
Mortgages Repaid on Dispositions of Investment Properties	(58,212)	(4,951)
Change in Deferred Financing Costs, Fair Value Adjustments, Net	(876)	(1,210)
Balance, End of Period	\$ 3,728,333	\$ 3,581,501

(1) Includes repayment of euro LIBOR borrowing of €5,000 in 2017.

The following table presents refinancings, weighted average interest rates obtained and mortgage top-ups closed or committed up to 2018.

(\$ Thousands)

	Original Mortgage Amount	Original Stated Interest Rate <sup>(1)</sup>	New Mortgage Amount	New Stated Interest Rate <sup>(1),(2)</sup>	Weighted Average Term on New Mortgages (Yrs)	Top-Up Financing Amount
First Quarter	\$ 3,207	3.64%	\$ 3,595	2.80%	5.0	\$ 388
Second Quarter	20,138	1.22%	20,138	2.75%	0.5	–
Third Quarter	75,317	3.61%	134,399	3.28%	8.6	59,082
Fourth Quarter	5,072	3.99%	55,084	3.29%	5.6	50,012
Total and Weighted Average Acquisitions	\$ 103,734	3.17%	\$ 213,216	3.22%	7.0	\$ 109,482
	–	–	178,018	2.21%	7.5	178,018
Total and Weighted Average with Acquisitions	\$ 103,734	3.17%	\$ 391,234	2.76%	7.2	\$ 287,500

(1) Weighted average.

(2) Excludes CMHC, other financing costs and impact of hedging.

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 \$365 million and \$415 million in total mortgage renewals and refinancings for 2019, excluding financings on acquisitions.

(\$ Thousands)

As at December 31, 2018

Year of Maturity	Mortgage Maturities <sup>(1)</sup>	Mortgages on the Same Properties Maturing in Other Years <sup>(1)</sup>	Total Mortgages	NOI of Properties with Maturing Mortgage(s) <sup>(2),(3)</sup>
2019	\$ 287,151	\$ 126,166	\$ 413,317	\$ 59,998
2020	223,649	50,205	273,854	34,148
2021	349,066	(32,852)	316,214	51,276
2022	413,064	15,603	428,667	64,049
2023	370,927	8,807	379,734	55,265
2024 Onward	1,450,570	(167,929)	1,282,641	153,933
<b>Total</b>	<b>\$ 3,094,427</b>	<b>\$ -</b>	<b>\$ 3,094,427</b>	<b>\$ 418,669</b>

(1) Mortgage balance due upon maturity.

(2) NOI for the 12 months ended December 31, 2018.

(3) Projected NOI included for acquisitions since December 31, 2017.

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

(\$ Thousands)

As at December 31, 2018

Period	Principal Amortization	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) <sup>(1),(2)</sup>
2019	\$ 116,802	\$ 287,151	\$ 403,952	10.8	3.46
2020	110,954	223,649	334,603	9.0	2.57
2021	100,141	349,066	449,207 <sup>(3)</sup>	12.0	3.82
2022	90,549	413,064	503,613 <sup>(4)</sup>	13.5	2.86
2023	72,406	370,927	443,333 <sup>(4)</sup>	11.9	3.09
2024	57,237	228,584	285,821 <sup>(4)</sup>	7.6	3.78
2025	48,425	651,950	700,375 <sup>(4)</sup>	18.7	2.51
2026	27,019	298,212	325,231	8.7	2.75
2027	10,629	135,238	145,867	3.9	2.92
2028	6,383	70,414	76,797	2.1	3.41
2029-2030	2,329	66,172	68,501	1.8	3.72
	<b>\$ 642,874</b>	<b>\$ 3,094,427</b>	<b>\$ 3,737,300</b>	<b>100.0</b>	<b>3.05<sup>(2)</sup></b>
Deferred Financing Costs, Fair Value Adjustments, Net			(8,967)		
<b>Total</b>			<b>\$ 3,728,333</b>		

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

(2) Effective weighted average interest rate includes deferred financing costs and fair value adjustments, but excludes CMHC premiums.

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

(4) Included in mortgages payable are mortgages related to the Netherlands properties, as detailed below:

As at December 31, 2018

Period	Mortgage Balance		Interest Rate (%)
	€ Thousands	\$ Thousands	
2022	€ 49,914	\$ 77,931	1.37
2023	40,660	63,482	2.05
2024	-	-	-
2025	211,336	329,867	2.00
<b>Total</b>	<b>€ 301,910</b>	<b>\$ 471,280</b>	<b>1.91</b>

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

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

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

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

Equity offerings and over-allotments for the periods ending December 31, 2018:

(\$ Thousands, except per Unit amounts)

Period	Price Per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
March 2018					
Bought-deal	\$ 35.15	\$ 150,091	\$ 6,780	\$ 143,311	4,270,000
Over-allotment	\$ 35.15	22,514	901	21,613	640,500
Total		\$ 172,605	\$ 7,681	\$ 164,924	4,910,500

Market capitalization and units outstanding:

As at December 31, 2018

Market Capitalization (\$ thousands)	<b>\$ 6,490,783</b>
Number of Units Outstanding	<b>146,518,798</b>
LTIP and SELTIP Units	-
Deferred Units	<b>286,696</b>
RUR Plan Units	<b>578,120</b>
Exchangeable Units	-
Ownership by Trustees, Officers and Senior Managers	<b>1.0%</b>

### 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 TSX approval. The NCIB will terminate on the earlier of the termination date or at such time as purchases under the NCIB are completed. CAPREIT will continue to evaluate the NCIB program and believes the purchase of its outstanding Trust Units from time to time may be an appropriate use of its resources. CAPREIT has not obtained approval to purchase since July 27, 2016.

### Unitholder Taxation

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

For the year ended December 31,	2018	2017
Taxable to Unitholders as Other Income	<b>33.05%</b>	15.21%
Taxable to Unitholders as Capital Gain Income	<b>25.07%</b>	4.23%
Income Tax Deferral	<b>41.88%</b>	80.56%
Total	<b>100.00%</b>	100.00%
Total Effective Non-taxable Portion of Distributions	<b>54.41%</b>	82.67%

The portion of CAPREIT's distributions to Canadian resident Unitholders treated as taxable for the year ended December 31, 2018 decreased over the prior year primarily due to higher distributions and other taxable deductions, lower capital gain and recapture, offset by lower capital cost allowance and higher earnings from operations in the current year.



## SECTION VI:

## COMPLIANCE AND GOVERNANCE DISCLOSURES, RISKS AND UNCERTAINTIES

## Selected Consolidated Quarterly Information

	Q4 18	Q3 18	Q2 18	Q1 18	Q4 17	Q3 17	Q2 17	Q1 17
Overall Portfolio Net AMR	\$ 1,103	\$ 1,079	\$ 1,065	\$ 1,054	\$ 1,044	\$ 1,029	\$ 1,015	\$ 1,007
Operating Revenues (000s) <sup>(1)</sup>	\$ 177,667	\$ 172,298	\$ 170,601	\$ 168,019	\$ 164,432	\$ 161,713	\$ 157,087	\$ 155,610
NOI (000s) <sup>(1), (2)</sup>	\$ 111,936	\$ 113,850	\$ 110,868	\$ 102,402	\$ 100,300	\$ 102,655	\$ 98,705	\$ 91,598
NOI Margin <sup>(1)</sup>	63.0%	66.1%	65.0%	60.9%	61.0%	63.5%	62.8%	58.9%
Net Income (000s)	\$ 736,267	\$ 119,594	\$ 261,612	\$ 100,198	\$ 376,960	\$ 215,833	\$ 102,885	\$ 141,133
FFO (000s) <sup>(1), (2)</sup>	\$ 69,312	\$ 77,290	\$ 76,165	\$ 63,386	\$ 61,000	\$ 64,685	\$ 62,836	\$ 57,002
NFFO (000s) <sup>(1), (2)</sup>	\$ 71,414	\$ 77,933	\$ 76,829	\$ 64,095	\$ 61,893	\$ 67,036	\$ 63,608	\$ 57,937
Total Debt to Gross Book Value	39.37%	40.48%	40.53%	41.48%	43.57%	44.76%	44.00%	43.99%
FFO per Unit <sup>(1)</sup> – Basic	\$ 0.477	\$ 0.535	\$ 0.530	\$ 0.457	\$ 0.446	\$ 0.475	\$ 0.463	\$ 0.422
NFFO per Unit <sup>(1)</sup> – Basic	\$ 0.492	\$ 0.540	\$ 0.535	\$ 0.463	\$ 0.452	\$ 0.492	\$ 0.469	\$ 0.429
Weighted Average Number of Units (000s)								
– Basic	145,199	144,431	143,623	138,554	136,824	136,295	135,629	135,076
– Diluted	145,784	145,831	144,982	140,022	138,684	138,131	137,554	136,918

(1) Includes the results of investment properties owned as at the period end.

(2) Non-IFRS financial measures are reconciled with IFRS reported amounts in the respective quarterly SEDAR filings.

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

#### Fourth Quarter

Operating revenues in the fourth quarter of 2018 increased by 8.0% over the same quarter in 2017, and NOI increased by a significant 11.6%, driven by acquisitions, higher operating revenues and lower realty taxes and utility costs as a percentage of total operating revenues compared to the same period last year. Net income in the fourth quarter of 2018 increased over the same period last year to \$736.3 million, mainly due to higher unrealized gain on remeasurement of investment properties of \$710.5 million compared to \$339.2 million for the same period last year. Trust expenses for the quarter ended included approximately \$3.0 million related to non-routine items including severances incurred and consulting costs related to non-routine matters. Loan interest and mortgage interest increased by \$2.6 million, offset by higher NOI of \$11.6 million. Higher NFFO for the fourth quarter of 2018 was primarily due to an 8.6% increase in stabilized property NOI and the NOI contribution from acquisitions completed over the prior 12 months.

The following table shows the NOI and the NOI margin attained for each regional market for the periods ended December 31, 2018 and 2017.

**NOI BY GEOGRAPHY**

For the Three Months Ended December 31,

(\$ Thousands)	2018			2017			NOI Change (%)
	NOI	NOI % <sup>(1)</sup>	NOI Margin (%)	NOI	NOI % <sup>(1)</sup>	NOI Margin (%)	
<b>Residential Suites</b>							
<b>ONTARIO</b>							
Greater Toronto Area	\$ 43,180	38.6	63.9	\$ 39,507	39.4	61.5	9.3
Ottawa	4,601	4.1	72.9	3,635	3.6	59.8	26.6
London / Kitchener / Waterloo	4,667	4.1	63.1	4,074	4.1	58.2	14.6
Other Ontario	4,487	4.0	61.9	4,137	4.1	60.6	8.5
	\$ 56,935	50.8	64.3	\$ 51,353	51.2	61.0	10.9
<b>QUÉBEC</b>							
Greater Montréal Region	\$ 13,899	12.4	56.8	\$ 13,263	13.2	55.4	4.8
Québec City	5,494	4.9	59.8	4,925	5.0	55.5	11.6
	\$ 19,393	17.3	57.6	\$ 18,188	18.1	55.4	6.6
<b>BRITISH COLUMBIA</b>							
Greater Vancouver Region	\$ 9,436	8.5	69.6	\$ 8,068	8.0	66.9	17.0
Victoria	4,188	3.7	72.0	3,814	3.8	69.5	9.8
	\$ 13,624	12.2	70.3	\$ 11,882	11.8	67.7	14.7
<b>ALBERTA</b>							
Edmonton	\$ 1,195	1.1	68.0	\$ 1,139	1.1	67.8	4.9
Calgary	4,150	3.7	57.7	4,200	4.3	60.3	(1.2)
	\$ 5,345	4.8	59.7	\$ 5,339	5.3	61.8	0.1
<b>NOVA SCOTIA</b>							
Halifax	\$ 3,315	3.0	56.5	\$ 3,333	3.3	60.6	(0.5)
<b>SASKATCHEWAN</b>							
Saskatoon <sup>(2)</sup>	\$ -	-	-	\$ 130	0.1	44.1	(100.0)
Regina	422	0.4	58.5	468	0.5	63.3	(9.8)
	\$ 422	0.4	58.5	\$ 598	0.6	57.8	(29.4)
<b>PRINCE EDWARD ISLAND</b>							
Charlottetown	\$ 828	0.7	49.0	\$ 768	0.8	50.9	7.8
<b>EUROPE</b>							
The Netherlands <sup>(3)</sup>	\$ 6,912	6.2	64.0	\$ 4,026	4.0	73.8	71.7
<b>Total Residential Suites</b>	<b>\$ 106,774</b>	<b>95.4</b>	<b>63.0</b>	<b>\$ 95,487</b>	<b>95.2</b>	<b>60.9</b>	<b>11.8</b>
<b>MHC Land Lease Sites</b>							
Ontario	\$ 2,917	2.6	66.1	\$ 2,783	2.8	64.1	4.8
British Columbia	288	0.3	77.8	279	0.3	77.5	3.2
Alberta	433	0.4	70.9	340	0.2	63.3	27.4
Saskatchewan	305	0.3	66.0	204	0.2	68.9	49.5
Prince Edward Island	111	0.1	48.9	93	0.1	42.3	19.4
New Brunswick	1,108	1.0	54.9	1,112	1.1	56.4	(0.4)
<b>Total MHC Land Lease Sites</b>	<b>\$ 5,162</b>	<b>4.6</b>	<b>63.7</b>	<b>\$ 4,811</b>	<b>4.8</b>	<b>62.3</b>	<b>7.3</b>
<b>Total Suites and Sites</b>	<b>\$ 111,936</b>	<b>100.0</b>	<b>63.0</b>	<b>\$ 100,298</b>	<b>100.0</b>	<b>61.0</b>	<b>11.6</b>

(1) Represents percentage of the portfolio by NOI.

(2) The Saskatoon property was disposed of on August 15, 2018.

(3) In € Thousands, €4,478 and €2,687 for the three months ended December 31, 2018 and December 31, 2017, respectively.

The stabilized portfolio performance for the three months ended December 31, 2018 compared to December 31, 2017, is summarized as follows:

For the Three Months Ended December 31, <i>(\$ Thousands)</i>	2018		2017		Increase (Decrease)		
	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
<b>Residential Suites</b>							
<b>ONTARIO</b>							
Greater Toronto Area	\$ 43,180	63.9	\$ 39,507	61.5	5.1	(1.7)	9.3
Ottawa	4,601	72.9	3,635	59.8	3.8	(30.1)	26.6
London / Kitchener / Waterloo	4,667	63.1	4,074	58.2	5.6	(6.8)	14.6
Other Ontario	4,487	61.9	4,137	60.6	6.2	2.8	8.5
	\$ 56,935	64.3	\$ 51,353	61.0	5.1	(3.9)	10.9 <sup>(1)</sup>
<b>QUÉBEC</b>							
Greater Montréal Region	\$ 13,282	57.1	\$ 12,632	56.6	4.2	2.9	5.1
Québec City	5,319	60.6	4,642	55.6	5.1	(6.8)	14.6
	\$ 18,601	58.1	\$ 17,274	56.3	4.4	0.3	7.7 <sup>(2)</sup>
<b>BRITISH COLUMBIA</b>							
Greater Vancouver Region	\$ 7,951	68.1	\$ 7,246	66.1	6.5	0.3	9.7
Victoria	4,132	72.2	3,762	69.6	6.0	(2.8)	9.8
	\$ 12,083	69.4	\$ 11,008	67.3	6.4	(0.7)	9.8 <sup>(3)</sup>
<b>ALBERTA</b>							
Edmonton	\$ 1,195	68.0	\$ 1,139	67.8	4.6	3.9	4.9
Calgary	4,150	57.7	4,200	60.3	3.3	10.1	(1.2)
	\$ 5,345	59.7	\$ 5,339	61.8	3.5	9.0	0.1 <sup>(4)</sup>
<b>NOVA SCOTIA</b>							
Halifax	\$ 3,315	56.5	\$ 3,333	60.6	6.7	17.8	(0.5) <sup>(5)</sup>
<b>SASKATCHEWAN<sup>(6)</sup></b>							
Regina	\$ 422	58.9	\$ 468	63.3	(2.3)	9.6	(9.8)
<b>PRINCE EDWARD ISLAND</b>							
Charlottetown	\$ 690	47.7	\$ 714	50.3	1.9	7.2	(3.4)
<b>EUROPE</b>							
The Netherlands <sup>(7)</sup>	\$ 1,394	58.9	\$ 1,285	60.8	11.9	17.3	8.4 <sup>(8)</sup>
<b>Total Residential Suites</b>	<b>\$ 98,785</b>	<b>62.8</b>	<b>\$ 90,774</b>	<b>60.7</b>	<b>5.1</b>	<b>(0.6)</b>	<b>8.8</b>
<b>MHC Land Lease Sites</b>							
Ontario	\$ 2,917	66.1	\$ 2,783	64.1	1.6	(4.2)	4.8 <sup>(9)</sup>
British Columbia	288	77.8	279	77.5	2.8	1.2	3.2
Alberta	433	70.9	340	63.3	13.8	(9.6)	27.4
Saskatchewan	208	68.0	204	68.9	3.4	6.5	2.0
Prince Edward Island	111	48.9	93	42.3	3.2	(8.7)	19.4
New Brunswick	1,108	54.9	1,112	56.4	2.4	5.9	(0.4)
<b>Total MHC Land Lease Sites</b>	<b>\$ 5,065</b>	<b>63.8</b>	<b>\$ 4,811</b>	<b>62.3</b>	<b>2.8</b>	<b>(1.3)</b>	<b>5.3</b>
<b>Total Suites and Sites</b>	<b>\$ 103,850</b>	<b>62.8</b>	<b>\$ 95,585</b>	<b>60.7</b>	<b>5.0</b>	<b>(0.7)</b>	<b>8.6</b>
<b>Stabilized Suites and Sites</b>	<b>46,648</b>		<b>46,648</b>				

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

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

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

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

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

(6) The Saskatoon property was disposed of on August 15, 2018.

(7) In € Thousands, €926 and €859 for the three months ended December 31, 2018 and December 31, 2017, respectively.

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

(9) Lower expenses: lower R&M costs, partially offset by higher utility costs.

## 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,	2018	2017	2016
<b>Income Statement</b>			
Operating Revenues	\$ 688,585	\$ 638,842	\$ 596,831
Net Income	\$ 1,217,671	\$ 836,811	\$ 439,480
<b>Distributions</b>			
Distributions Declared	\$ 187,848	\$ 173,072	\$ 161,483
Distributions per Unit	\$ 1.313	\$ 1.275	\$ 1.238
<b>Balance Sheet</b>			
Investment Properties	\$ 10,473,544	\$ 8,886,556	\$ 7,642,017
Total Assets	\$ 10,842,263	\$ 9,187,170	\$ 7,892,994
Mortgages Payable	\$ 3,728,333	\$ 3,581,501	\$ 3,492,923
Bank Indebtedness	\$ 567,365	\$ 446,895	\$ 26,408

## Accounting Policies and Critical Accounting Estimates, Assumptions and Judgements

### Impact of accounting standards effective January 1, 2018 on CAPREIT's current year financial statements:

**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. CAPREIT adopted the new standard on the required effective date of January 1, 2018 and will not restate comparative information. Quoted equity instruments currently held as available-for-sale financial assets with unrealized gains and losses recorded in OCI will, instead, be measured

at fair value through profit or loss, which will increase volatility due to unrealized gains and losses being recorded in profit or loss. The available-for-sale cumulative unrealized gain of \$8.9 million related to those securities, which is currently presented as accumulated OCI, will be reclassified to retained earnings upon adoption. CAPREIT does not expect a significant impact on its balance sheet or equity as a result of this change in classification and measurement.

**IFRS 15, Revenue from Contracts with Customers** CAPREIT had adopted IFRS 15, Revenue from Contracts with Customers, from January 1, 2018, which has replaced many reporting standards commonly used in the real estate industry, including IAS 18, Revenue, IAS 11, Construction Contracts, and IFRIC 15, 'Agreements for the Construction of Real Estate'. The new standard provides a single, comprehensive revenue recognition model. While early adoption was permitted for IFRS reporters, this standard is effective for the interim periods within years beginning on or after January 1, 2018. CAPREIT's assessment included a review of relevant contracts for the following key areas, which CAPREIT believes are within the scope of IFRS 15 including, but not limited to, property and asset management fees. CAPREIT has assessed the impact of IFRS 15 and has concluded that the pattern of revenue recognition remained unchanged upon adoption of the standard.

**IAS 40, Investment Property** This amendment clarifies when assets are transferred to, or from, investment properties. This amendment came into effect on January 1, 2018. CAPREIT has assessed the impact of this amendment and has concluded that there is no impact upon adoption of the standard.

### Future accounting changes

As at February 27, 2018, 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 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 beginning on or after 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. The Trust is in the process of evaluating the impact of IFRS 16 on its consolidated financial statements. The majority of the Trust's lease obligations relate to ground leases. Currently, the lease payments relating to these ground leases are treated as expenses. The new standard will require recognition of a right-of-use asset with a corresponding lease obligation liability and shall be recorded along with the corresponding financing costs. The Trust has elected to apply the modified retrospective approach.

**IFRIC 23, Uncertainty over Income Tax Treatments** This new IFRS interpretation clarifies how the recognition and measurement requirements of IAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments and is effective for years beginning on or after January 1, 2019. CAPREIT has assessed the impact of IFRIC 23 and does not expect a significant impact to its consolidated financial statements.

### 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, 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 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 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 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' investment manager and the control exerted over IRES by its independent Board of Directors and CEO. Management will reassess this conclusion should its ownership interest or terms of the asset management agreement change.

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

## Controls and Procedures

### Disclosure Controls and Procedures

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

As at December 31, 2018, CAPREIT's executive officers, 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, 2018.

Management has designed an adequate and appropriate control framework for the fair value assessment processes to ensure values reported accurately reflect market conditions. For the fair value assessment process of investment properties and Unit-based compensation, these controls include a comprehensive review of the assumptions and estimates including those used by the independent appraisers or third parties on an annual basis, as well as multiple levels of reviews of such key assumptions and data within CAPREIT by Management, with final approval by the Board of Trustees, on an interim and annual basis.

### 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, 2018, CAPREIT's executive officers, 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, 2018.

CAPREIT did not make any changes to the design of internal controls over financial reporting in 2018 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.

## 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 could have a significant impact on CAPREIT if they were to occur 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, 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 for which such property could be sold in an open, competitive market as of a specified date. Such valuation takes into account all requisite conditions to a fair sale, such as the buyer and seller each acting prudently and knowledgeably, and the assumption that such 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 by the appraiser in its valuation, which includes a comparison of such assumptions to the corresponding benchmarks derived from Management's own observations of market transactions and a secondary appraiser. Downturns in the real estate market could negatively affect CAPREIT's operating revenues and cash flows; such a downturn could also significantly impact the fair values of CAPREIT's investment properties, as well as certain of its 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 a 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.

**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. Fluctuations in the capitalization rates of CAPREIT's properties could impact these fair values and CAPREIT's debt covenant compliance.

**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 48.2% of the overall portfolio (by number of suites and sites) in Ontario (30.4% in the GTA), making CAPREIT's performance particularly sensitive to economic conditions in and changes affecting Ontario and, in particular, the GTA.

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

**Energy Costs** As a significant part of CAPREIT's operating expenses is 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 its Units. The impact of such fluctuations could be exacerbated if such energy costs cannot be hedged.

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 resulting from the increase in the prices of these energy commodities; however, if the prices of 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 for such energy supplies in accordance with these agreements.

**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 result in regulatory enforcement proceedings and/or private claims against the owner.

**Catastrophic Events** CAPREIT's properties may be impacted by acts of nature, such as climate-related events. Depending on their severity, these events could cause threats to the safety of CAPREIT's tenants and significant damage to CAPREIT's properties and interruptions to CAPREIT's normal operations. CAPREIT may be required to incur significant unanticipated costs to manage the impact of these events. Management of the impact of a catastrophic event would also result in time and effort being diverted from CAPREIT's day-to-day operations. There is also a possibility that CAPREIT's ability to generate revenues from impacted properties could be significantly impaired. The increased costs, time, effort and potential revenue loss could be more significant if multiple properties or operating regions are impacted by catastrophic events within a relatively short time frame.

**Insurance** It is CAPREIT's policy to maintain a comprehensive insurance program to cover general liabilities, such as fire, flood, injury or death, rental loss and environmental insurance, with limits and deductibles as deemed appropriate based on the nature of the risk, historical experience and industry standards. However, there are some types of losses, including those of a catastrophic nature, that are generally uninsurable or not economically feasible to insure, or which may be subject to insurance coverage limitations, such as large deductibles, co-payments or limitations in policy language. There can be no assurance that insurance coverage will continue to be available on commercially acceptable terms.

**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 expectations 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 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 matures on June 30, 2020. 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 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.

### 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 tax under Part XII.2 of the Income Tax Act ("Tax Act"). The payment of Part XII.2 tax by CAPREIT may have adverse income tax consequences for certain of CAPREIT's Unitholders, including non-resident persons and trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit-

sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans ("designated savings plans"), which acquired an interest in CAPREIT directly or indirectly from another CAPREIT Unitholder. If CAPREIT ceases to qualify as a "mutual fund trust" or "registered investment" under the Tax Act and CAPREIT Units cease to be listed on a designated stock exchange, CAPREIT Units will cease to be qualified investments for trusts governed by designated savings plans. CAPREIT will endeavour to ensure CAPREIT Units continue to be qualified investments for trusts governed by the designated savings plans; however, there can be no assurance that this will be so. The Tax Act imposes penalties for the acquisition or holding of non-qualified investments by such trusts. Unitholders should consult their own tax advisors in this regard, including as to whether CAPREIT Units are "prohibited investments" for registered retirement savings plans, registered retirement income funds or tax-free savings accounts.

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 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.

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.

**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 imposes 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 the change 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 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 various regulatory matters involving tenant evictions, work orders, health and safety issues or fire and maintenance standards, etc.

**Controls over Financial Reporting** CAPREIT maintains information systems, procedures and controls over financial reporting. As a result of the inherent limitations in all control systems, there cannot be 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. If CAPREIT or its advisors fail to monitor and become aware of changes in applicable laws and regulations or if CAPREIT fails to comply with these changes in an appropriate and timely manner, it could result in fines and penalties, litigation or other significant costs, as well as significant time and effort to remediate any violations. Additionally, such violations could result in reputational damage to CAPREIT both from an operating and an investment perspective.

#### **Related to CAPREIT's Securities, Organization and Structure**

**Nature of CAPREIT Trust Units** Trust Units are not traditional equity investments and Trust 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 Trust Units are not "deposits" within the meaning of the Canada Deposit Insurance Corporation Act and are not insured under the provisions of that Act or any other legislation. Furthermore, CAPREIT is not a trust company and, accordingly, it is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company. In addition, although CAPREIT is intended to qualify as a "mutual fund trust" as defined by the Tax Act, CAPREIT is not a "mutual fund" as defined by applicable securities legislation.

Securities like the Trust Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Trust 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 Trust Units do not represent debt instruments and there is no principal amount owing to Trust Unitholders under the Trust Units. Each Trust Unit represents an equal, undivided, beneficial interest in CAPREIT as compared to all other Trust Units of the same class.

**Unitholder Liability** Recourse for any liability of CAPREIT is limited to the assets of CAPREIT. The DOT provides that no Unitholder, 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, 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 liquidity of the Units.

The DOT imposes various restrictions on Unitholders. Non-residents and non-Canadian partnerships are prohibited from beneficially and collectively 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 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 such proceeds may be used to invest in new properties. Depending on the duration of such timing difference, this may be dilutive.

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

Global economic uncertainty is increasing due to events such as Brexit as well as increasingly protectionist trade policies around the world, which could potentially impact Canadian trade and lead to impact on the Canadian economy at large. This could have an impact on employment in the markets in which CAPREIT operates and in turn have an adverse effect on CAPREIT.

**Competition for Residents** 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.

**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.

**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 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.

**Cyber Security Risk** CAPREIT may be vulnerable to cyber security incidents given its reliance on information technology systems. Third-party vendors, such as cloud host providers and software and application providers and consultants, may also expose CAPREIT to cyber security incidents.

Sources of cyber security incidents include employees visiting websites that contain malicious code, phishing attacks, social engineering, ransomware attacks, software vulnerabilities that provide hackers access to computers and networks, and lost or stolen computers, laptops, iPads, handheld devices and removable data storage media.

A cyber security incident can lead to: (a) unauthorized access to confidential information, including proprietary and personal information, particularly that belonging to CAPREIT and its tenants, vendors and employees, (b) personal information being compromised leading to identity theft, fraudulent activities and direct losses to stakeholders, including tenants and employees, (c) destruction or corruption of data (in particular, tenant data), (d) lost revenues, (e) disruption to operations, including delays in processing rental applications and rent payments and the time and attention required by management to investigate and respond to a cyber security incident, (f) remediation costs, including to restore or recover lost data, (g) litigation, fines and liabilities, including third-party liabilities, for failure to comply with applicable privacy and data protection laws or contractual obligations, (h) regulatory investigations, (i) reputational damage to CAPREIT and (j) increased insurance premiums.

CAPREIT has implemented a number of preventative measures and mitigation techniques to lessen the risks of cyber security incidents. Employees receive annual awareness training on data privacy and protection. Access to proprietary and personal information is controlled through physical security (e.g., locked offices and storage locations, alarm monitoring, and security cameras) and IT security mechanisms (e.g., password protection, firewalls, antivirus and encryption). CAPREIT also has in place a disaster recovery plan and has engaged a third party to assist in monitoring and detecting cyber security threats. Additionally, CAPREIT maintains cyber security insurance coverage and continues to monitor and assess the risks surrounding collection, usage, storage, protection, and retention/destruction practices of proprietary and personal information. These measures, however, do not guarantee that CAPREIT's financial results will not be negatively impacted by such an incident.

The board of trustees and management as a whole are responsible for CAPREIT's cyber security strategy. All cyber security incidents are to be reported to CAPREIT's Privacy Officer and IT security team in order to determine whether CAPREIT has any notification or reporting obligations to third parties or regulatory agencies.

**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 Dutch properties 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. Additionally, these foreign markets may differ from Canadian markets with respect to laws and regulations, economic conditions, and market norms. Operating success in these foreign markets will depend on CAPREIT's ability to recognize these differences and adapt its business model accordingly. CAPREIT's growth in foreign jurisdictions also requires management oversight and resources that may have been otherwise focused on its Canadian properties. Additionally, it is possible that CAPREIT's subsidiaries and involvement in foreign operations 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 its investment in IRES is the euro.

## Related Party Transactions

### IRES Transactions

As at December 31, 2018, CAPREIT has an 18.0% share ownership in IRES and has determined that it has significant influence over IRES. In May and November 2018, the former CEO of CAPREIT, David Ehrlich, exercised 11,793,333 and 716,667 IRES options, respectively, and sold the shares issued to him by IRES to CAPREIT. The exercising of these shares by the former CEO resulted in CAPREIT's share ownership in IRES increasing to 18.0% from 15.7%, prior to May 2018. The share ownership is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. For a more detailed description, see note 7 to the accompanying audited consolidated annual financial statements.

Included in other income is \$7.3 million and \$6.2 million, respectively, for the years ended December 31, 2018 and 2017 from asset management and property management fees. Expenses related to the asset and property management services are included in trust expenses.

For further details, see note 23 in CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2018 contained in CAPREIT's 2018 Annual Report.

### Transactions with Key Management Personnel

CAPREIT had the following transactions with key management personnel, the former President and Chief Executive Officer, and trustees. In 2017, the loans outstanding to key management personnel, the former President and Chief Executive Officer, and trustees for indebtedness relating to the SELTIP and LTIP as at December 31, 2017 was \$7.0 million. This amount is 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 provide for payments of up to 36 months of benefits (based on base salary, bonus and other benefits), depending on cause.

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

<i>(\$ Thousands)</i>		
For the Year Ended December 31,	2018	2017
Short-term employee benefits	\$ 3,337	\$ 3,432
Unit-based compensation – grant date amortization	2,683	3,255
	6,020	6,687
Unit-based compensation – fair value remeasurement	3,739	10,255
Other benefits	2,983	1,604
<b>Total</b>	<b>\$ 12,742</b>	<b>\$ 18,546</b>

## 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 for certain non-recourse debt 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.

## Subsequent Events

On January 4, 2019, CAPREIT announced that it has closed on its previously announced issue and sale of 5,500,000 units for \$45.50 per unit for aggregate gross proceeds of \$250.3 million to a syndicate of underwriters led by RBC Capital Markets on a bought-deal basis. On January 11, 2019, CAPREIT announced that it has closed the issuance of an additional 825,000 units for \$45.50 per unit for aggregate gross proceeds of \$37.5 million (the "Over-Allotment Offering"), pursuant to the exercise of the over-allotment option. CAPREIT intends to use the net proceeds to partially repay the Acquisition and Operating Facility and the remainder, if any, for future acquisitions, capital expenditures and for general trust purposes.

On February 26, 2019, CAPREIT announced that it has completed the acquisition of a portfolio of 21 properties in six urban centres in the Netherlands, totalling 511 residential suites, for a purchase price of €98.0 million. The acquisition was funded by CAPREIT's Acquisition and Operating Facility.

On February 26, 2019, CAPREIT announced that its Board of Trustees had approved a 3.8% increase in monthly cash distributions to \$0.1150 per Unit, or \$1.38 per Unit on an annualized basis. The increase is effective with the March 2019 distribution payable on April 15, 2019 to Unitholders of record as at March 29, 2019.

## Future Outlook

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 Net AMR while stabilizing average occupancies in the range of 97% to 99% 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 geographic markets.

On April 20, 2017, the Ontario government announced it would be introducing a bill in the legislature, which was passed, and changed the Residential Tenancies Act, 2006. The changes include extending rent control to units built after 1991, which were previously exempt. The change means annual rent increases for all tenants will be in accordance with the AGI established by the Landlord and Tenant Board ("the Board") with the exception of any rents above the approved AGI approved by the Board (as described below). Additionally, as a resident-focused landlord, CAPREIT has consistently adhered to the government mandated rent guideline increase in the Province of Ontario for all of its Ontario properties, including those constructed after 1991.

Another proposed change is new incentives to developers for the construction of affordable rental housing. The key incentive will be an up-front provincial rebate of development cost charges. The government intends to free up more provincial land for building affordable housing, both for sale and for rental.

Effective May 15, 2017, CMHC introduced enhancements to its multi-unit mortgage loan insurance, which are:

- Extending its affordable housing flexibilities to existing rental properties, including social housing projects with up to five years remaining in the operating agreement, to support the preservation of existing affordable housing. Previously, affordable housing flexibilities were only available for new rental properties.
- Expanding its definition of affordability to recognize federal, provincial, territorial or municipal housing objectives. The new affordability criteria also aligns with other CMHC initiatives and is intended to incent housing developers into the affordable rental housing market.
- Introducing greater underwriting flexibilities to better support key multi-unit market segments that address the rental housing needs of Canadians, including standard apartments, student housing, single room occupancy ("SRO") projects, retirement homes and supportive housing projects. Greater underwriting flexibility is provided surrounding non-residential space, furnished suites, bulk leases, amortization periods, off-campus student housing, second mortgages, non-recourse lending and personal guarantee requirements.
- Introducing a revised premium schedule aligned with CMHC's continued participation in market segments that address the rental needs of Canadians and is reflective of the risks associated with those segments. The revised premium schedule also supports the expansion and preservation of affordable housing units. Premium surcharges will no longer be collected for construction advances, release of rental achievement holdback, student housing or retirement homes.

CAPREIT is currently assessing the above proposed changes to utilize it for alternative forms of financing for development opportunities.

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 Net AMR in accordance with local conditions in each of its markets. Since its inception in May 1997, CAPREIT's hands-on management style focuses on resident communications and capital investment programs aimed at increasing the long-term value of its properties.

A significant component of CAPREIT's ability to manage annual rental increases is determined by the AGI established by certain provincial governments, currently Ontario and British Columbia, under rent control legislation. In the Provinces of Ontario and British Columbia, the guideline increase for 2019 was set at 1.8% and 2.5%, respectively. In 2018, the rent guideline increase was 1.8% in Ontario and 4.0% in British Columbia. 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 Board to raise rents by more than the approved 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 Net AMR, 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 currently indeterminable due to the inherent uncertainties associated with the adjudication process and the impact of tenant turnover at the affected properties.

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. In addition, it evaluates all energy-purchasing programs to reduce or stabilize overall net energy costs.

Third, Management directs its efforts on its building infrastructure improvement programs to upgrade properties across the portfolio and to reposition it 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. Management has also recently accessed the viability of development and validated the potential to build over 10,000 net new apartments by way of infill on vacant land to be realized over the next 10 years.

Fifth, CAPREIT continues to manage interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce borrowing costs on its credit facilities, while appropriately staggering the maturity dates within its mortgage portfolio to ensure it is not exposed to 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.

SECTION VII  
**SUPPLEMENTAL INFORMATION**

## Property Portfolio

### Types of Property Interests

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

**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 32 MHCs, whereby CAPREIT owns the sites, which it rents to residents.

### PORTFOLIO BY TYPE OF PROPERTY INTEREST

As at December 31,	2018	%	2017	%
Fee Simple Interests – Apartments and Townhomes	40,069	77.8	39,302	77.6
Operating Leasehold Interests	3,815	7.4	3,815	7.5
Land Leasehold Interests	1,051	2.0	1,051	2.1
<b>Total Residential Suites</b>	<b>44,935</b>	<b>87.2</b>	<b>44,168</b>	<b>87.2</b>
Fee Simple Interests – MHC Land Lease Sites	6,593	12.8	6,456	12.8
<b>Total Suites and Sites</b>	<b>51,528</b>	<b>100.0</b>	<b>50,624</b>	<b>100.0</b>



### Portfolio Diversification

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

### PORTFOLIO BY GEOGRAPHY

As at December 31,	2018	%	2017	%
<b>Residential Suites</b>				
<b>ONTARIO</b>				
Greater Toronto Area	15,658	30.4	15,656	30.9
Ottawa	2,377	4.6	2,377	4.7
London / Kitchener / Waterloo	2,407	4.7	2,407	4.8
Other Ontario	1,702	3.3	1,700	3.4
	<b>22,144</b>	<b>43.0</b>	<b>22,140</b>	<b>43.8</b>
<b>QUÉBEC</b>				
Greater Montréal Region	7,482	14.5	7,895	15.5
Québec City	2,517	4.9	2,734	5.4
	<b>9,999</b>	<b>19.4</b>	<b>10,629</b>	<b>20.9</b>
<b>BRITISH COLUMBIA</b>				
Greater Vancouver Region	3,217	6.2	2,981	5.9
Victoria	1,478	2.9	1,478	2.9
	<b>4,695</b>	<b>9.1</b>	<b>4,459</b>	<b>8.8</b>
<b>ALBERTA</b>				
Edmonton	435	0.8	436	0.9
Calgary	1,884	3.7	1,884	3.6
	<b>2,319</b>	<b>4.5</b>	<b>2,320</b>	<b>4.5</b>
<b>NOVA SCOTIA</b>				
Halifax	1,659	3.2	1,659	3.3
<b>SASKATCHEWAN</b>				
Saskatoon	–	–	102	0.2
Regina	234	0.5	234	0.5
	<b>234</b>	<b>0.5</b>	<b>336</b>	<b>0.7</b>
<b>PRINCE EDWARD ISLAND</b>				
Charlottetown	537	1.0	537	1.1
<b>EUROPE</b>				
The Netherlands	3,348	6.5	2,088	4.1
<b>Total Residential Suites</b>	<b>44,935</b>	<b>87.2</b>	<b>44,168</b>	<b>87.2</b>
<b>MHC Land Lease Sites</b>				
Ontario	2,703	5.3	2,703	5.3
British Columbia	272	0.5	272	0.5
Alberta	418	0.8	417	0.8
Saskatchewan	380	0.7	246	0.6
Prince Edward Island	504	1.0	504	1.0
New Brunswick	2,316	4.5	2,314	4.6
<b>Total MHC Land Lease Sites</b>	<b>6,593</b>	<b>12.8</b>	<b>6,456</b>	<b>12.8</b>
<b>Total Suites and Sites</b>	<b>51,528</b>	<b>100.0</b>	<b>50,624</b>	<b>100.0</b>

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

### 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 2033 and an air rights lease 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 10 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, 2018 and 2017

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

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

### Portfolio of Land Leasehold Interests

In the absence of any new arrangements negotiated between CAPREIT and the landowners of the four parcels on which CAPREIT has land leasehold interests, CAPREIT's interests in one property matures in 2045, 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,

Year of Lease Maturity	Suites	%	Annual Ground Rent	
			2018	2017
2045	473	45.0	\$ 1,174	\$ 1,139
2068	306	29.1	430	467
2070	272	25.9	1,224	1,208
Total Land Leasehold Interests Portfolio	1,051	100.0	\$ 2,828	\$ 2,814

## 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, 2018, our President and Chief Operating Officer (in his capacity as 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 26, 2019



**Mark Kenney**  
President and  
Chief Operating Officer



**Scott Cryer**  
Chief Financial Officer

## Independent auditor's report

To the Unitholders of Canadian Apartment Properties  
Real Estate Investment Trust

### Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Canadian Apartment Properties Real Estate Investment Trust and its subsidiaries (together, the Trust) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

### What we have audited

The Trust's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

### Independence

We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

### Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Trust or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Trust's financial reporting process.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Lee-Anne Kovacs.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants,  
Licensed Public Accountants

Toronto, Ontario  
February 26, 2019

## Consolidated Balance Sheets

(CA\$ Thousands)

As at December 31,

	Note	2018	2017
<b>Non-Current Assets</b>			
Investment properties	6	\$ 10,473,544	\$ 8,886,556
Other non-current assets	7	307,375	244,217
		<b>10,780,919</b>	<b>9,130,773</b>
<b>Current Assets</b>			
Other current assets	7	35,631	32,611
Cash and cash equivalents		25,713	23,786
		<b>61,344</b>	<b>56,397</b>
		<b>\$ 10,842,263</b>	<b>\$ 9,187,170</b>
<b>Non-Current Liabilities</b>			
Mortgages payable	9	\$ 3,324,381	\$ 3,348,213
Bank indebtedness	10	567,365	446,895
Unit-based compensation financial liabilities	11, 12	13,336	9,898
Other non-current liabilities	8	926	20,645
Deferred income tax liability	18	26,428	7,263
		<b>3,932,436</b>	<b>3,832,914</b>
<b>Current Liabilities</b>			
Mortgages payable	9	403,952	233,288
Unit-based compensation financial liabilities	11, 12	19,469	54,662
Accounts payable and accrued liabilities		108,427	81,411
Other current liabilities	8	9,875	9,547
Security deposits		35,261	32,352
Exchangeable Units	11	-	4,876
Distributions payable		16,143	14,714
		<b>593,127</b>	<b>430,850</b>
		<b>\$ 4,525,563</b>	<b>\$ 4,263,764</b>
<b>Unitholders' Equity</b>			
Unit capital		\$ 2,855,701	\$ 2,523,419
Accumulated other comprehensive income ("AOCL")	19	28,846	6,515
Retained earnings		3,432,153	2,393,472
		<b>\$ 6,316,700</b>	<b>\$ 4,923,406</b>
		<b>\$ 10,842,263</b>	<b>\$ 9,187,170</b>

See accompanying notes to consolidated financial statements.

Signed on behalf of the Trustees



**Harold Burke**  
Trustee



**Michael Stein**  
Trustee

## Consolidated Statements of Income and Comprehensive Income

(CA\$ Thousands)

For the Year Ended December 31,

	Note	2018	2017
<b>Operating Revenues</b>			
Revenue from investment properties	2, 23	\$ 688,585	\$ 638,842
<b>Operating Expenses</b>			
Realty taxes		(68,488)	(67,078)
Property operating costs		(181,041)	(178,506)
		(249,529)	(245,584)
<b>Net Rental Income</b>			
		439,056	393,258
Trust expenses		(39,515)	(32,569)
Unit-based compensation expenses	12	(34,672)	(26,074)
Fair value adjustments of investment properties	6	990,529	626,953
Realized loss on disposition of investment properties	5	(2,594)	(488)
Amortization of property, plant and equipment		(4,976)	(4,434)
Fair value adjustments of exchangeable units	11	(840)	(852)
Fair value adjustments of investments	2	3,740	-
Gain (loss) on derivative financial instruments	16	13,141	(11,866)
Interest and other financing costs	20	(135,211)	(126,144)
Foreign currency translation		(34,489)	3,515
Other income	23	42,310	22,921
<b>Net Income Before Income Taxes</b>			
		1,236,479	844,220
Current and deferred income tax expense	18	(18,808)	(7,409)
<b>Net Income</b>			
		\$ 1,217,671	\$ 836,811
<b>Other Comprehensive Income,</b>			
<b>including items that may be reclassified subsequently to Net Income</b>			
Amortization of losses from AOCL to interest and other financing costs	19	\$ 2,659	\$ 3,024
Change in fair value of derivative financial instruments	16, 19	-	630
Change in fair value of investments	2, 19	-	4,957
Foreign currency translation		28,530	10,490
<b>Other Comprehensive (Loss) Income</b>			
		\$ 31,189	\$ 19,101
<b>Comprehensive Income</b>			
		\$ 1,248,860	\$ 855,912

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Unitholders' Equity

(CA\$ Thousands)

	Note	Unit Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>Unitholders' Equity, January 1, 2018</b>		<b>\$ 2,523,419</b>	<b>\$ 2,393,472</b>	<b>\$ 6,515</b>	<b>\$ 4,923,406</b>
Change in Accounting Standard	2	-	8,858	(8,858)	-
<b>Restated Unitholders' Equity, January 1, 2018</b>		<b>2,523,419</b>	<b>2,402,330</b>	<b>(2,343)</b>	<b>4,923,406</b>
<b>Unit Capital</b>					
New Units Issued	13	170,534	-	-	170,534
Distribution Reinvestment Plan	13	51,490	-	-	51,490
Unit Option Plan	12,13	48,772	-	-	48,772
Deferred Unit Plan	12,13	273	-	-	273
RUR Plan	12,13	2,146	-	-	2,146
Long-Term Incentive Plan	12,13	25,097	-	-	25,097
Senior Executive Long-Term Incentive Plan	12,13	32,185	-	-	32,185
Employee Unit Purchase Plan	12	1,785	-	-	1,785
		332,282	-	-	332,282
<b>Retained Earnings and Other Comprehensive Income</b>					
Net income		-	1,217,671	-	1,217,671
Other comprehensive income		-	-	31,189	31,189
		-	1,217,671	31,189	1,248,860
<b>Distributions on Trust Units</b>					
Distributions declared and paid	14	-	(171,705)	-	(171,705)
Distributions payable	14	-	(16,143)	-	(16,143)
		-	(187,848)	-	(187,848)
<b>Unitholders' Equity, December 31, 2018</b>		<b>\$ 2,855,701</b>	<b>\$ 3,432,153</b>	<b>\$ 28,846</b>	<b>\$ 6,316,700</b>

	Note	Unit Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>Unitholders' Equity, January 1, 2017</b>		<b>\$ 2,441,002</b>	<b>\$ 1,729,733</b>	<b>\$ (12,586)</b>	<b>\$ 4,158,149</b>
<b>Unit Capital</b>					
New Units Issued	13	1,037	-	-	1,037
Distribution Reinvestment Plan	13	51,732	-	-	51,732
Unit Option Plan	12,13	7,599	-	-	7,599
Deferred Unit Plan	12,13	2,051	-	-	2,051
RUR Plan	12,13	13,010	-	-	13,010
Long-Term Incentive Plan	12,13	5,401	-	-	5,401
Employee Unit Purchase Plan	12	1,587	-	-	1,587
		82,417	-	-	82,417
<b>Retained Earnings and Other Comprehensive Income</b>					
Net income		-	836,811	-	836,811
Other comprehensive income		-	-	19,101	19,101
		-	836,811	19,101	855,912
<b>Distributions on Trust Units</b>					
Distributions declared and paid	14	-	(158,358)	-	(158,358)
Distributions payable	14	-	(14,714)	-	(14,714)
		-	(173,072)	-	(173,072)
<b>Unitholders' Equity, December 31, 2017</b>		<b>\$ 2,523,419</b>	<b>\$ 2,393,472</b>	<b>\$ 6,515</b>	<b>\$ 4,923,406</b>

See accompanying notes to consolidated financial statements.



## Consolidated Statements of Cash Flows

(CA\$ Thousands)

For the Year Ended December 31,

	Note	2018	2017 <sup>(1)</sup>
<b>CASH PROVIDED BY (USED IN):</b>			
<b>Operating Activities</b>			
Net income		\$ 1,217,671	\$ 836,811
Items related to operating activities not affecting cash:			
Fair value adjustments – investment properties		(990,529)	(626,953)
Fair value adjustments – exchangeable units		840	852
Fair value adjustments – investments	2	(3,740)	–
Loss on disposition of investment properties	5	2,594	488
(Gain) Loss on derivative financial instruments	16	(13,141)	11,866
Amortization	7, 19, 20	14,100	13,146
Unit-based compensation expenses		34,672	26,074
Straight-line rent adjustment		(87)	(231)
Deferred income tax expense		18,794	7,263
Net profit from equity-accounted investments		(32,634)	(15,344)
Foreign currency translation		34,489	(3,515)
		<b>283,029</b>	<b>250,457</b>
Net income items related to financing and investing activities	22	<b>116,650</b>	<b>107,562</b>
Changes in non-cash operating assets and liabilities	22	<b>31,498</b>	<b>922</b>
<b>Cash Provided by Operating Activities</b>		<b>431,177</b>	<b>358,941</b>
<b>Investing Activities</b>			
Acquisition of investment properties	22	(482,152)	(471,330)
Capital investments	22	(203,784)	(163,728)
Acquisition of investments	24	(25,443)	–
Disposition of investment properties	22	81,872	16,734
Change in restricted cash		(1,045)	(121)
Investment income received		7,442	8,478
<b>Cash Used in Investing Activities</b>		<b>(623,110)</b>	<b>(609,967)</b>
<b>Financing Activities</b>			
Mortgage financings		391,234	464,516
Mortgage principal repayments		(116,877)	(119,458)
Mortgages repaid on maturity		(103,734)	(266,575)
Financing costs		(2,412)	(2,928)
CMHC premiums on mortgages payable		(3,469)	(4,902)
Interest paid	22	(114,271)	(111,138)
Bank indebtedness		85,981	427,925
Settlement of redemption liability	8	(16,611)	–
Proceeds on issuance of Units	22	208,948	8,121
Net cash distributions to Unitholders	22	(134,929)	(120,749)
<b>Cash (Used) Provided by Financing Activities</b>		<b>193,860</b>	<b>274,812</b>
<b>Changes in Cash and Cash Equivalents During the Year</b>		<b>(273)</b>	<b>23,786</b>
<b>Effect of exchange rate changes on cash</b>		<b>2,200</b>	<b>–</b>
<b>Cash and Cash Equivalents, Beginning of the Year</b>		<b>23,786</b>	<b>–</b>
<b>Cash and Cash Equivalents, End of the Year</b>		<b>\$ 25,713</b>	<b>\$ 23,786</b>

(1) 2017 comparative balances have been restated to conform with current year presentation.

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

December 31, 2018 (C\$ Thousands, except Unit and per Unit amounts)

### 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 income-producing real estate located in Canada, where it is also domiciled.

CAPREIT converted from a closed-end real estate investment trust to an open-ended mutual fund trust on January 8, 2008, and is governed under the laws of the Province of Ontario by a Declaration of Trust ("DOT") dated February 3, 1997, as most recently amended and restated on May 24, 2017. 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, 2018, CAPREIT holds 78.0 million (December 31, 2017 – 65.5 million) ordinary shares, representing 18.0% (December 31, 2017 – 15.7%) of the issued share capital of IRES. Refer to note 24 for further details.

In addition, CAPREIT holds its Netherlands properties through Netherlands partnerships.

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 as issued by the International Accounting Standards Board ("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 26, 2019.

#### 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 and where the non-controlling interest portion contains an option, the non-controlling interest is classified as a financial liability.

- 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 which 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 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 Standard ("IAS") 40, Investment Property ("IAS 40"), and has chosen the fair value model to account for investment properties in its 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, often 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 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 annually by qualified external appraisers. 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 was acquired.

When an acquisition does not represent a business as defined under IFRS 3, CAPREIT classifies these properties or 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**

**Determination of Fair Value**

For the year ended December 31, 2018

**Financial assets and financial liabilities** Under IFRS 9, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based 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”), amortized cost, or fair value through other comprehensive income (“FVOCI”). Amortized cost is determined using the effective interest method.

**Classification of financial instruments** The following summarizes the type and measurement CAPREIT has applied to each of its significant categories of financial instruments:

Type	Measurement Base
<b>Financial assets</b>	
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Other receivables	Amortized cost
Investments	Fair value through profit or loss
<b>Financial liabilities</b>	
Mortgages payable	Amortized cost
Bank indebtedness	Amortized cost
Accounts payable and accrued liabilities and other liabilities	Amortized cost
Security deposits	Amortized cost
Exchangeable Units	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.

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

**Investments** 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.

**Financial liabilities** Such financial liabilities are recorded initially at fair value and subsequently at amortized cost and include all liabilities other than derivatives or liabilities, which are accounted for at fair value.

**Transaction costs** Transaction costs related to financial assets classified as FVTPL are expensed as incurred. Transaction costs related to loans and receivables and other liabilities, measured at amortized cost, are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest rate method.

**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 below.

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

For the year ended December 31, 2017

**Financial assets and financial liabilities** Under IAS 39, 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
<b>Financial assets</b>		
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
<b>Financial liabilities</b>		
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 other receivables** Such receivables arise when CAPREIT provides services to a third party, such as a tenant, and are included in current assets, except for those with maturities more than 12 months after the consolidated balance sheet date, which are classified as non-current assets. Loans and other 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 income (loss) ("AOCL") are transferred to net income when the asset is removed from the consolidated balance sheets or an impairment loss on the asset is 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 of 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 below.

Derivatives not designated as a hedging relationship are measured at fair value with changes recognized directly through the consolidated statements of income and comprehensive income 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 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**

Prior to January 1, 2018 under IAS 39, 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 subsidiaries own and operate 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 or losses arising from the euro-denominated debt was 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. The hedge was discontinued in July 2017 when the euro-denominated debt was repaid.

**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. Bank indebtedness is recognized at amortized cost and the amortization of related financing costs is recognized within interest and other financing costs in the consolidated statements of income and comprehensive income over the contractual term of the debt.

**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 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). No Exchangeable Units were outstanding as of December 31, 2018.

**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 associated income taxes.

**o) Accumulated Other Comprehensive Income (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 changes in the fair value of cash flow hedges, and derivatives. The components of AOCL are disclosed in note 19.

**p) Revenue recognition**

**IFRS 15** For the year ended December 31, 2018, CAPREIT has adopted IFRS 15. The new revenue recognition standard recognizes revenue using a uniform, five-step model. The five steps are as follows:

1. Identify the contract(s) with the customer
2. Identify the performance obligations
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations
5. Recognize revenue as the performance obligations are satisfied

External asset and property management fees are recognized when services under the agreement are performed, and spread over the course of the year, as management services represent a series of services that are substantially the same and have the same pattern of transfer.

Common area maintenance recoveries are recognized over time, as they represent a series of services that are substantially the same and have the same pattern of transfer to commercial tenants.

For further details on the adoption of IFRS 15, see note 2(z).

IAS 18 and IAS 17 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 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 the recognition and measurement of compensation expense are summarized as follows:

Incentive Plan <sup>(1)</sup>	Type	Vesting Period	Type of Amortization	Distributions Applied to	Mark-to-Market until
LTIP	Issued Units	2 years <sup>(2)</sup>	Graded	Secured loan	Loan repaid
SELTIP	Issued Units	2 years <sup>(2)</sup>	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 <sup>(3)</sup>	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, with the exception of income earned by subsidiaries that reside in foreign jurisdictions, as discussed below. 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 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.

Deferred income tax is recognized, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the consolidated balance sheet date, and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.



**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 sale 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 at the date of the balance sheet;
- ii. Income and expenses for each statement of income and 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 recorded in other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the consolidated statements of income and comprehensive income.

**x) Non-controlling interest**

Non-controlling interest represents the interest of the minority shareholders in CAPREIT's foreign subsidiaries. The share of net assets, net earnings and other comprehensive income of subsidiaries attributable to non-controlling interest is reported as a financial liability as a result of a put option feature.

**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.

**z) Impact of accounting standards effective January 1, 2018 on CAPREIT's current year financial statements:****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 ("FVOCI") 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 other comprehensive income ("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 – FVOCI; (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. During 2017, CAPREIT performed an assessment of key areas within the scope of IFRS 9 which includes, but is not limited to, the classification and measurement of mortgages and loans receivable and fair value through profit or loss securities, as well as additional disclosures required by IFRS 7, "Financial Instruments – Disclosure", upon initial adoption of IFRS 9. CAPREIT has adopted the new standards on the required effective date of January 1, 2018 and has not restated comparative information. Quoted debt instruments previously held as available-for-sale financial assets with unrealized gains and losses recorded in OCI are instead measured at fair value through profit or loss, which will increase volatility due to unrealized gains and losses being recorded in profit or loss, with prior period adjustments reclassified to retained earnings.

**IFRS 9, Financial Instruments – Impact of adoption**

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

**Investments** Quoted debt instruments previously held as available-for-sale financial assets with unrealized gains and losses recorded in OCI will, instead, be measured at fair value through net income. CAPREIT has adopted the new standards on the required effective date of January 1, 2018 and will not restate comparative information. The adjustments arising from the new standard are not reflected in the balance sheet as at December 31, 2017, but are recognized in the opening balance sheet on January 1, 2018.

The cumulative unrealized gain of \$8,858 related to fair value through profit or loss investments, which was previously presented as accumulated OCI, has been reclassified to retained earnings upon adoption.

The total impact on the group's retained earnings as at January 1, 2018 is as follows:

	Impact on AOCL	Impact on Retained Earnings
<b>Opening balances</b>		
January 1, 2018	\$ 6,515	\$ 2,393,472
Reclassify investments from available-for-sale to fair value through profit or loss	(8,858)	8,858
<b>Adjustment from adoption of IFRS 9 on January 1, 2018</b>	<b>(8,858)</b>	<b>8,858</b>
<b>Opening adjusted balances</b>		
January 1, 2018	\$ (2,343)	\$ 2,402,330

**IFRS 9, Financial Instruments – Accounting policies**

**Hedging** There was no impact on hedge accounting treatment from adoption of the new accounting standard.

**Impairment of Financial Assets** Under IFRS 9, there is a new expected credit loss model, resulting in the requirement to revise impairment methodology for two classes of financial assets:

- Debt investments carried at amortized cost
- Debt instruments carried at FVOCI

Upon assessment, CAPREIT has determined there is no material impact regarding the above.

**IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)**

**IFRS 15, Revenue from Contracts with Customers – Impact of adoption** CAPREIT has adopted IFRS 15, Revenue from Contracts with Customers, from January 1, 2018 which has replaced many reporting standards commonly used in the real estate industry, including IAS 18 'Revenue', IAS 11, 'Construction Contracts', and IFRIC 15, 'Agreements for the Construction of Real Estate'. The new standard provides a single, comprehensive revenue recognition model. While early adoption was permitted for IFRS reporters, this standard is effective for the interim periods within years beginning on or after January 1, 2018. CAPREIT's assessment included a review of relevant contracts for the following key areas which CAPREIT believes are within the scope of IFRS 15 including, but not limited to, property and asset management fees. CAPREIT has assessed the impact of IFRS 15 and has concluded that the pattern of revenue recognition will remain unchanged upon adoption of the standard. CAPREIT has adopted the new standard on the required effective date on a modified retrospective basis without restatement of prior period comparatives. Refer to note 22 for further details.

**aa) Future accounting changes**

As at February 26, 2019, 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, 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 beginning on or after 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. The Trust is in the process of evaluating the impact of IFRS 16 on its consolidated financial statements. The majority of the Trust's lease obligations relate to ground leases. Currently, the lease payments relating to these ground leases are treated as expenses. The new standard will require recognition of a right-of-use asset with a corresponding lease obligation liability and shall be recorded along with the corresponding financing costs. The Trust has elected to apply the modified retrospective approach.

**IFRIC 23, Uncertainty Over Income Tax Treatments** This new IFRS interpretation clarifies how the recognition and measurement requirements of IAS 12, Income Taxes, are applied where there is uncertainty over income tax treatments, and is effective for years beginning on or after January 1, 2019.

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 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 amounts 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' 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, 2018, which have contributed to the operating results effective from their respective acquisition dates:

For the Year Ended December 31, 2018

(\$ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate <sup>(1)</sup>	Term to Maturity (Years) <sup>(2)</sup>
April 24, 2018	134	Swift Current, SK	\$ 5,744	\$ — <sup>(3)</sup>	\$ —	— <sup>(3)</sup>	— <sup>(3)</sup>
April 30, 2018	2	Burlington, ON	2,404	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
August 7, 2018	90	Langley, BC	34,310	21,088	—	2.56%	8.83
August 15, 2018	3	New Westminster, BC	2,536	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
September 27, 2018	269	Vancouver, BC	103,169	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
November 13, 2018	11	New Westminster, BC	3,373	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
December 3, 2018	881	The Netherlands	253,410	—	104,796 <sup>(4)</sup>	1.98% <sup>(4)</sup>	7.00 <sup>(4)</sup>
December 5, 2018	376	The Netherlands	93,396	—	46,456 <sup>(5)</sup>	1.98% <sup>(5)</sup>	7.00 <sup>(5)</sup>
December 5, 2018	25	New Westminster, BC	6,368	1,827	—	2.49%	6.17
<b>Total</b>	<b>1,791</b>		<b>\$ 504,710</b>	<b>\$ 22,915</b>	<b>151,252</b>		

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

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

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

(4) The acquisition, comprised of 881 suites, was financed by a new non-amortizing mortgage of €67,554 (\$104,796) with a term to maturity of 7.0 years with an interest rate of 1.98% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(5) The acquisition, comprised of 376 suites, was financed by a new non-amortizing mortgage of €29,946 (\$46,456) with a term to maturity of 7.0 years with an interest rate of 1.98% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

For the Year Ended December 31, 2017

(\$ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate <sup>(1)</sup>	Term to Maturity (Years) <sup>(2)</sup>
February 28, 2017	32	Victoria, BC	\$ 4,934	\$ — <sup>(3)</sup>	\$ 2,999	2.66%	9.42
May 3, 2017	256	Montréal, QC	24,059	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
June 1, 2017	44	Maple Ridge, BC	11,241	3,713	—	1.94%	3.33
July 12, 2017	849	The Netherlands	257,881	— <sup>(4)</sup>	147,360	2.04% <sup>(4)</sup>	7.00 <sup>(4)</sup>
August 8, 2017	54	The Netherlands	12,691	— <sup>(5)</sup>	7,474	1.95% <sup>(5)</sup>	7.00 <sup>(5)</sup>
August 18, 2017	77	The Netherlands	20,384	— <sup>(6)</sup>	11,856	1.87% <sup>(6)</sup>	7.00 <sup>(6)</sup>
November 17, 2017	16	Summerside, PEI	2,379	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
November 27, 2017	56	Summerside, PEI	7,814	— <sup>(3)</sup>	—	— <sup>(3)</sup>	— <sup>(3)</sup>
December 1, 2017	540	The Netherlands	129,127	— <sup>(7)</sup>	75,540	1.37%	5.00 <sup>(7)</sup>
<b>Total</b>	<b>1,924</b>		<b>\$ 470,510</b>	<b>\$ 3,713</b>	<b>\$ 245,229<sup>(8)</sup></b>		

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

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

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

(4) The acquisition, comprised of 849 suites, was financed by a new non-amortizing mortgage of €100,842 (\$147,360) with a term to maturity of 7.5 years with an interest rate of 2.04%, a contribution from a non-controlling interest of €600 (\$889) and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(5) The acquisition was financed by a new non-amortizing mortgage of €5,043 (\$7,474) with a term to maturity of 7.5 years with an interest rate of 1.95% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(6) The acquisition, comprised of 77 suites, was financed by a new non-amortizing mortgage of €7,951 (\$11,856) with a term to maturity of 7.5 years with an interest rate of 1.87% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(7) The acquisition, comprised of 540 suites, was financed by a new non-amortizing mortgage of €49,914 (\$75,540) with a term to maturity of 5.0 years with an interest rate of 1.37% and the balance in cash from CAPREIT's Acquisition and Operating Facility.

(8) Total acquisition financing in 2017 amounted to \$253,375, of which \$8,146 related to properties acquired in 2015 with a weighted average interest rate of 2.47% and a weighted average term to maturity of 9.9 years.

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, 2017. 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, 2018

Disposition Date	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
August 15, 2018	102	Saskatoon, SK	\$ 10,195	\$ 2,425	\$ 7,476
September 6, 2018	162	Vancouver, BC	70,000	49,900	19,948
October 11, 2018	419	Longueuil, QC	35,831	15,168	20,564
December 12, 2018	217	Québec City, QC	24,900	14,404	10,224
Total	900		\$ 140,926	\$ 81,897	\$ 58,212

### DISPOSITIONS COMPLETED DURING THE YEAR ENDED DECEMBER 31, 2017

Disposition Date	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
February 15, 2017	31	Saskatoon, SK	\$ 2,025	\$ 575	\$ 1,356
October 12, 2017	50	Vancouver, BC	19,800	16,160	3,595
Total	81		\$ 21,825	\$ 16,735	\$ 4,951

For the years ended December 31, 2018 and 2017, a loss of \$2,594 and \$488, respectively, was recognized in connection with property dispositions. The loss represents the difference between the net proceeds after transaction costs from the dispositions 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 annually by qualified external appraisers. The qualified external appraisers hold recognized relevant professional qualifications 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, market assumptions for rent increases, capitalization and discount rates provided by the external appraisers are used 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 to the fair value of an investment property. The capitalization rate magnifies the effect of a change in stabilized NOI, with a lower capitalization rate causing more change in stabilized NOI than would 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 weighted average cost of capital that is appropriate to the cash flow risk 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 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, 2018 and December 31, 2017, is presented below:

As at December 31, 2018

Type of Interest	Fair Value	WA NOI / Cash Flow <sup>(1)</sup>	Rate Type	Max	Min	Weighted Average
Fee Simple Interests –						
Apartments and Townhomes	\$ 9,078,457	3,236	Capitalization rate	7.19%	2.91%	4.10%
MHC Land Lease Sites	341,890	2,629	Capitalization rate	7.31%	5.11%	6.11%
Operating Leasehold Interests <sup>(2), (3), (4)</sup>	873,067	4,133	Discount rate <sup>(5)</sup>	6.00%	5.50%	5.57%
Land Leasehold Interests <sup>(2)</sup>	180,130	3,623	Discount rate	7.00%	6.50%	6.81%
<b>Total Investment Properties</b>	<b>\$ 10,473,544</b>					

As at December 31, 2017

Type of Interest	Fair Value	WA NOI / Cash Flow <sup>(1)</sup>	Rate Type	Max	Min	Weighted Average
Fee Simple Interests –						
Apartments and Townhomes	\$ 7,645,106	2,834	Capitalization rate	7.59%	2.95%	4.33%
MHC Land Lease Sites	316,710	2,608	Capitalization rate	7.50%	4.67%	6.27%
Operating Leasehold Interests <sup>(2), (3), (4)</sup>	738,990	3,622	Discount rate <sup>(5)</sup>	6.00%	5.50%	5.58%
Land Leasehold Interests <sup>(2)</sup>	185,750	4,142	Discount rate	6.50%	6.35%	6.43%
<b>Total Investment Properties</b>	<b>\$ 8,886,556</b>					

(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 \$325,817 as at December 31, 2018 (December 31, 2017 – \$230,520).

(4) The weighted average remaining lease term on Operating Leasehold Interests is 14.8 years as at December 31, 2018 (December 31, 2017 – 15.8 years).

(5) Represents the discount rate used to determine the fair value of Operating Leasehold Interests using the Discounted Cash Flow (“DCF”) method. A weighted average stabilized net operating income growth of 2.9% has been assumed as at December 31, 2018 and December 31, 2017.

**RECONCILIATION OF CARRYING AMOUNTS OF INVESTMENT PROPERTIES BY TYPE**

For the Year Ended December 31, 2018	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
<b>Balance at the beginning of the year</b>	\$ 7,961,816	\$ 738,990	\$ 185,750	\$ 8,886,556
Additions:				
Acquisitions	504,710	–	–	504,710
Property capital investments	176,404	16,909	4,797	198,110
Capitalized leasing costs <sup>(1)</sup>	216	50	780	1,046
Foreign currency translation	35,324	–	–	35,324
Dispositions	(140,137)	–	–	(140,137)
Realized loss on disposition of investment properties	(2,594)	–	–	(2,594)
Fair value adjustments	884,608	117,118	(11,197)	990,529
<b>Balance of Investment Properties at end of the year</b>	<b>\$ 9,420,347</b>	<b>\$ 873,067</b>	<b>\$ 180,130</b>	<b>\$ 10,473,544</b>

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

For the Year Ended December 31, 2017	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
<b>Balance at the beginning of the year</b>	\$ 6,829,587	\$ 627,740	\$ 184,690	\$ 7,642,017
Additions:				
Acquisitions	470,510	–	–	470,510
Property capital investments	139,607	11,279	3,997	154,883
Capitalized leasing costs <sup>(1)</sup>	(267)	419	868	1,020
Foreign currency translation	12,998	–	–	12,998
Dispositions	(21,337)	–	–	(21,337)
Realized loss on dispositions of investment properties	(488)	–	–	(488)
Fair value adjustments	531,206	99,552	(3,805)	626,953
<b>Balance of Investment Properties at end of the year</b>	<b>\$ 7,961,816</b>	<b>\$ 738,990</b>	<b>\$ 185,750</b>	<b>\$ 8,886,556</b>

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

## 7. Other Assets

As at	December 31, 2018	December 31, 2017
<b>Other Non-Current Assets</b>		
Property, plant and equipment <sup>(1)</sup>	\$ 46,151	\$ 40,462
Accumulated amortization of property, plant and equipment	(30,757)	(25,795)
Net property, plant and equipment	15,394	14,667
Prepaid CMHC premiums, net <sup>(2)</sup>	74,695	75,140
Deferred loan costs, net <sup>(3)</sup>	1,182	1,153
Fair value through profit or loss Investment <sup>(6)</sup>	34,655	30,915
Investment in associate <sup>(4)</sup>	181,449	122,342
<b>Total</b>	<b>\$ 307,375</b>	<b>\$ 244,217</b>
<b>Other Current Assets</b>		
Prepaid expenses	\$ 6,702	\$ 5,947
Other receivables	9,887	9,178
Restricted cash	8,141	7,096
Deposits	10,901	10,390
<b>Total</b>	<b>\$ 35,631</b>	<b>\$ 32,611</b>

(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 \$27,395 (December 31, 2017 – \$24,014).

(3) Represents deferred loan costs related to the revolving credit facilities net of accumulated amortization of \$10,091 (December 31, 2017 – \$9,263).

(4) 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' investment manager, and the control and influence exerted over IRES by its independent Board of Directors and CEO. As at December 31, 2018, CAPREIT concluded that it continues to exert significant influence over IRES as the greater share ownership increases the level of influence CAPREIT has over IRES. CAPREIT will continue to reassess this conclusion should its ownership interest or the terms of the asset management agreement change. Refer to note 24 for further details.

(5) Refer to note 2 for details on change of accounting treatment due to IFRS 9 adoption.

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

As at	December 31, 2018	December 31, 2017
<b>IREs Investment</b>		
Share ownership (%)	18.0%	15.7%
Number of IRES shares	78,010,000	65,500,000
IREs share price (€)	1.35	1.50

## 8. Other Liabilities

As at		December 31, 2018	December 31, 2017
	Note		
<b>Other Non-Current Liabilities</b>			
Derivative liability	16	\$ 926	\$ 14,071
Redemption liability <sup>(1)</sup>		–	6,574
<b>Total</b>		<b>\$ 926</b>	<b>\$ 20,645</b>
<b>Other Current Liabilities</b>			
Mortgage interest payable		\$ 9,875	\$ 9,547
<b>Total</b>		<b>\$ 9,875</b>	<b>\$ 9,547</b>

(1) The non-controlling interest related to the subsidiaries in the Netherlands has been classified as a financial liability as a result of a put option feature which allows the minority shareholder at its discretion to require CAPREIT to purchase its interest at a future date. As at December 31, 2018, the option has been exercised with settlement occurring in December 2018.



## 9. Mortgages Payable

As at December 31, 2018, mortgages payable bear interest at a weighted average effective rate of 3.05% (December 31, 2017 – 3.17%) and mature between 2018 and 2030. The effective interest rate as at December 31, 2018 includes 0.08% (December 31, 2017 – 0.10%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of \$32,494 included in AOCL. As at December 31, 2018, 100.0% of CAPREIT's mortgages payable are financed at fixed interest rates. Investment properties at fair value of

\$10,053,514 have been pledged as security as at December 31, 2018. CAPREIT has investment properties with a fair value of \$420,030 as at December 31, 2018 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. As at December 31, 2018, unamortized deferred financing costs of \$10,497 and fair value loss of \$1,530 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, 2018	Principal Amount	% of Total Principal
2019	\$ 403,952	10.8
2020	334,603	9.0
2021	449,207	12.0
2022	503,613 <sup>(1)</sup>	13.5
2023	443,333 <sup>(2)</sup>	11.9
Subsequent to 2023	1,602,592 <sup>(2)</sup>	42.8
	<b>3,737,300</b>	<b>100.0</b>
Deferred financing costs and fair value adjustments	(8,967)	
<b>Total Portfolio</b>	<b>\$ 3,728,333</b>	

As at	December 31, 2018	December 31, 2017
Represented by:		
Mortgages Payable – non-current <sup>(1)</sup>	\$ 3,324,381	\$ 3,348,213
Mortgages Payable – current	403,952	233,288
	<b>\$ 3,728,333</b>	<b>\$ 3,581,501</b>

(1) Included in mortgages payable as at December 31, 2018 is a \$65,000 non-amortizing credit facility on two of the MHC land lease sites.

(2) Included in mortgages payable are mortgages related to the Netherlands properties, as detailed below:

As at December 31, 2018	Principal Amount		Interest Rate (%)
	€ Thousands	\$ Thousands	
2022	€ 49,914	\$ 77,931	1.37
2023	40,660	63,482	2.05
Subsequent to 2023	211,336	329,867	2.00
<b>Total</b>	<b>€ 301,910</b>	<b>\$ 471,280</b>	<b>1.91</b>

## 10. Bank Indebtedness

Effective June 28, 2018, CAPREIT amended its credit agreement to amend the “conversion date” for when the revolving facility converts to a two-year non-revolving term facility to June 30, 2019.

Effective November 26, 2018, CAPREIT amended its credit agreement to, among other things: (i) increase its Acquisition and Operating Credit Facility by \$100,000 to \$640,000, (ii) amend the aggregate amount of Euro Libor borrowings at any time to a maximum of €200,000, and (iii) amend the tangible net worth requirement to \$2,100,000. CAPREIT also increased its Acquisition and Operating Facility by \$200,000 for three months via a Bridge Facility.

CAPREIT’s Credit Facilities include the \$840,000 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). The Acquisition and Operating Facility matures on June 30, 2021 and the margins are renegotiated annually. The interest rate on the Acquisition and Operating Facility is determined by interest rates on prime advances and bankers’ acceptances utilized during the year. The Credit Facilities are subject to compliance with the various provisions of the Credit Facilities in order to fund operations, acquisitions, capital improvements, letters of credit and other uses.

As at December 31, 2018	Acquisition and Operating Facility
Facility <sup>(3)</sup>	\$ 840,000
<i>Less:</i>	
USD LIBOR Borrowings <sup>(1)</sup>	(255,105)
Euro LIBOR Borrowings <sup>(2)</sup>	(312,260)
Bank Indebtedness	-
Letters of Credit	(6,310)
<b>Available Borrowing Capacity</b>	<b>\$ 266,325</b>
<b>Weighted Average Floating Interest Rate</b>	<b>1.45%</b>

As at December 31, 2017	Acquisition and Operating Facility
Facility	\$ 540,000
<i>Less:</i>	
USD LIBOR Borrowings	(234,592)
Euro LIBOR Borrowings	(70,744)
Bank Indebtedness	(141,559)
Letters of Credit	(6,313)
<b>Available Borrowing Capacity</b>	<b>\$ 86,792</b>
<b>Weighted Average Floating Interest Rate</b>	<b>1.82%</b>

- (1) As at December 31, 2018, CAPREIT has US LIBOR borrowings of USD \$187,000 that bear the US LIBOR rate plus a margin of 1.65% per annum.
- (2) CAPREIT has euro LIBOR borrowings of €200,000 included in bank indebtedness that bears interest at the euro LIBOR rate plus a margin of 1.65% per annum, subject to a floor of 0%.
- (3) Includes a \$200,000 Bridge Facility in place for three months, effective November 26, 2018.

## 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, 2018, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 9,500,000 Units (December 31, 2017 – 9,500,000). The maximum number of Units available for future issuance under all Unit incentive plans as at December 31, 2018 is 887,823 Units (December 31, 2017 – 1,077,977 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 remained outstanding under the original terms of such plans. As at December 31, 2018, no further awards remained outstanding under the LTIP and SELTIP.

The Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans and Exchangeable Units as at December 31, 2018 and 2017 are as follows:

Year Ended December 31, 2018 (Number of Units)	UOP	DUP	RUR	SELTIP/ LTIP <sup>(1)</sup>	Exch. Units <sup>(2)</sup>	Total
Units, Unit Rights and Unit Options outstanding as at January 1, 2018	1,263,962	260,159	521,980	1,025,398	130,655	3,202,154
Issued, cancelled or granted during the year:						
Issued or granted	–	23,903	111,146	–	–	135,049
Exercised or settled	(1,263,962)	(5,924)	(58,603)	(1,025,398)	(130,655)	(2,484,542)
Cancelled	–	–	(14,591)	–	–	(14,591)
Distributions reinvested	–	8,558	18,188	–	–	26,746
<b>Units, Unit Rights and Unit Options outstanding as at December 31, 2018</b>	<b>–</b>	<b>286,696</b>	<b>578,120</b>	<b>–</b>	<b>–</b>	<b>864,816</b>

Year Ended December 31, 2017 (Number of Units)	UOP	DUP	RUR	SELTIP/ LTIP <sup>(1)</sup>	Exch. Units <sup>(2)</sup>	Total
Units, Unit Rights and Unit Options outstanding as at January 1, 2017	1,488,212	285,876	718,398	1,185,398	161,311	3,839,195
Issued, cancelled or granted during the year:						
Issued or granted	–	24,787	161,369	–	–	186,156
Exercised or settled	(224,250)	(60,708)	(383,597)	(160,000)	(30,656)	(859,211)
Cancelled	–	–	(3,646)	–	–	(3,646)
Distributions reinvested	–	10,204	29,456	–	–	39,660
Units, Unit Rights and Unit Options outstanding as at December 31, 2017	1,263,962	260,159	521,980	1,025,398	130,655	3,202,154

(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) 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 \$0 as at December 31, 2018 (December 31, 2017 – \$4,876), which approximates the closing price of the Trust Units. All Exchangeable Units have been exercised as at December 31, 2018.

The table below summarizes the change in the total Unit-based compensation financial liabilities for the years ended December 31, 2018 and 2017, including the settlement of such liabilities through the issuance of Trust Units.

As at	December 31, 2018	December 31, 2017
Total Unit-based compensation financial liabilities, beginning of the year	\$ 64,560	\$ 60,278
Unit-based compensation expenses	34,373	25,809
Settlement of Unit-based compensation awards for Trust Units <sup>(1)</sup>	(66,128)	(21,527)
Total Unit-based compensation financial liabilities, end of the year	\$ 32,805	\$ 64,560

(1) Refer to note 21(g) for further details.

The Unit-based compensation financial liabilities comprise:

As at	December 31, 2018	December 31, 2017
<b>Current</b>		
LTIP	\$ –	\$ 14,039
SELTIP	–	14,620
DUP	12,695	9,703
RUR	6,774	4,874
UOP	–	11,426
	19,469	54,662
<b>Non-Current</b>		
RUR	13,336	9,898
Total Unit-based compensation financial liabilities, end of the year	\$ 32,805	\$ 64,560

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

As at December 31, 2018, 1.0% (December 31, 2017 – 1.0%) of all Trust Units outstanding were held by trustees, officers and other senior management of CAPREIT.

## 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, 2018 and 2017, as follows:

For the Year Ended	December 31, 2018	December 31, 2017
UOP	\$ 4,201	\$ 6,220
LTIP	7,730	3,647
SELTIP	11,036	3,428
DUP	3,263	2,790
RUR Plan	8,143	9,724
EUPP	299	265
Unit-based Compensation Expenses	\$ 34,672	\$ 26,074

#### 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 former President and CEO's employment agreement was amended to provide that during his term, the former President and CEO would 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.

A summary of Unit option activity for the years ended December 31, 2018 and 2017 is presented below. All Unit options are exercisable as at December 31, 2018 and 2017.

For the Year Ended (Number of Units)	December 31, 2018	December 31, 2017
Balance, beginning of the year	1,263,962	1,488,212
Granted	–	–
Exercised	(1,263,962)	(224,250)
Balance, end of the year	–	1,263,962

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 fair value for the outstanding grants at the respective periods were as follows:

As at	December 31, 2018	December 31, 2017
Number of Units	–	1,263,962
Weighted average issue price	\$ –	\$ 26.22
Weighted average risk-free rate (%)	–	1.9
Weighted average distribution yield (%)	–	3.4
Weighted average expected years	–	6.4
Weighted average volatility (%)	–	17.0
Weighted average Unit option value	\$ –	\$ 9.04

**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 former 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 10 years for the LTIP and 30 years in the case of the SELTIP. Participants are required to pay interest at 10-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 on these Units toward the payment of interest and the remaining instalments. In the case of the SELTIP, following the 10th 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. No further awards under the LTIP and SELTIP plans remain outstanding as at December 31, 2018.

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,	2018		2017	
Number of Units	LTIP	SELTIP	LTIP	SELTIP
Balance, beginning of the year	470,683	554,715	630,683	554,715
Settled during the year	(470,683)	(554,715)	(160,000)	–
Balance, end of the year	–	–	470,683	554,715

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

Year Ended December 31,	2018		2017	
Instalment Receipts	LTIP	SELTIP	LTIP	SELTIP
Balance, beginning of the year	\$ 3,667	\$ 6,822	\$ 6,193	\$ 7,180
Principal repayments during the year	(3,667)	(6,822)	(2,526)	(358)
Balance, end of the year	\$ –	\$ –	\$ 3,667	\$ 6,822

The Instalment Receipts are recognized as a deduction from Unit-based compensation liability. During the years ended December 31, 2018 and 2017 interest payments in the amounts of \$435 and \$582, respectively, were applied to the outstanding Unit-based compensation liability. The outstanding balance of the instalments receivable is used in determining the fair value of the Units and the related fair value adjustments.

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

LTIP	As at December 31,	
	2018	2017
Number of Units	–	470,683
Weighted average loan rate (%)	–	4.55
Weighted average issue price	\$ –	\$ 14.32
Weighted average loan balance per Unit – current	\$ –	\$ 7.50
Weighted average loan balance per Unit – at maturity	\$ –	\$ 6.70
Weighted average risk-free rate (%)	–	1.7
Weighted average distribution yield (%)	–	3.4
Weighted average expected years	–	0.9
Weighted average volatility (%)	–	13.6
Weighted average Unit value	\$ –	\$ 29.83

**SELTIP**

As at December 31,	2018	2017
Number of Units	-	554,715
Weighted average loan rate (%)	-	4.96
Weighted average issue price	\$ -	\$ 17.84
Weighted average loan balance per Unit – current	\$ -	\$ 12.07
Weighted average loan balance per Unit – at maturity	\$ -	\$ 1.42
Weighted average risk-free rate (%)	-	2.0
Weighted average distribution yield (%)	-	3.4
Weighted average expected years	-	18.3
Weighted average volatility (%)	-	20.6
Weighted average Unit value	\$ -	\$ 26.36

**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 2018 is 100% (2017 – 100%) of a trustee’s annual board compensation of \$85 for 2018 and \$75 for 2017.

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, 2018			December 31, 2017		
	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	\$ 24.34	\$ 37.32	260,159	\$ 23.85	\$ 31.37	285,876
Granted during the year	42.78	-	23,903	34.32	-	24,787
Additional Unit distributions	41.75	-	8,558	33.70	-	10,204
Settled during the year	28.65	-	(5,924)	25.03	-	(60,708)
Outstanding, end of the year	\$ 26.31	\$ 44.30	286,696	\$ 24.34	\$ 37.32	260,159

**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 the Unitholders on May 19, 2010. The Human Resources and Compensation Committee of the Board of Trustees may award RURs, subject to the attainment of specified performance objectives, to certain officers and key employees (collectively, the "Participants"). The purpose of the RUR Plan is to provide its Participants with additional incentive and to further align the interests of its Participants with Unitholders through the use of RURs which, on vesting, are exercisable for Units. RUR Plan Units will be issued from treasury on vesting. The RURs vest in their entirety on the third anniversary of the grant date. The RURs earn notional distributions in respect of each distribution paid on RURs

commencing from the grant date, and such notional distributions are used to calculate additional RURs ("Distribution RURs"), which are accrued for the benefit of the Participants. The Distribution RURs are credited to the Participants only when the underlying RURs on which the Distribution RURs are earned become vested. The fair value of the Distribution RURs is based on the five-business-day weighted average closing price of the Units on the TSX prior to the distribution date.

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

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

	December 31, 2018			December 31, 2017		
	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	\$ 27.11	\$ 37.32	521,980	\$ 24.25	\$ 31.37	718,398
Granted during the year	36.35	-	111,146	32.02	-	161,369
Additional Unit distributions	41.49	-	18,187	33.46	-	29,456
Settled or cancelled during the year	28.01	-	(73,194)	24.33	-	(387,243)
Outstanding, end of the year	\$ 29.23	\$ 44.30	578,119	\$ 27.11	\$ 37.32	521,980

**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. The authorized capital of CAPREIT consists of an unlimited number of Units, an unlimited number of Special Voting Units and 25,840,600 Preferred Units. As at December 31, 2018, no Preferred Units or Special Voting Units were issued and outstanding. Trust Units represent a Unitholder's proportionate undivided beneficial interest in CAPREIT. No Trust Unit has any preference or priority over another. No Unitholder has or is deemed to have any right of ownership in any of the assets of CAPREIT. Each Unit confers the right to one vote at any meeting of Unitholders and to participate pro rata in any distributions by CAPREIT and, in the event of termination of CAPREIT, in the net assets of CAPREIT remaining after satisfaction of all liabilities. Units will be issued in registered form and are transferable. Issued and outstanding Units may be

subdivided or consolidated from time to time by the trustees without Unitholder approval. No certificates for fractional Units will be issued and fractional Units will not entitle the holders thereof to vote.

By virtue of CAPREIT being an open-ended mutual fund trust, Unitholders of Trust Units are entitled to redeem their Units at any time at prices determined and payable in accordance with the conditions specified in the DOT. As a result, under IFRS, Trust Units are defined as financial liabilities; however, for the purposes of financial statement classification and presentation, the Trust Units may be presented as equity instruments as they meet the puttable instrument exemption under IAS 32, Financial Instruments: Presentation. 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,	Ref	2018	2017
Units outstanding, beginning of the year		136,911,892	134,388,458
Issued or granted during the year in connection with the following:			
New Units issued	(a)	4,910,500	–
Exchangeable Units	(b)	130,655	30,656
Distribution Reinvestment Plan (“DRIP”)	(c)	1,304,098	1,617,392
EUPP	(d)	42,950	46,833
DUP	(e)	5,924	60,708
RUR Plan	(f)	58,603	383,595
UOP	(g)	1,263,962	224,250
LTIP	(h)	470,683	160,000
SELTIP	(i)	554,715	–
Units outstanding, end of the year		145,653,982	136,911,892

#### a) New Units Issued in 2018

	Price per Unit	Gross Proceeds	Transaction Costs	Net Proceeds	Units Issued
<b>March 2018 (the “March 2018 Equity Offering”)</b>					
Bought-Deal (March 15, 2018)	\$ 35.15	\$ 150,091	\$ 6,780	\$ 143,311	4,270,000
Over-allotment (March 15, 2018)	\$ 35.15	22,514	901	21,613	640,500
Total		\$ 172,605	\$ 7,681	\$ 164,924	4,910,500

#### b) Exchangeable Units

During 2018, pursuant to the terms of the Exchangeable Units, 130,655 Exchangeable Units were exchanged for 130,655 Trust Units. During 2017, pursuant to the terms of the Exchangeable Units, 30,656 Exchangeable Units were exchanged for 30,656 Trust Units.

#### c) Distribution Reinvestment Plan (“DRIP”)

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

#### d) Employee Unit Purchase Plan (“EUPP”)

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

#### e) Deferred Unit Plan (“DUP”)

During 2018, in accordance with the DUP, one trustee exercised 5,924 Deferred Units, which were settled for an equivalent number of Trust Units. During 2017, in accordance with the DUP, two former trustees exercised 60,708 Deferred Units, which were settled for an equivalent number of Trust Units.

#### f) Restricted Unit Rights Plan (“RUR Plan”)

During 2018, 58,603 RUR Units were settled for an equivalent number of Trust Units and 14,591 RUR Units were cancelled. During 2017, 387,243 RUR Units were settled, out of which 383,595 RUR Units were settled for an equivalent number of Trust Units and the remaining RUR Units were settled in cash.

#### g) Unit Option Plan (“UOP Plan”)

During 2018, 1,263,962 options were exercised and an equivalent number of Trust Units were issued. During 2017, 224,250 options were exercised and an equivalent number of Trust Units were issued.

#### h) Long-Term Incentive Plan (“LTIP”)

During 2018 and 2017, 470,683 and 160,000 Units previously issued were settled. The remaining instalments were repaid in full in respect of the settled Units.

#### i) Senior Executive Long-Term Incentive Plan (“SELTIP”)

During 2018, 554,715 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 May 2018, monthly cash distributions declared to Unitholders increased to \$0.1108 (\$1.33 annually) compared to \$0.1067 (\$1.28 annually) effective March 2017.

For the Year Ended December 31,	2018	2017
Distributions declared on Trust Units	\$ 187,848	\$ 173,072
Distributions per Unit	\$ 1.313	\$ 1.275

## 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, 2018, the fair value of CAPREIT's mortgages payable is estimated to be \$3,646,000 (December 31, 2017 – \$3,569,000) 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 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, 2018, 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
<b>Recurring Measurements</b>				
<b>Assets</b>				
Investment properties				
Fee simple and MHC land lease sites	\$ –	\$ –	\$ 9,420,347 <sup>(1)</sup>	\$ 9,420,347
Operating leasehold interests	–	–	873,067 <sup>(1)</sup>	873,067
Land leasehold interests	–	–	180,130 <sup>(1)</sup>	180,130
Investments	34,655 <sup>(2)</sup>	–	–	34,655
Derivative financial instruments – interest rate hedge	–	108 <sup>(3)</sup>	–	108
<b>Liabilities</b>				
Derivative financial instruments – cross-currency swap	–	(1,038) <sup>(3)</sup>	–	(1,038)
<b>Total</b>	<b>\$ 34,655</b>	<b>\$ (930)</b>	<b>\$ 10,473,544</b>	<b>\$ 10,507,269</b>

(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 FVTPL and are measured at fair value based on the quoted market price in an active market of the asset.

(3) The valuation of the interest rate swap and cross-currency swap instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of the derivatives. The fair value is determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. If the total mark-to-market value is positive, CAPREIT will consider a 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. As at December 31, 2018, 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, 2018 and 2017, 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	
		2018	2017	2018	2017
Floating rate debt	+100	\$ (674)	\$ (936)	\$ -	\$ -
Floating rate debt	-100	\$ 674	\$ 936	\$ -	\$ -
Interest rate swap agreements	+100	\$ 2,293	\$ -	\$ -	\$ 2,863
Interest rate swap agreements	-100	\$ (2,381)	\$ -	\$ -	\$ (3,002)
Cross-currency swap <sup>(1)</sup>	+100	\$ 1,256	\$ 7,981	\$ -	\$ -
Cross-currency swap <sup>(1)</sup>	-100	\$ (1,262)	\$ 572	\$ -	\$ -

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

CAPREIT's objective in managing interest rate risk is to minimize the volatility of earnings. As at December 31, 2018, interest rate risk has been minimized as approximately 100.0% (December 31, 2017 – 97.9%) 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 97.5% of CAPREIT's mortgages are CMHC-insured (excluding \$536,281 of mortgages on the MHC), which reduces the risk in refinancing mortgages. CAPREIT's overall risk in 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 and distributions to Unitholders, and to provide future growth in its business. As at December 31, 2018, CAPREIT had undrawn lines of credit in the amount of \$266,325 (December 31, 2017 – \$86,792).

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at December 31, 2018 are as follows:

	2018 <sup>(2)</sup>	2019-2020	2021-2022	2023 onward
Mortgages payable	\$ 403,952	\$ 783,810	\$ 946,946	\$ 1,602,592
Bank indebtedness	-	567,365	-	-
Mortgage interest <sup>(1)</sup>	103,233	172,132	118,636	91,934
Bank indebtedness interest <sup>(1)</sup>	8,214	4,096	-	-
Other liabilities	118,302	926	-	-
Security deposits	35,261	-	-	-
Exchangeable Units	-	-	-	-
Distributions payable	16,143	-	-	-
	\$ 685,105	\$ 1,528,329	\$ 1,065,582	\$ 1,694,526

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

(2) Estimates of the amounts as at December 31, 2018.

**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 the Canadian dollar while the functional currency of CAPREIT's fund management subsidiary in Dublin, Ireland, investment in IRES and CAPREIT's subsidiaries in the Netherlands is the euro.

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

## 16. Realized and Unrealized Gains and Losses on Derivative Financial Instruments

### a) Contracts for which hedge accounting is being applied

(i) In June 2011, CAPREIT entered into a hedging program, which effectively hedged interest rates on approximately \$312,000 of mortgages maturing between September 2011 and June 2013. The maturing mortgages have been refinanced for 10-year terms and as a result bear interest rates between a floor rate of 3.00% and a ceiling rate of 3.62%, before the credit spread. The change in the intrinsic value

of the forward interest rate hedge has been included in OCI (see note 19). The hedging program matured in June 2013, for which hedge accounting was applied. The ineffective portion and the difference between the settled amount and the mark-to-market has been recognized in net income. All contracts have been settled.

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

As at	December 31, 2018	December 31, 2017
Derivative liability in AOCL, beginning of the year	\$ (10,547)	\$ (12,833)
Amortization from AOCL to interest and other financing costs	2,277	2,286
Derivative liability in AOCL, end of the year	\$ (8,270)	\$ (10,547)

### b) Contracts for which hedge accounting is no longer effective

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

CAPREIT settled these Interest Rate Forward Contracts in 2009. The associated cumulative unamortized loss of \$9,908 included in AOCL at September 30, 2008 is being amortized to mortgage interest expense over the original terms of the hedged contracts. For the year ended December 31, 2018, \$358 (December 31, 2017 – \$712) was amortized from AOCL to mortgage interest expense.

(iii) CAPREIT's Netherlands subsidiaries own and operate properties in the Netherlands, a foreign jurisdiction. They are 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 sheet. Any foreign currency gains/losses arising from the euro-denominated debt was 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. The hedge ceased in July 2017 when the euro-denominated debt was repaid.

(iv) As at December 31, 2018, 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 not being applied. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a 10-year term (see note 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 hedge became ineffective in July 2017. The ineffective gain component of the derivative of \$166 for the year ended December 31, 2018 has been recorded under derivative financial instruments on the consolidated statements of income and comprehensive income, and the cumulative mark-to-market gain of \$109 is in other non-current liabilities as at December 31, 2018. The accumulated loss recorded in AOCL will be amortized in the consolidated statements of income from AOCL over the remaining term of the credit facility.

The interest rate swap agreement has been summarized as follows:

As at	December 31, 2018	December 31, 2017
Derivative liability, beginning of the year	\$ (57)	\$ (2,608)
Change in intrinsic value	166	2,551
Derivative asset (liability), end of the year	\$ 109	\$ (57)

**c) Contracts for which hedge accounting is not being applied**

- (i) CAPREIT had a €40,000 interest rate swap agreement fixing the EURIBOR rate at 1.22%, which matures in August 2018, for which hedge accounting was not applied. The €40,000 interest rate swap agreement was settled in July 2017.
- (ii) In June 2017, CAPREIT entered into a cross-currency swap to (i) hedge a US-based loan of USD \$186,436 into €163,540 effective July 2017 and (ii) convert the variable interest rate on the US-based loan of LIBOR plus 1.65% to a fixed interest rate of EURIBOR plus

1.65%, equalling 1.20%, and maturing in June 2019. The US-based loan was drawn from the Acquisition and Operating Facility in July 2017. The gain on the derivative has been recorded under gain (loss) on derivative financial instruments in the consolidated statements of income and comprehensive income for the year ended December 31, 2018 of \$12,975 and the cumulative mark-to-market loss of \$1,035 is in other non-current liabilities as at December 31, 2018.

## 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, meet its repayment obligations under its mortgages and credit facilities, and ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in CAPREIT's DOT and Credit Facilities.

CAPREIT's Credit Facilities (see note 10) require compliance with certain financial covenants. In addition, borrowings must not exceed the borrowing base, calculated at a predefined percentage of the market value of the properties.

In the short term, CAPREIT utilizes the Credit Facilities to finance its capital investments, which may include acquisitions. In the long term,

equity issuances, mortgage financings and refinancings, including "top-ups", are put in place to finance the cumulative investment in the property portfolio and ensure that the sources of financing better reflect the long-term useful lives of the underlying investments.

Under the terms of CAPREIT's large borrower agreement ("LBA") with CMHC, total indebtedness of CAPREIT is limited to the greater of (i) 60% of gross book value determined on a fair value basis or (ii) 70% of gross book value determined on a historical basis, and may only be increased above such limits with CMHC's consent.

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

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

As at		December 31, 2018	December 31, 2017
Mortgages Payable		\$ 3,728,333	\$ 3,581,501
Bank Indebtedness		567,365	446,895
Unit-based Compensation Liabilities		32,805	64,561
Exchangeable Units		–	4,876
Unitholders' Equity		6,316,700	4,923,406
<b>Total Capital</b>		<b>\$ 10,645,203</b>	<b>\$ 9,021,239</b>
	<b>Threshold</b>		
Total Debt to Gross Book Value <sup>(1)</sup>	Maximum 70.00%	<b>39.37%</b>	43.57%
Tangible Net Worth <sup>(2)</sup>	Minimum \$2,100,000	<b>\$ 6,349,505</b>	\$ 4,992,842
Debt Service Coverage Ratio (times) <sup>(3)(4)</sup>	Minimum 1.20	<b>1.75</b>	1.63
Interest Coverage Ratio (times) <sup>(3)(5)</sup>	Minimum 1.50	<b>3.44</b>	3.19

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

(2) As per the Credit Facilities agreement, the tangible net worth is generally represented by Unitholders' Equity and Unit-based rights and compensation liabilities or assets, including Exchangeable Units added back. The tangible net worth requirement is \$2,100,000 (2017 – \$1,800,000).

(3) Based on the trailing four quarters.

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

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

## 18. Income Taxes

For 2017 and 2018, CAPREIT is taxed as a "mutual fund trust" as defined under the Income Tax Act (Canada) (the "Tax Act") and continues to meet the prescribed conditions relating to the nature of its assets and revenues in order to qualify as a Real Estate Investment Trust eligible for the REIT exception to the specified investment flow-through ("SIFT") rules. The Trust expects to distribute all of its taxable income to its unitholders; accordingly, no provision for 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.

For 2018, the income tax rate on taxable income in the Netherlands is 20% on the first 200 thousand euros and 25% on the remaining taxable income. CAPREIT recorded deferred tax expense attributable to the Netherlands amounting to \$18,794 for the year ended December 31, 2018. On December 18, 2018, the Dutch Senate accepted the Dutch Tax Plan 2019, including the measure to reduce the corporate tax rate from 25% in 2019 to 23.9% in 2020 and to 20.5% in 2021. The 20% rate for profits less than 200 thousand euros will be reduced to 19% in 2019, to 17.5% in 2020 and to 15% in 2021. The tax liability is determined by applying the new rates prescribed in the new legislation and the existing income and capital gains tax rate of 25%, where applicable, to temporary differences between the carrying amounts of investment properties and their respective tax basis. The difference in tax and book basis is €49,411 recorded for the year ended December 31, 2018. As at December 31, 2018 and 2017, CAPREIT has a tax liability of \$26,428 and \$7,263, respectively.

**19. Accumulated Other Comprehensive Income (Loss)**

For the Year Ended December 31,	2018	2017
<b>AOCL balance, beginning of year</b>	<b>\$ (2,343)</b>	<b>\$ (12,586)</b>
Other comprehensive income:		
Amortization from AOCL to interest and other financing costs <sup>(1),(2)</sup>	2,659	3,024
Change in fair value of derivative financial instruments (note 16(b))	–	630
Change in fair value of investments <sup>(3)</sup>	–	4,957
Foreign currency translation	28,530	10,490
Other comprehensive income	31,189	19,101
<b>AOCL balance, end of year</b>	<b>\$ 28,846</b>	<b>\$ 6,515</b>

	December 31, 2018	December 31, 2017
<b>AOCL comprises:</b>		
Loss on derivative financial instruments		
Cumulative realized loss <sup>(1)</sup>	<b>\$ (9,908)</b>	<b>\$ (9,908)</b>
Accumulated amortization to interest and other financing costs	8,991	8,633
Unamortized balance of loss on cash flow hedges previously settled	(82)	(106)
Loss on interest rate swap agreements	(1,253)	(1,253)
Loss on forward interest rate hedge <sup>(2)</sup>	(22,884)	(22,884)
Accumulated amortization to interest and other financing costs	14,614	12,337
Change in fair value of investments <sup>(3)</sup>	–	11,689
Cumulative gain (loss) on foreign currency translation	36,241	7,711
Reversal of cumulative foreign currency translation relating to IRES ownership dilution	3,127	3,127
Cumulative realized gain on sale of investments <sup>(3)</sup>	–	(2,831)
<b>AOCL balance, end of year</b>	<b>\$ 28,846</b>	<b>\$ 6,515</b>

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

(2) The realized loss component of the \$22,884 OCI loss on forward interest rate hedges is \$22,585, 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 \$2,269.

(3) Refer to note 2 for details on changes in accounting treatment due to IFRS 9 adoption.

**20. Interest and Other Financing Costs**

For the Year Ended December 31,	2018	2017
Interest on mortgages payable <sup>(1)</sup>	<b>\$ 112,762</b>	\$ 113,335
Amortization of CMHC premiums and fees	3,914	3,810
Interest on bank indebtedness and other deferred costs <sup>(2)</sup>	8,404	3,911
Interest on Exchangeable Units	95	186
Non-controlling interest costs <sup>(3)</sup>	10,036	4,902
	<b>\$ 135,211</b>	<b>\$ 126,144</b>

(1) Includes amortization of deferred financing costs, fair value adjustments and OCI hedge interest of \$4,381 (December 31, 2017 – \$4,124).

(2) Includes amortization of deferred loan costs of \$828 (December 31, 2017 – \$778).

(3) Represents costs related to the non-controlling interest of the minority shareholders in CAPREIT's foreign subsidiaries.

**21. Joint Arrangements**

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

Year Ended December 31,	2018	2017
Assets	<b>\$ 242,141</b>	\$ 219,600
Liabilities	70,702	73,090
Revenues	16,882	16,421
Expenses and other adjustments	(6,984)	(6,938)
Net income	<b>25,593</b>	23,359

Cash provided by (used in):

Operating activities	<b>\$ 10,870</b>	\$ 8,943
Financing activities	(7,911)	(7,927)
Investing activities	(2,637)	(1,200)

## 22. Supplemental Cash Flow Information

### a) Net income items related to investing and financing activities

Year Ended December 31,	2018	2017
Dividend and interest income	\$ 7,442	\$ 8,478
Interest paid on Exchangeable Units	(115)	(186)
Interest paid on mortgages payable	(106,593)	(107,805)
Interest paid on bank indebtedness	(7,563)	(3,147)
Non-cash non-controlling interest costs	(9,821)	(4,902)
Net disbursement	\$ (116,650)	\$ (107,562)

### b) Changes in non-cash operating assets and liabilities

Year Ended December 31,	2018	2017
Prepaid expenses	\$ (956)	\$ (425)
Tenant inducements, direct leasing costs and other adjustments	8,350	5,640
Other receivables	(811)	3,948
Deposits	(1,910)	(1,725)
Accounts payable and other liabilities	23,733	(8,931)
Security deposits	3,092	2,415
Net disbursement	\$ 31,498	\$ 922

### c) Net cash distributions to Unitholders

Year Ended December 31,	2018	2017
Distributions declared to Unitholders	\$ (187,848)	\$ (173,072)
Add: Distributions payable at beginning of year	(14,714)	(14,123)
Less: Distributions payable at end of year	16,143	14,714
Less: Distributions to participants in the DRIP	51,490	51,732
Net disbursement	\$ (134,929)	\$ (120,749)

### d) Capital investments

For the Year Ended December 31,	2018	2017
Capital investments	\$ (203,799)	\$ (160,819)
Change in capital investments included in accounts payable and other liabilities	15	(2,909)
Net disbursement	\$ (203,784)	\$ (163,728)

### e) Acquisition of investment properties

For the Year Ended December 31,	2018	2017
Acquired properties	\$ (504,710)	\$ (470,510)
Fair value adjustment of assumed debt	(1,972)	9
Assumed debt	22,915	3,713
Deposit on purchases	1,399	(5,431)
Contributions from non-controlling interest	216	889
Net disbursement	\$ (482,152)	\$ (471,330)

### f) Disposition of investment properties

For the Year Ended December 31,	2018	2017
Proceeds	\$ 140,926	\$ 21,825
Closing costs	(842)	(140)
Mortgages assumed by purchasers and discharged	(58,212)	(4,951)
Net proceeds	\$ 81,872	\$ 16,734

### g) Issuance of Trust Units

For the Year Ended December 31,	2018	2017
Issuance of Trust Units	\$ 280,793	\$ 30,685
Conversion of Exchangeable Units to Trust Units	(5,716)	(1,037)
Settlement of Unit-based Compensation Awards for Trust Units	(66,129)	(21,527)
Net proceeds	\$ 208,948	\$ 8,121

**h) Mortgage Portfolio**

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

As at December 31, (\$ Thousands)	2018	2017
Balance, Beginning of Period	\$ 3,581,501	\$ 3,492,923
Add:		
New Borrowings on Acquisitions	178,018	253,375
Refinanced	213,216	211,141
Less:		
Mortgage Principal Amortization <sup>(1)</sup>	(116,877)	(119,458)
Mortgages Matured	(103,734)	(266,575)
Mortgages Repaid on Dispositions of Investment Properties	(58,212)	(4,951)
Non-cash Adjustments:		
Assumed	22,915	3,713
Foreign Currency Translation	12,382	12,543
Change in Deferred Financing Costs, Fair Value Adjustments, Net	(876)	(1,210)
Balance, End of Period	\$ 3,728,333	\$ 3,581,501

(1) Includes repayment of euro LIBOR borrowing of €5,000 in 2017.

**23. Revenues**

In accordance with the adoption of IFRS 15, Revenue from Contracts with Customers, Management has evaluated the lease and non-lease components of its revenue and has determined the following allocation:

For the Year Ended December 31,	2018	2017
External Property Management Fee	\$ 2,337	\$ 2,632
External Asset Management Fee	4,904	3,539
Other Revenue	7,423	7,402
	\$ 14,664	\$ 13,573

Please refer to note 2 for further details.

**Other Income**

Other Income comprises external property management fees and external asset management fees of \$7,241, equity pickup of \$32,646 and other income of \$2,393.

**24. Related Party Transactions****a) IRES Transactions**

As at December 31, 2018, CAPREIT has an 18.0% share ownership in IRES and has determined that it has significant influence over IRES. In May and November 2018, the former CEO of CAPREIT, David Ehrlich, exercised 11,793,333 and 716,667 IRES options, respectively, and sold the shares issued to him by IRES to CAPREIT. The exercising of these shares by the former CEO resulted in CAPREIT's share ownership in IRES increasing to 18.0% from 15.7% prior to May 2018. The share ownership is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. See note 7 for a more detailed description.

Included in other income for the year ended December 31, 2018 is \$7,285 (2017 – \$6,173) from asset management and property management fees. Expenses related to the asset and property management services are included in trust expenses. The amount receivable from IRES as at December 31, 2018 is \$1,237 (December 31, 2017 – \$2,911).

For further details, see note 23.

**b) Transactions with Key Management Personnel**

CAPREIT had the following transactions with key management personnel, the former President and CEO, and trustees. The loans outstanding to key management personnel, the former President and CEO, and trustees for indebtedness relating to the SELTIP and LTIP as at December 31, 2018 were nil (December 31, 2017 – \$7,180). These amounts were 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 provide for payments of up to 36 months of benefits (based on base salary, bonus and other benefits), depending on cause.

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

For the Year Ended December 31, (\$ Thousands)	2018	2017
Short-term employee benefits	\$ 3,337	\$ 3,432
Unit-based compensation – grant date amortization	2,683	3,255
	6,020	6,687
Unit-based compensation – fair value remeasurement	3,739	10,255
Other benefits	2,983	1,604
Total	\$ 12,742	\$ 18,546



## 25. Commitments

### Natural gas

Through the combination of fixed and variable price contracts, CAPREIT is committed as at December 31, 2018 in the aggregate amount of \$13,385 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.

	2019	2020	2021
<b>Gas Commodity</b>			
Fixed Weighted Average Cost per GJ <sup>(1)</sup>	\$ 2.50	\$ 2.26	\$ 1.68
Total of CAPREIT's Estimated Requirements	81.1%	73.3%	61.0%
<b>Transport</b>			
Fixed Weighted Average Cost per GJ <sup>(1)</sup>	\$ 1.15	\$ 1.19	\$ 1.42
Total of CAPREIT's Estimated Requirements	81.3%	73.3%	61.0%

(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, 2018 and 2017, total expenses under these four leases were \$2,828 and \$2,814, 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:

	2019	2020	2021	2022	Thereafter
Minimum annual rent	\$ 1,323	\$ 1,323	\$ 1,323	\$ 1,323	\$ 37,353

### Property capital investments

Commitments primarily related to capital investments in investment properties of \$30,063 were outstanding as at December 31, 2018 (December 31, 2017 – \$25,010).

## 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.

On December 11, 2018, CAPREIT entered into an agreement pursuant to which European Commercial Real Estate Investment Trust ("ECREIT") will acquire a portfolio of multi-residential properties located in the Netherlands from CAPREIT in 2019. The transaction will be satisfied primarily through the issuance of ECREIT units to CAPREIT. This transaction is contingent on approval by ECREIT unitholders and the TSX/V.

## 27. Subsequent Events

On January 4, 2019, CAPREIT announced that it has closed on its previously announced issue and sale of 5,500,000 units for \$45.50 per unit for aggregate gross proceeds of \$250,250 to a syndicate of underwriters led by RBC Capital Markets on a bought-deal basis. On January 11, 2019, CAPREIT announced that it has closed the issuance of an additional 825,000 units for \$45.50 per unit for aggregate gross proceeds of \$37,538 (the "Over-Allotment Offering"), pursuant to the exercise of the over-allotment option. CAPREIT used the net proceeds to partially repay the Acquisition and Operating Facility.

On February 26, 2019, CAPREIT announced that it has completed the acquisition of a portfolio of 21 properties in six urban centres in the Netherlands, totalling 511 residential suites, for a purchase price of €98,000. The acquisition was funded by CAPREIT's Acquisition and Operating Facility.

On February 26, 2019, CAPREIT announced that its Board of Trustees had approved a 3.8% increase in monthly cash distributions to \$0.1150 per Unit, or \$1.38 per Unit on an annualized basis. The increase is effective with the March 2019 distribution payable on April 15, 2019 to Unitholders of record as at March 29, 2019.

## Five-Year Review

(\$ Thousands, except per Unit amounts)

Year Ended December 31,	2018	2017	2016	2015	2014
Operating Revenues	\$ 688,585	\$ 638,842	\$ 596,831	\$ 533,798	\$ 506,411
Net Operating Income ("NOI")	\$ 439,056	\$ 393,258	\$ 366,947	\$ 324,614	\$ 303,885
Net Operating Income Margin (%)	63.8	61.6	61.5	60.8	60.0
Net Income	\$ 1,217,671	\$ 836,811	\$ 439,413	\$ 345,633	\$ 317,975
Normalized Funds From Operations ("NFFO")	\$ 289,335	\$ 250,474	\$ 231,808	\$ 200,027	\$ 183,353
Cash Distributions	\$ 190,124	\$ 176,024	\$ 164,413	\$ 146,198	\$ 131,044
NFFO Payout Ratio (%)	65.7	70.3	70.9	73.1	71.5
Non-taxable Distributions (%)	54.4	82.7	72.9	84.5	74.3
Normalized Funds from Operations					
NFFO per Unit – Basic	\$ 2.024	\$ 1.842	\$ 1.772	\$ 1.692	\$ 1.675
Cash Distributions per Unit	\$ 1.313	\$ 1.275	\$ 1.238	\$ 1.207	\$ 1.168
Weighted Average Number of Units (000s)	142,974	135,962	130,794	118,220	109,456
Number of Suites and Sites – total	51,528	50,624	48,767	46,790	41,688
Number of Suites and Sites – CAPREIT's share	50,373	49,469	47,612	45,635	40,533
Investment Properties	\$ 10,473,544	\$ 8,886,556	\$ 7,642,017	\$ 6,863,140	\$ 5,749,640
Unitholders' Equity	\$ 6,316,700	\$ 4,923,406	\$ 4,158,149	\$ 3,659,953	\$ 2,983,105
Overall Portfolio Occupancy (%)	98.9	98.7	98.6	97.5	97.9
Mortgage Debt to Gross Book Value (%)	34.2	38.7	44.0	43.4	44.6
Interest Coverage (times)	3.44	3.19	3.09	2.96	2.82
Weighted Average Mortgage Interest Rate (%) <sup>(1)</sup>	3.05	3.08	3.20	3.39	3.66
Weighted Average Mortgage Term (years)	5.1	5.7	6.1	6.3	6.3
Cumulative Compounded Return					
Since Inception (%)	1,883	1,516	1,182	950	839
Unit Price at Year End	\$ 44.30	\$ 37.32	\$ 31.37	\$ 26.84	\$ 25.13

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



# 2018 CORPORATE SOCIAL RESPONSIBILITY AND SUSTAINABILITY REPORT



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We enable and influence the integration of environmental, social and governance considerations into day-to-day operations and decision-making.

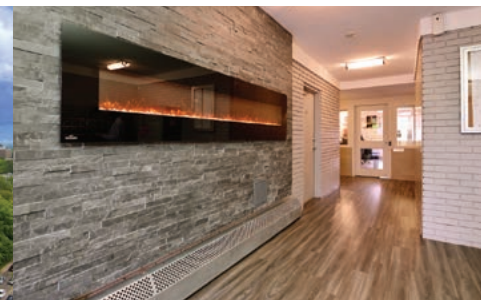
## 2018 HIGHLIGHTS AND ACCOMPLISHMENTS

900+

CAPREIT employees  
across Canada

64%

of employees promoted  
from Individual  
Contributor (Employee)  
to Manager level in 2018  
were female



## STAKEHOLDER ENGAGEMENT INITIATIVES

### RESIDENTS

- Annual resident appreciation events
- Building newsletters
- CAPCares
- Corporate website
- National resident survey
- Social media
- Summer Palooza

### COMMUNITY

- Community boards
- Corporate website
- Fundraising
- Social media
- Sponsorship events
- Volunteer work



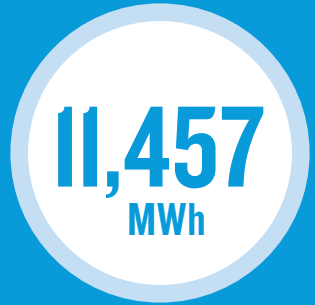
raised over two years for Rexall OneWalk in support of cancer research



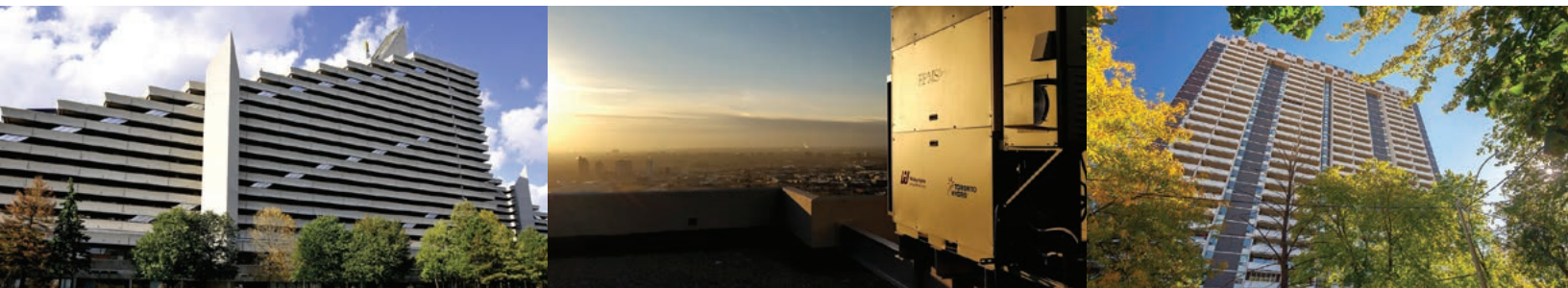
gender split between self-identifying women and men at CAPREIT



invested in resource conservation strategies in 2018



of electricity savings in Ontario through Project Enlighten



### ENVIRONMENT

- Environmental assessments
- Municipal conservation programs
- Participation in BOMA Canada's Climate Resiliency Committee
- Participation in REALpac's Environmental Social & Governance Committee
- Site remediation and site monitoring

### EMPLOYEES

- Monthly calls with Operations leadership group
- Quarterly meetings of Operations senior management
- Semi-annual conferences of all Operations leadership group
- Annual national education sessions for all employees (including core policy and compliance)
- Annual conference of all corporate departments
- Training and education
- Team-building and employee engagement activities
- "Town hall" meetings
- Employee engagement surveys
- Leadership development programming
- Recognition programs

### INVESTORS

- Annual General Meeting
- Corporate website
- Dedicated email account for investor relations
- Press releases
- Quarterly conference calls
- Building tours with investors
- One-on-one meetings with institutional investors

# INTEGRITY IN GOVERNANCE

WE MAINTAIN THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE AND STAKEHOLDER ENGAGEMENT, INCLUDING TIMELY DISCLOSURE AND TRANSPARENCY IN REPORTING.

Since CAPREIT's inception, we have kept the protection and promotion of our stakeholders' interests top of mind through our governance policies and procedures. Our core values of excellence, integrity and accountability are reflected in our governance framework, by which we ensure that corporate governance procedures are followed. Our Board of Trustees prides itself on integrity and honesty in its practices.

## THE BOARD OF TRUSTEES

The number of trustees is currently fixed at eight. As of December 31, 2018, the trustees were Harold Burke, Gina Cody, David Ehrlich, Paul Harris, Jamie Schwartz, Michael Stein, Stanley Swartzman and Elaine Todres.

Under the Trust's mandate, a majority of the Board must be independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with a trustee's ability to act with a view to the best interests of the Trust and its Unitholders. Currently, seven out of eight Board members are independent. In addition to assuming responsibility for the stewardship of the Trust, the Board of Trustees is specifically charged with:

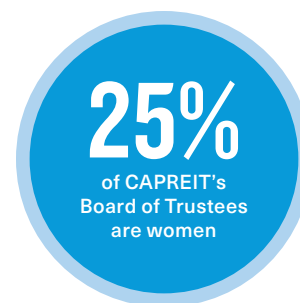
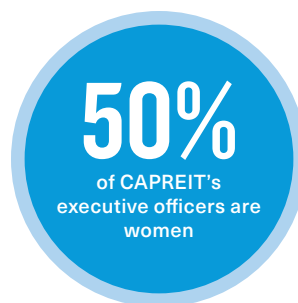
- Providing oversight over CAPREIT's strategic planning process;
- The identification of the principal risks associated with the business of CAPREIT and the implementation of appropriate systems to manage these risks;

- The appointment and evaluation of senior management;
- Overseeing the communications policy of CAPREIT;
- Ensuring the integrity of CAPREIT's internal controls and management information systems;
- The creation of position descriptions for the Board and for the President and Chief Operating Officer;
- The implementation of structures and procedures to ensure the Board can function independently of management;
- Implementing a process for assessing the effectiveness of the Board as a whole, the committees of the Board and the contribution of individual trustees;
- Reviewing the adequacy and form of compensation of trustees and ensuring it realistically reflects the responsibilities and risks involved in being a trustee; and
- Assessing the Board's responsibilities and performance under its mandate.

The Board approves the strategic plans of CAPREIT (taking into account the risks and opportunities of CAPREIT's business) and makes major policy decisions. It devotes time at several meetings each year to review major strategic initiatives to ensure that the proposed actions are in accordance with Unitholder objectives.

The Board of Trustees has delegated certain responsibilities to four committees, each of which is comprised solely of independent trustees:

- The **Audit Committee** is responsible for the review of the consolidated financial statements, accounting policies and reporting procedures of CAPREIT. In addition, it is responsible for reviewing, on an annual basis, the principal risks that CAPREIT faces, and considering whether adequate systems are in place to manage such risks and that such systems appear effective. It also supervises the activities of CAPREIT's Director, Internal Audit. All members of the Audit Committee are required to be "independent" as defined in National Instrument 52-110;



- The **Human Resources and Compensation Committee** reviews matters relating to human resources, including compensation of trustees and officers of CAPREIT. All of the members of the Human Resources and Compensation Committee must at all times be “independent”, as defined in NI 58-101;
- The **Governance and Nominating Committee** reviews matters relating to the governance of CAPREIT, including the nomination of trustees. All of the members of the Governance and Nominating

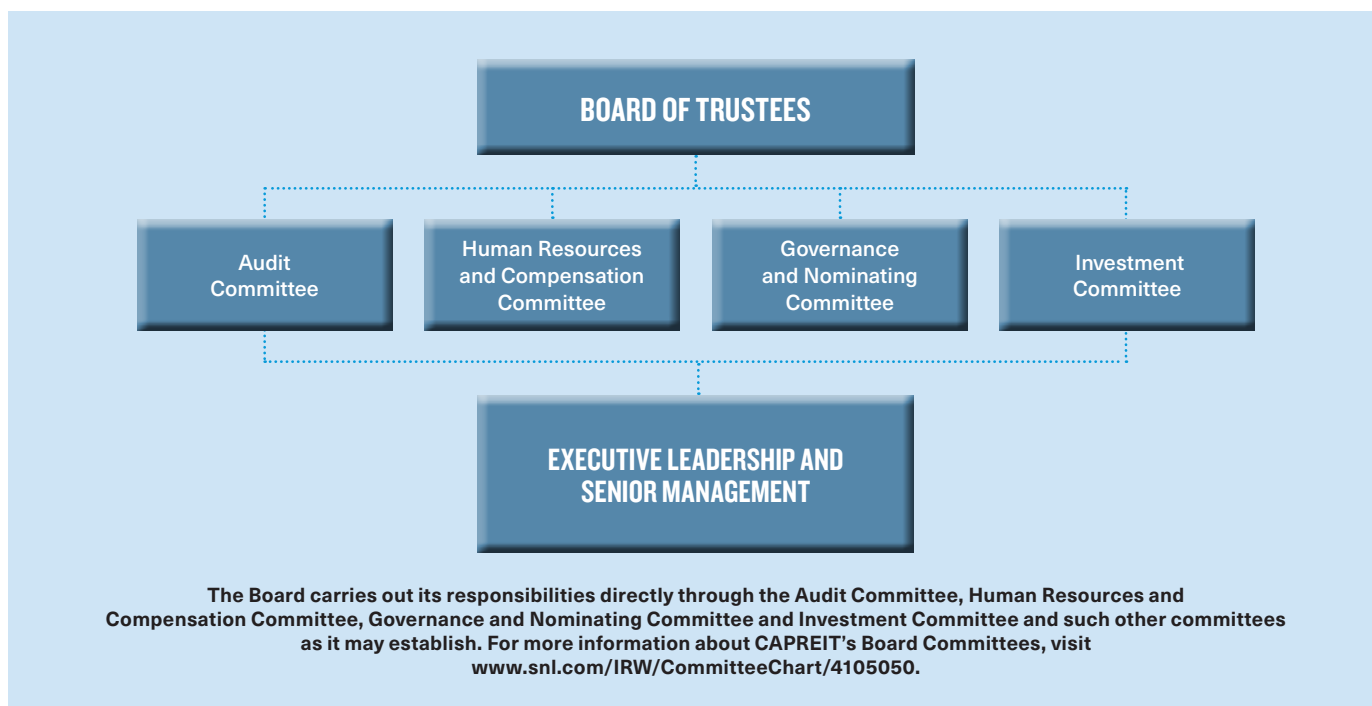
Committee must at all times be “independent”, as defined in NI 58-101;

- The **Investment Committee** is responsible for reviewing investment and disposition proposals of CAPREIT, subject to such authority as the trustees may delegate to the officers of CAPREIT, and to perform such other duties as the trustees may delegate pursuant to Article 8 of the Declaration of Trust.

### OUR ETHICS AND VALUES

**Our vision is to be the premier residential real estate landlord in Canada, employer of choice and investment of choice among our industry through cultivating an ethical culture that inspires sustainable growth.**

A high standard of ethics and values is fundamental to our company’s business philosophy. Our beliefs, values, codes of conduct and ethics are rooted in both the culture and expectations of CAPREIT.



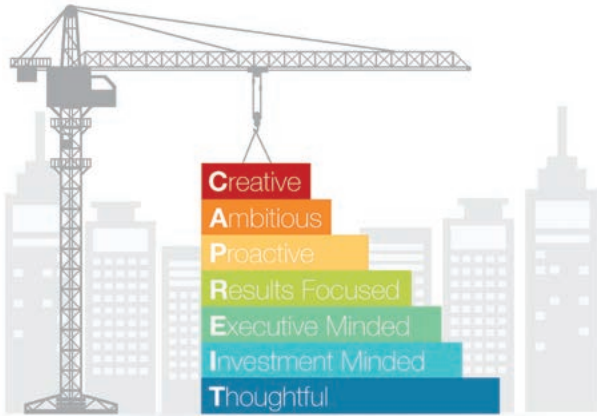
## CODE OF BUSINESS ETHICS AND CONDUCT

CAPREIT is committed to maintaining high standards of integrity and accountability in conducting our business. This code of business ethics and conduct (the “Code”) establishes a framework of guidelines and principles to govern and encourage ethical and professional behaviour in conducting our business.

The principles outlined in the Code are intended to:

- (i) establish a minimum standard of conduct by which all employees, trustees and officers are expected to abide;
- (ii) protect the business interests of CAPREIT and its employees, trustees and officers;
- (iii) maintain CAPREIT’s reputation for integrity; and
- (iv) facilitate compliance by CAPREIT employees, trustees and officers with applicable legal and regulatory obligations.

Specifically, the Code addresses honesty and integrity in following the law, conflicts of interest, workplace behaviour, confidentiality, privacy and protecting CAPREIT’s assets, whistleblower procedures, information security, disclosure controls and internal controls. This Code applies to all trustees, officers and employees of CAPREIT and its affiliates. The guidelines set out in this Code may be further supplemented from time to time by specific divisional or departmental policies.



### CAPREIT’S LEADERSHIP COMPETENCIES

In developing a strong and focused organization, the CAPREIT 7Cs (our seven leadership competencies) are the values driving our journey toward sustainable growth.

**Creative:** We are willing to challenge the status quo, value innovative ideas, listen to everyone and collaborate and share ideas across the organization.

**Ambitious:** Achieving high performance, pushing for the best, remaining positive and overcoming challenges.

**Proactive:** Taking the initiative, overlooking boundaries, leading teams and acting on opportunities will cultivate a positive, “can do” attitude.

**Results focused:** Achieving results, monitoring success, adjusting actions and giving feedback will ensure we are continuously improving.

**Executive minded:** Balancing the short- and long-term views of our business, maintaining our composure when faced with challenges, building strong teams and communicating a clear vision are ways in which we can be more executive minded.

**Investment minded:** When we make decisions to spend or invest, we balance the impact on short- and long-term growth. Improving financial returns is the goal, which we can achieve through the use of good judgement and the optimization of capital.

**Thoughtful:** By taking the time to value the common good, respecting others, winning support and earning trust, we can maximize team effectiveness.

## WHISTLEBLOWER POLICY

The purpose of the Whistleblower Policy (the “Policy”) is to provide individuals, including trustees, officers and employees, with a process for disclosing complaints or concerns regarding inaccurate or incomplete reporting or recording of financial transactions (including financial statement disclosure, theft, fraud or misrepresentation of assets), internal control violations, organizational matters, compliance with laws, policies and procedures, safety and

security issues, insider trading and unethical practices (including Code violations).

As part of CAPREIT’s commitment to continuous improvement in the way we do business, we have also made arrangements with an independent service provider, ClearView Strategic Partners Inc. (“ClearView”), to provide employees with a confidential and anonymous means to communicate specific types of activities.



**“AS THE GLOBAL RISK LANDSCAPE CONTINUES TO EVOLVE, CAPREIT HAS IDENTIFIED RESPONSES AND STRATEGIES TO ADDRESS CLIMATE-RELATED FACTORS THAT COULD AFFECT OUR CORE BUSINESS, INCLUDING PHYSICAL RISKS, POLICY CHANGES AND ECONOMIC IMPERATIVES.”**

## OPERATIONAL RISK MANAGEMENT

**We recognize a growing trend in managing and reporting on climate-related risk and opportunities affecting our operational performance and we are committed to continue managing operational risk in accordance with high principles of risk management.**

As the global risk landscape continues to evolve and intensify, CAPREIT has identified applicable responses and strategies to address climate-related factors that could affect our core business, including physical risks, policy changes and economic imperatives. In considering how these factors create risk and opportunities for the management of our real estate assets, as well as the acquisition and development of our building assets, we preserve our reputation with our investors and stakeholders by keeping on top of emerging issues, while assessing long-term decision horizons.

### Key Risk Management Committees

The Risk Management Committee assists the Board in fulfilling its oversight of risk management and governance in the following areas: (i) identification of risks inherent in the company's business, strategy, capital structure and operating plans, (ii) establishing processes, guidelines, policies and reports for monitoring risks, and (iii) organization and performance of the company's enterprise risk management ("ERM") function. In addition, the committee assists the Audit Committee of the

Board in fulfilling its responsibility to assist the Board in the oversight of risk assessment and risk management processes.

### Corporate Cause Committee

The Corporate Cause Committee researches and selects charitable organizations for CAPREIT to partner with to establish an enterprise-wide social and charitable purpose. CAPREIT is committed to benefiting local communities through various activities and leading by example to make a tangible difference for our residents and the community. The committee's primary duties and responsibilities are to: (i) review, evaluate and oversee the company's enterprise-wide charitable giving strategy and funding guidelines, (ii) review, evaluate and oversee the performance of the company's long-term commitment to the communities it serves, and (iii) monitor donations by providing reporting to the membership on a scheduled basis.

### Disclosure Committee

The Disclosure Committee reports to the Board and is constituted to oversee the

company's disclosure activities and assist the Board in fulfilling its corporate responsibilities. The committee's purpose is to review all public disclosure to ensure the highest level of transparency and compliance with the regulatory requirements and best practices to which CAPREIT is subject.

### ESG Steering Committee

Launched in September 2018, the purpose of our ESG Steering Committee is to provide leadership, and inform and enable the integration of environmental, social and governance factors (ESG) into CAPREIT's strategic objectives. The committee supports the company and the Board in fulfilling the oversight, management and governance of ESG risk factors in the following areas: (i) identification of ESG factors inherent in CAPREIT's business, strategy, capital structure and operating plans, (ii) establishing policies, guidelines, processes, reporting and monitoring of ESG risk factors, and (iii) developing guidance and organization for the disclosure of the company's ESG performance to stakeholders.

## FORWARD-LOOKING STATEMENT



**The Risk Management Committee will continue its review of existing and new frameworks for delivering and supporting the risk management principles outlined in the company's Declaration of Trust. The Risk Management Committee, which meets regularly to discuss enterprise risks, will continue to seek out opportunities to optimize risk management efforts.**

# INVESTING IN COMMUNITIES

OUR SUCCESS IS DRIVEN BY OUR INTENTION TO BUILD STRONG RELATIONSHIPS WITH OUR RESIDENTS AND THE COMMUNITIES IN WHICH WE OPERATE.

Fully committed to investing in both our residents and the communities we serve, CAPREIT places a high value on social responsibility. Established this year, the CAPREIT Corporate Cause Committee is designed to engage the entire organization in philanthropic initiatives.

The committee is comprised of executives, senior managers, managers, head office employees and site staff from across the country, including staff members from our operations in the Netherlands. The main purpose of this committee is to deepen our commitment to our communities and find meaningful ways in which CAPREIT can add social value through its breadth and reach.

Whether we are sponsoring, volunteering or fundraising for a third-party organization or an initiative of our own, CAPREIT takes a hands-on approach to giving back. We are proud to say that we foster a culture of philanthropy, whether the recipients of our continued efforts are our residents or the community at large.



## CAPREIT AND ITS EMPLOYEES SUPPORTED 45+ COMMUNITY CHARITABLE INITIATIVES IN 2018:

**Alberta Children's Hospital • Bowmanville Hospital Foundation • CAPREIT Angel Project • CAPREIT Student Breakfast Program • Children's Foundation (Adopt-A-Family) of Guelph and Wellington • Community Connection Whitby • Covenant House • Daily Bread Food Bank • Diabetes Canada • Furniture Bank • Heart and Stroke Foundation of Canada – Big Bike • Hearth Place Cancer Support Centre • Knightsbridge and Kings Cross Community Clean Up • Ronald McDonald House • Room to Read • San Romanoway Revitalization Association (SRRA) • Scatcherd Scramble Charity • Second Harvest • Spring H.O.P.E. Food Drive • St. Felix Centre • Summer Palooza • Taste of Jane and Finch • Resident appreciation BBQs across Canada • The Calgary Food Bank • The Journey Neighbourhood Centre • The Scott Mission**



## CAPREIT WON TWO 2018 FRPO MAC AWARDS, FOR COMMUNITY ENGAGEMENT AND BEST LOBBY RENOVATION

### KEY PHILANTHROPIC ENGAGEMENTS

#### Rexall's OneWalk to Conquer Cancer

is CAPREIT's most prominent charitable cause based on funds raised. CAPREIT's fundraising participation is to honour Tom Schwartz's, our longtime CEO, lengthy battle with prostate cancer. In 2017, CAPREIT's executive team considered aligning our fundraising efforts with various cancer organizations before deciding to support OneWalk due to its affiliation with The Princess Margaret Cancer Centre, a world-leading cancer research institute. Since then, CAPREIT has raised close to \$130,000 and is looking forward to continuing its growing contribution.

For over 20 years, the **Breakfast Club of Canada** has been nourishing children's potential by ensuring as many as possible have access to a healthy meal before school. Providing an environment that allows children's self-esteem to flourish, the Breakfast Club of Canada takes a broader approach that promotes the core values of engagement, enrichment and empowerment, teaming up with communities and local partners to develop solutions adapted to each child's specific needs. Throughout 2018, CAPREIT helped raise significant funds on behalf of the Breakfast Club of Canada through employee and corporate donations.

To help working families in need of assistance, CAPREIT has over the past 15 years formed long-term partnerships with housing agencies across Canada to

provide well-managed, high-quality accommodation that would otherwise be out of reach for many families. CAPREIT has been a long-time partner of **Interval House**, Canada's first centre for female survivors of intimate partner violence. As part of the *Her Home Housing Project* at Interval House, CAPREIT has offered rent-geared-to-income housing to women who have courageously left abuse behind and started new lives.

### RESIDENT EXPERIENCE

This year, CAPREIT engaged a national third-party service provider to perform a portfolio-wide resident satisfaction survey, focused on measuring the resident experience across the country. In addition to our proprietary survey, CAPREIT also participated in the second annual *Canadian Multi-Res Tenant Rental Survey* with peer property management companies to measure satisfaction and provide an industry benchmark by which to measure CAPREIT's performance. Nearly 3,000 residents participated in CAPREIT's survey, with over 10,000 participating in the indus-

try benchmark survey. This year served as a year of discovery, and the results will be shared in our 2019 CSR report.

Our executive leadership team places great emphasis on customer care and the importance of defining our resident experience. From social media monitoring and engagement with our resident base of followers, to creating personal connections and elevating service models and technology, our **Tenant Experiences Team** promotes interaction with our residents across all channels, utilizing new, innovative tools and processes to ensure an elevated resident experience nationally.

CAPREIT has been hard at work this year laying the foundation for a **Resident Portal** to promote greater efficiency, transparency and communication with our valued residents. The portal will allow residents to book an elevator, make maintenance requests, and facilitates mass communication via site staff. The second phase of this initiative will be an online account platform and system for residents to access their lease and other documents. The **Resident Portal** will launch in 2019.

### FORWARD-LOOKING STATEMENT



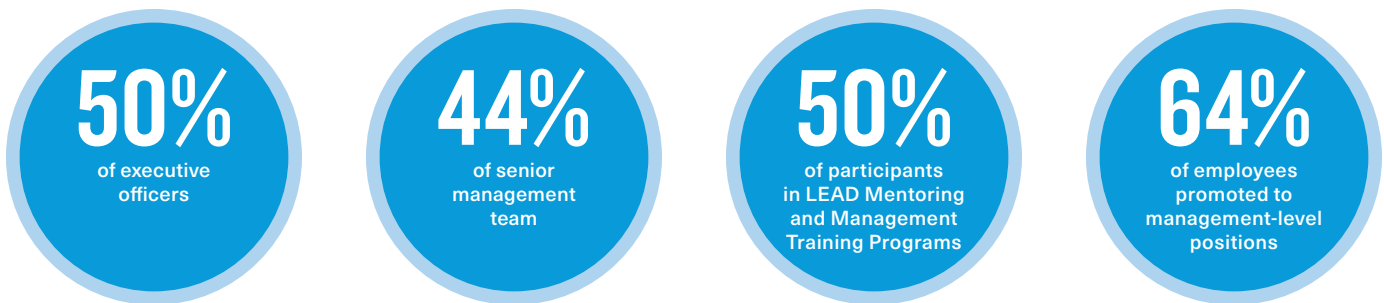
**We will continue to maintain our community impact by identifying locally-based partnerships and initiative opportunities that support our neighbourhoods.**

# OUR PEOPLE

WE ATTRACT AND RETAIN HIGH PERFORMERS WHILE CULTIVATING A CULTURE OF EXCELLENCE THROUGH PROVIDING LEARNING AND DEVELOPMENT OPPORTUNITIES TO OUR EMPLOYEES.

We take pride in hiring, training and mentoring the best people in the industry. Our people are the backbone of our business, and that's why CAPREIT prides itself in having one of the strongest HR departments in the residential real estate industry. Since 2012, we have been selected a Platinum-level Aon Best Employer in Canada for our outstanding employee engagement. After six consecutive years of excellence, we maintain our core objectives of attracting top talent and high performers, while providing learning and development opportunities.

## DIVERSITY BY THE NUMBERS >> AS OF DECEMBER 2018, WOMEN REPRESENT...





## CAPREIT HAS MAINTAINED PLATINUM-LEVEL AON BEST EMPLOYER IN CANADA STATUS FOR THE PAST SIX YEARS

As of December 2018, CAPREIT:

- Employs over 900 people
- Has maintained Platinum-Level Aon Best Employer in Canada status six years running
- Has employees who speak 61 different languages
- Celebrates a 49% and 51% gender split between self-identified women and men
- Invested over \$1.1 million in annual training, education and professional development.

Our focus this past year has been to enhance our internal talent pipeline through leadership development programs. We have developed a new leadership competency framework aligned to our management philosophy and business strategy. We have also expanded our role-based training for property management professionals to foster growth and development. As an organization, we feel confident that the investment we have made in these programs will ensure we have the top talent required to support our continued expansion.

CAPREIT is dedicated to providing employees with competitive remuneration, generous benefits, training, educational opportunities and career advancement. Going above and beyond what is expected is our way of showing our appreciation to the talented individuals who make up our company. Thus, we provide a comprehensive benefits package to our full-time employees.

### KEY EMPLOYEE PROGRAMS

Following a successful pilot launch in August 2018, we implemented a new recruitment and employee onboarding tool called **espace\* Recruit** for our Operations group. This powerful new tool enhances CAPREIT's ability to attract and retain top talent, an increasing priority in today's labour market. Process automation and streamlining have alleviated the volume of recruitment-related activities for our hiring managers, allowing them to better focus their attention on achieving performance objectives for our properties. We will expand our rollout of **espace\* Recruit** to include our corporate hiring managers in 2019 and enhance functionality throughout the year.

In 2018, we made enhancements to our online **Learning Management System (LMS)** with customized, industry-specific training content. We place an emphasis on training and development for our valued employees in order to facilitate a high-performance culture. We also introduced a custom training seminar on fostering an environment of performance and innovation through open communication, collaboration and continuous feedback.

CAPREIT's **LEAD Mentoring Program** continues to provide employees at all levels of our organization with the ability to develop their leadership competencies and make valuable connections with colleagues through a formal coaching program. In this program, high-potential

### WHAT DO CAPREIT EMPLOYEES HAVE TO SAY ABOUT LEAD?



**"The program challenged me to get out of my comfort zone and sharpen some of my skills."** – Marc Blanchard, Operations Manager



**"The LEAD program was a safe environment for me to face my public speaking fears. I was presented with the right tools to develop into a confident speaker."** – Robyn Labodi, Revenue Analyst



**"The program helped me identify my career goals and get to know more about my peers in a fun, engaging environment across different regions and in different contexts."** – Maria Elena Alvarez, Training Facilitator

## EMPLOYEE BENEFITS

- Employee & Family Assistance Program (EFAP)
- Employee Savings Program (ESP)
- Flexible benefits plan (including health, dental, vision care, paramedical, prescription drugs, out-of-province and out-of-country coverage, emergency travel assistance, life and accidental death and dismemberment (AD&D))
- Paid sick leave
- Performance-based bonuses
- Personal day (paid time off)
- Professional association reimbursement
- Referral bonuses
- Short-term and long-term disability coverage
- Summer hours
- Tuition reimbursement
- Vacation (paid time off)
- Waiving of first and last month's deposit at CAPREIT properties

employees develop their management skills by engaging in projects that cultivate their ability to present to large groups, build business cases, perform cost-benefit analyses and network with subject-matter experts across our organization.

CAPREIT's **Building Leaders Program** focuses on executive development. The Building Leaders Program is a burgeoning Leadership Excellence and Development ("LEAD") program that cultivates the leadership potential of high-performing property managers. This program is essential to our objective of ensuring appropriate succession planning within our Operations group. Through this program, high-performing managers within Operations are provided with individually tailored coaching and projects to unlock their leadership potential. Particular care is given to ensuring the alignment of future leaders with CAPREIT's leadership competencies and encouraging the development of an executive mindset.

At CAPREIT, we feel confident that these diverse programs will ensure that our talent

pipeline is prepared to meet future growth opportunities. Our investment in employees reflects our commitment to ensuring the stability of our operations while we pursue a strategy of continued growth and expansion.

## EMPLOYEE RECOGNITION

CAPREIT understands that making employees feel valued is an important part of corporate culture. Recognition matters because it increases engagement, encourages trust in leaders, enhances employee retention and reinforces the culture of the company. When employees feel valued, they are happier, appreciate their leadership team more and stay at the organization for a longer period of time, making for a stronger and more sustainable company.

**CAPREIT Kudos** is a peer-to-peer nominated monthly recognition program. Each month, our Internal Communications team receives email shout-outs from employees who would like to nominate their colleagues for the efforts they have put forth in their work, improving the overall sense of camaraderie at CAPREIT.

Employees use **CAPREIT ACES Awards** to recognize colleagues who excel in their role, demonstrating qualities such as going above and beyond, conscientiousness, an exceptional work ethic and providing exemplary service.

## FORWARD-LOOKING STATEMENT



**As a reflection of our commitment to workplace diversity, CAPREIT has initiated the process of developing a diversity and inclusion road map that will be translated into a formal policy in 2019.**



## 61 DIFFERENT LANGUAGES ARE SPOKEN AMONG CAPREIT EMPLOYEES

The **CAPREIT Star Award** is a new recognition program in which winners are selected based on a strong track record of stellar performance plus an outstanding contribution to their portfolio over the past year.

In honour of our co-founder, past president and CEO, the **Tom Schwartz Legacy** was established in 2018. This is a peer-nominated program for which an annual recipient will be chosen for embodying all of the factors in CAPREIT's leadership competency framework. The winning nominee will be chosen by a committee comprised of members of our senior management team.



### ENVIRONMENTAL, HEALTH AND SAFETY STANDARDS AND TRAINING

**We are accountable for assessing and mitigating environmental, health and safety risks by ensuring our stakeholders are kept informed of and safe from preventable incidents.**

CAPREIT's environmental, health and safety program ensures all employees are properly trained and understand the potential hazards inherent in their job functions. We monitor compliance with applicable legislation, training, incident investigations, and developments in health and safety-related policies, programs and procedures for all applicable stakeholders. Our policies and programs, incident reporting process and safety culture are under a continuous process of improvement. This year has served as the benchmarking year to measure the effectiveness of our latest training courses, policies, procedures and initiatives related to health and safety.

### KEY POLICIES IMPLEMENTED

**Hazard Identification and Control Policy**  
This policy will allow the company to obtain an accurate representation of the health and safety hazards and risks affecting its operations and personnel to assist the organization in implementing necessary preventative and corrective actions.

#### Incident and Injury Reporting Policy and Procedures

This policy requires that all incidents, near misses and injuries be reported immediately to a member of management. CAPREIT is committed to providing the resources and support required to help workers recover quickly and safely.

**Incident and Injury Investigation Policy**  
This policy will allow the company to identify hazards, determine root causes and implement preventative and/or corrective measures to avoid or minimize the severity of future workplace incidents, near misses and injuries.

### FORWARD-LOOKING STATEMENT

**The EHS team plans to instill a safety culture in the organization, where all employees are engaged and proactive about EHS.**



**ADDITIONAL EHS-BASED POLICIES AND PROCEDURES IN 2018 INCLUDE:**

**IN REVIEW**

- Asbestos Management Program
- Confined Space
- Contractor and Sub-Contractor
- Emergency Preparedness
- Fire Safety
- First Aid
- Hot Work
- Lock-out/Tag-out
- Occupational Health and Safety Seminar
- Personal Protective Equipment
- Respiratory Protection
- Working Alone
- Working at Heights
- Workplace Inspections

**IN DEVELOPMENT**

- EHS Management Software
- Occupational Health and Safety Audit

**IMPLEMENTED**

- Manual Material Handling and Back Safety
- Occupational Health and Safety

**ONGOING THIRD-PARTY DELIVERED COURSES:**

**IN DEVELOPMENT**

- Emergency Preparedness
- Hazardous Substance Spill Clean-up
- Incident and Injury Investigation
- Incident and Injury Reporting
- Noise and Hearing Loss Prevention
- Sharps
- Working Alone

**IMPLEMENTED**

- Electrical Hazards
- Hazard Identification and Control
- Ladder Safety
- Office Safety
- OHS for Ontario Supervisors and Managers
- OHS for Ontario Workers
- PPE Basics
- WHMIS 2015
- Workplace Inspections



# MANAGING OUR OPERATIONAL FOOTPRINT

WE OPTIMIZE OUR OPERATIONAL FOOTPRINT BY CONSERVING RESOURCES AND STRIVING TO MAINTAIN TENANT COMFORT IN THE COMMUNITIES WE SERVE.

CAPREIT has demonstrated an ongoing commitment to sustainability through integrating environmentally responsible strategies and practices into every aspect of operating our business. By optimizing energy consumption at our buildings, enabling employees and tenants with conservation and waste diversion tools, and implementing sustainability practices across our portfolio, we seek not only to do our part in reducing adverse impacts on the environment but also to deliver sustainable returns to our unitholders.

As an industry-recognized leader in energy, water and waste management, CAPREIT continuously invests in conservation measures across our portfolio. In 2018, we invested \$17 million into improving the operational performance of our buildings – reducing our utility consumption and increasing tenant comfort and satisfaction in the process.

For existing buildings, new acquisitions and potential developments, CAPREIT continuously audits and benchmarks properties to find opportunities to implement new conservation projects. We partner with industry experts to design, evaluate and execute projects using both proven and leading-edge technologies.

## KEY PROJECT HIGHLIGHTS

### Energy

#### Boiler Retrofits

CAPREIT implemented four major boiler retrofit projects in Québec, including new high-efficiency condensing boilers, make-up air heat recovery and enhanced building automation. These projects have the environmental effect of reducing GHG emissions by 830 tons, the equivalent of removing 238 cars from our streets.

Total Investment	<b>\$2.1 million</b>
Energy Subsidies	<b>\$1.2 million</b>
Project Payback	<b>4.6 years</b>
GHG Reduction	<b>830 tons CO<sub>2</sub></b>

#### Combined Heat & Power (CHP)

CAPREIT successfully implemented its first CHP projects at 10 San Romanoway in Toronto. The 260 kW system is expected to reduce annual utility costs at the pilot site by 25%, while generating approximately 60% of the electricity used by the building. On the emergency power side, CHP has

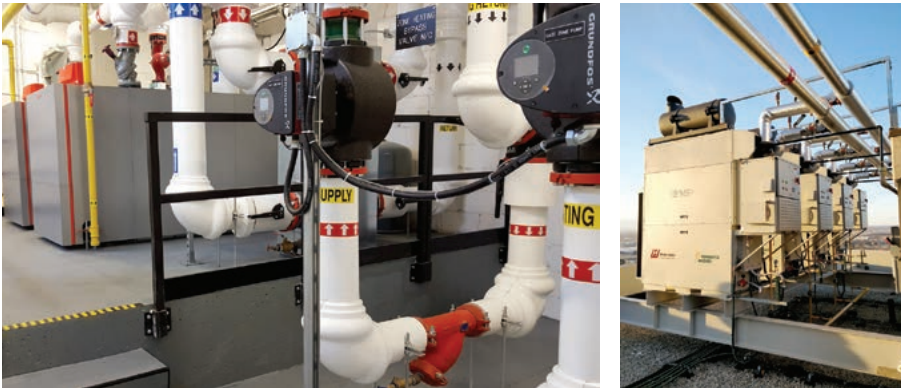
## ENERGY CONSERVATION MEASURES

### NATURAL GAS

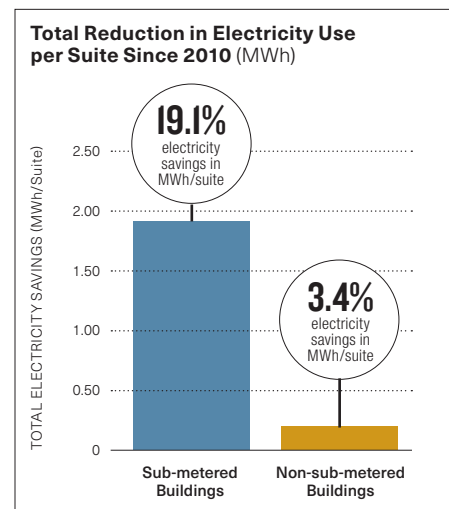
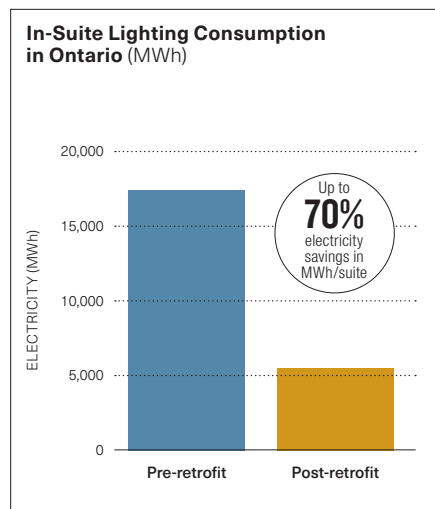
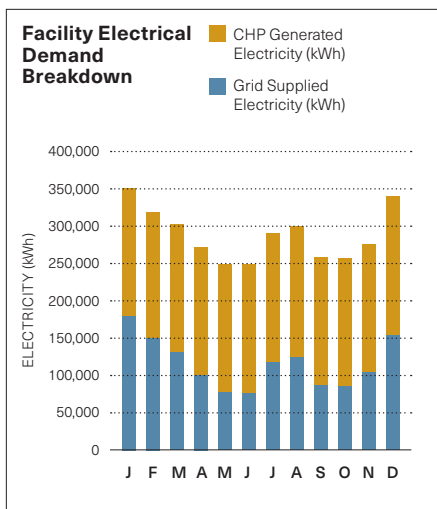
- Building Automation Systems (BAS)
- Heat Recovery Technology (HRT)
- Heated garage CO monitoring system
- Heated Make-Up Air (MUA) replacement
- Mid- and high-efficiency boilers
- Radiator cleaning and heat reflectors

### ELECTRICITY

- Chiller replacement
- Combined Heat & Power (CHP)
- Demand Control Ventilation
- Heat recovery technology
- In-suite smart thermostats
- LED lighting fixtures and controls
- Sub-metering



Projects featured (from left to right): Boiler retrofit in Québec and CHP in Ontario.



not only increased back-up power capacity, providing tenants with more service during an outage, but also improved resiliency through modular power plant design. Three additional projects are in the pipeline for Toronto with completion anticipated in 2020.

**Project Enlighten**

Project Enlighten involves the upgrade of all in-suite light fixtures to LEDs across our portfolio in Ontario. With over 210,000 light bulbs replaced across 103 sites in 2018, the project is estimated to provide 11,456 MWh in electricity savings at all Ontario sites. This has the environmental effect of taking approximately 565 cars off the road, or planting 22,000 trees. CAPREIT

is making major headway on project completion at an additional 60 sites, estimated for early 2019.

**Tenant Sub-metering**

To encourage residents to effectively manage the reduction of their in-suite use, close to 11,450 units are currently sub-metered for electricity consumption. The reduction in annual electricity use intensity on a per suite basis in sub-metered buildings amounts to 19% over a seven-year period compared to annual electricity savings of close to 3.5% for the overall non-sub-metered portfolio over the same period. On lease turnovers, new rental agreements include metered billing payable by the resident, which acts as a strong incentive for tenants to reduce

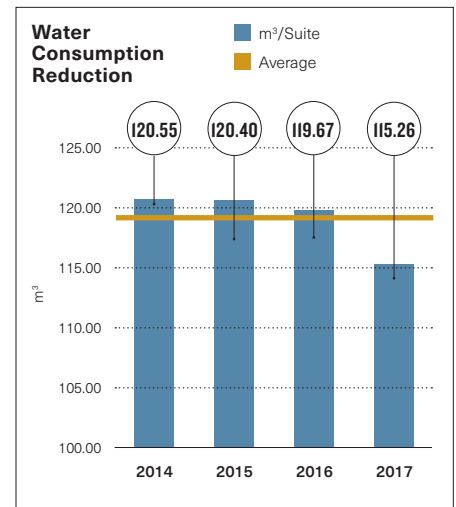
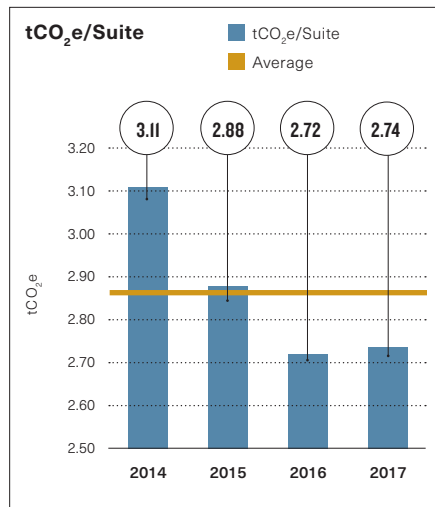
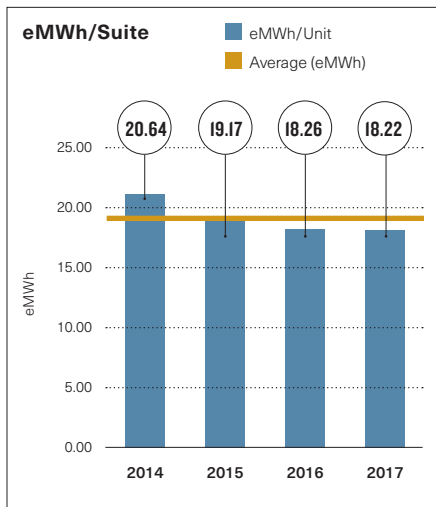
energy consumption. CAPREIT evaluates the impacts on a quarterly basis to ensure our investments provide long-term value.

For 2019, our goal is to install sub-meters in all eligible new acquisitions and in existing buildings where the opportunity arises for sub-meter installation.

Through the rollout of energy conservation initiatives on a per suite basis, CAPREIT obtained energy savings of 12% in eMWh/suite and equivalent reductions in our Scope 1, Scope 2 and Scope 3 GHG emissions over the past four years. The reported data are compared against adjusted historical years as per the GHG Protocol conducted by a third-party consultant.



Canada's Clean50 offers recognition to Canada's leaders in sustainability for their contribution to clean capitalism. Dan Rames, CAPREIT's Director of Energy Management, was recognized in 2018 for his efforts in building an internal culture of conservation and sustainable living by delivering on retrofits, individual unit metering and tenant engagement programs. Dan's work continues to prove that sustainability makes a lot of "cents."



**Water**

*Water-Efficient Fixtures*

CAPREIT evaluates the installation of the latest water-efficient fixtures available on the market. Since 2010, the portfolio has saved 15% in water consumption through the installation of:

- Over 18,000 ultra-high-efficiency toilets
- Over 17,000 low-flow showerheads and aerators
- Over 3,000 high-efficiency laundry machines

In the past four years, CAPREIT has managed an annual water consumption reduction of 4% as a result of water conservation initiatives. The reported data are compared against adjusted historical years as per the GHG Protocol conducted by a third-party consultant.

**Waste**

*Waste Diversion at Every Level*

CAPREIT is committed to reducing the volume of unnecessary waste going to landfills. To improve waste diversion efforts at all our sites, we have implemented several strategies which include introducing recycling and composting solutions to

our tenants through signage and training, installing garbage compactors to reduce the number of bin pickups, ensuring there are no pre-existing contaminations prior to property acquisition, and revitalizing existing residential properties to facilitate greater urban density, which ultimately reduces pollution.

**FORWARD-LOOKING STATEMENT**

**We are looking to implement additional conservation processes to strengthen building-level decision-making, allocate capital, uncover industry best practices and further operational performance across the portfolio.**

# THE FUTURE OF OUR ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) STEWARDSHIP

WE ENABLE AND INFLUENCE THE INTEGRATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS INTO DAY-TO-DAY OPERATIONS AND DECISION-MAKING.

ESG performance benchmarking and disclosure are becoming increasingly valued and expected by both investors and industry standards across the real estate industry. As a leader in residential housing, CAPREIT recognizes and responds to this trend by establishing the necessary building blocks to gain a better understanding of its exposure to ESG-related risks and opportunities. Therefore, the implementation of an ESG strategy is intended to future-proof continued effective management of our day-to-day operations and drive sustainable, long-term growth and profitability.



## KEY ESG DELIVERABLES

CAPREIT established an **ESG Committee** that represents a cross-section of CAPREIT's business and provides ESG-related risk management and governance oversight through:

- Identification of inherent ESG risks
- Monitoring ESG risks through formalized processes, guidelines, policies and reports
- Organization and performance of ESG reporting and disclosure requirements

We completed a **Global Real Estate Sustainability Benchmark (GRESB) pre-assessment**, which is a global assessor of the sustainability performance of real estate assets and their managers. Through this exercise, CAPREIT identified eight opportunities for immediate improvement affecting our current operational practices.

Some of the opportunities identified include:

- Formalizing and documenting operational performance policies and standards
- Stakeholder engagement programs
- Supply chain initiatives

These results are being used by CAPREIT's ESG and CSR Committees to inform a set of wide-ranging operational and corporate sustainability projects. All findings have been included in the ESG Committee's Action Plan for further assessment and implementation.

In 2018, we initialized a **Taskforce on Climate Related Financial Disclosure (TCFD) aligned climate-related risks and opportunities assessment** to begin the process of gaining a better understanding of business-relevant and climate-related factors. A voluntary climate-related financial risk disclosure, the TCFD offers participants a more effective measure and evaluation of their own risks and those of

their suppliers and competitors. As such, the assessment process focused on reviewing CAPREIT's current operations and disclosure process, industry peer benchmarking and identifying opportunities to deliver on shareholder expectations.

As a hallmark of our commitment, we engaged an award-winning risk management and sustainability software developer to implement our Environmental Management System (EMS) in 2019, which will align with the Global Reporting Initiative (GRI) and GRESB reporting metrics. Building investor-grade data will support the tracking, monitoring and actioning of key performance indicators in the areas of, among others, environmental health and safety, operational sustainability and risk management, along with guiding the implementation, adoption and performance of related policies and procedures going forward.

For more information on CAPREIT's 2018 Corporate Social Responsibility and Sustainability Report and other related matters, please contact:

[IR@capreit.net](mailto:IR@capreit.net)

**Corporate Head Office**  
11 Church Street, Suite 401  
Toronto, ON M5E 1W1

## FORWARD-LOOKING STATEMENT



**We are looking to complete a Materiality Assessment, formalize a Corporate Social Responsibility (CSR) Committee and Corporate Green Teams, and build in-house ESG subject matter expertise to further strengthen the adoption of an ESG culture within CAPREIT.**



## Unitholder Information

### BOARD OF TRUSTEES

Michael Stein<sup>2</sup>  
*Chairman and Chief Executive  
Officer of MPI Group Inc.*

David Ehrlich

Harold Burke<sup>1</sup>  
*Senior Vice President  
of Taxation, DREAM  
Unlimited Corp.*

Stanley B. Swartzman<sup>2,3,4</sup>  
*Corporate Director and  
Lead Trustee*

Dr. Elaine Todres<sup>3,4</sup>  
*Chief Executive Officer of  
Todres Leadership Counsel*

Dr. Gina Cody<sup>1,2,3</sup>  
*Corporate Director*

Paul Harris<sup>1,3,4</sup>  
*Corporate Director*

Jamie Schwartz<sup>2,4</sup>

### NOTES TO BOARD OF TRUSTEES

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

### OFFICERS

Michael Stein  
*Chairman*

Mark Kenney  
*President and  
Chief Operating Officer*

Scott Cryer  
*Chief Financial Officer*

Jodi Lieberman  
*Chief Human Resources  
Officer*

Corinne Pruzanski  
*General Counsel and  
Corporate Secretary*

### HEAD OFFICE

11 Church Street, Suite 401  
Toronto, Ontario M5E 1W1  
T: 416.861.9404  
F: 416.861.9209

### INVESTOR INFORMATION

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

Mark Kenney  
President and  
Chief Operating Officer  
T: 416.861.9404  
E: [ir@capreit.net](mailto:ir@capreit.net)

Website  
[www.caprent.com](http://www.caprent.com) or  
[www.capreit.net](http://www.capreit.net)

### REGISTRAR AND

**TRANSFER AGENT**  
Computershare Trust  
Company of Canada  
100 University Avenue  
9th Floor  
Toronto, Ontario M5J 2Y1  
T: 1.800.663.9097  
E: [caregistry  
@computershare.com](mailto: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 DISTRIBUTIONS

#### PER UNIT

June 2016 – February 2017:  
\$0.1042 (\$1.25 annually)

March 2017 – April 2018:  
\$0.1067 (\$1.28 annually)

May 2018 – December 2018:  
\$0.1108 (\$1.33 annually)

### ANNUAL UNITHOLDERS' MEETING

The Annual Meeting of  
Unitholders will be held at  
4:30 p.m. EDT on  
Wednesday, June 13, 2019 at  
One King West Hotel  
1 King Street West  
Toronto, Ontario M5H 1A1

We are very proud to have been selected as one of Canada's Best Employers for the sixth consecutive year in 2018. 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.



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