



CAPREIT

**FINANCIAL REVIEW
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2016**



CAPREIT

November 7, 2016

Report to Unitholders

Our proven value-enhancing strategies continue to deliver significant benefits to our Unitholders. Through the first nine months of 2016 we acquired 1,981 residential suites and MHC sites well-located in our key target markets, significantly strengthening our asset base and enhancing the diversification of our property portfolio. We also continued to generate very strong organic growth, the result of our focused property management programs.

For the three and nine months ended September 30, 2016, total operating revenues increased 15.2% and 13.6%, respectively, compared to the same periods last year, driven by the contribution from acquisitions, high occupancies and further increases in average monthly rents. Increased ancillary revenues, including parking, laundry and antenna income, also contributed to our strong performance. Occupancies for the stabilized residential portfolio strengthened to 98.8% at quarter end while average monthly rents rose 2.7% compared to last year. Our annualized net rental revenue run-rate, based on the average monthly rents in place and our share of residential suites and sites as at September 30, 2016, increased to \$581.6 million, up 7.2% from last year.

Operating costs decreased as a percentage of revenues in the third quarter and first nine months of 2016 compared to the same periods last year due primarily to lower repair, maintenance and advertising costs. Our NOI margin strengthened to 61.2% for the nine months ended September 30, 2016 compared to 60.9% last year. In addition, our property management programs continue to positively impact our performance as stabilized NOI increased by 3.6% in the third quarter and 2.5% for the first nine months of 2016. Overall NOI rose 17.3% and 14.1% for the three and nine months ended September 30, 2016, respectively, compared to same periods last year.

[Signed] _____

Thomas Schwartz
President and Chief Executive Officer

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Normalized Funds from Operations (NFFO), the key measure of our operating performance, increased by 20.0% in the third quarter and 17.5% for the first nine months of 2016 due primarily to the contribution from acquisitions, increased occupancies and average monthly rents. Our growth was also accretive as basic NFFO per Unit rose 4.7% for the nine months ended September 30, 2016 despite the 12% increase in the weighted average number of Units outstanding compared to the same period last year. Our NFFO payout ratio remained very strong at 70.4% through the first nine months of 2016.

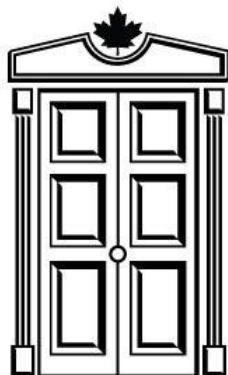
Our balance sheet and financial position remained strong at September 30, 2016 with debt service ratios well within our guidelines and conservative coverage ratios. Our weighted average mortgage interest rate declined further to 3.25%, and we continue to focus on extending our debt maturities. Importantly, we have investment properties with a fair value of \$278.5 million that are not encumbered by mortgages, providing further flexibility and the financial resources to continue building value for our Unitholders. In addition, on August 3, 2016 we successfully completed a bought-deal equity offering, raising gross proceeds of \$165.1 million to further our growth.

CAPREIT remains entrepreneurial in its growth initiatives, and over the last few months we have identified the potential to develop approximately 1,600 new residential suites on our owned properties over the next three years. Once occupied, these new assets should make a strong, growing and highly accretive contribution to our cash flows. Our investment in IRES REIT also continues to deliver value with asset and property management fees rising to \$3.8 million for the first nine months of 2016.

Looking ahead, we believe our track record of accretive growth will continue to generate solid increases in revenues, while our focus on operating performance and tenant satisfaction will drive strong organic growth. Combined with strong demand for quality rental residential properties in the majority of our markets across Canada, we look for another record year in 2016 and going forward.

[Signed] _____

Michael Stein
Chairman



CAPREIT

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

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016

NOVEMBER 7, 2016

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SECTION I**FORWARD-LOOKING DISCLAIMER**

The following Management's Discussion and Analysis ("MD&A") of Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") results of operations and financial condition for the three and nine months ended September 30, 2016 and 2015, should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report.

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, projected costs, capital investments, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to acquisition and capital investment strategy and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including: that the Canadian and Irish economies will generally experience growth, however, may be adversely impacted by the global economy; that inflation will remain low; that interest rates will remain low in the medium term; that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates; that the Canadian capital markets will continue to provide CAPREIT with access to equity and/or debt at reasonable rates; that vacancy rates for CAPREIT properties will be consistent with historical norms; that rental rates will grow at levels similar to the rate of inflation on renewal; that rental rates on turnovers will remain stable; that CAPREIT will effectively manage price pressures relating to its energy usage; and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions, Management believes they are reasonable as of the date hereof; 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 or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: reporting investment properties at fair value, real property ownership, leasehold interests, co-ownerships, investment restrictions, operating risk, energy costs and hedging, environmental matters, insurance, capital investments, indebtedness, interest rate hedging, foreign operation and currency risks, taxation, harmonization of federal goods and services tax and provincial sales tax, land transfer tax, government regulations, controls over financial accounting, legal and regulatory concerns, the nature of units of CAPREIT ("Trust Units"), Preferred Units, and units of CAPREIT's subsidiary, CAPREIT Limited Partnership ("Exchangeable Units") (collectively, the "Units"), unitholder liability, liquidity and price fluctuation of Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, continued growth and risks related to acquisitions. 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 2015 Annual Report in the Risks and Uncertainties section. Subject to applicable law, CAPREIT does not undertake any obligation to publicly update or revise any forward-looking information.

NON-IFRS FINANCIAL MEASURES

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

OVERVIEW

CAPREIT is an unincorporated open-ended publicly-traded real estate investment trust and one of Canada’s largest residential landlords serving over 48,100 families across the country. CAPREIT owns and operates a portfolio of multi-unit residential rental properties, including apartments, townhomes and manufactured home communities principally located in and near major urban centres 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 across Canada.

CAPREIT’s wholly owned subsidiary, IRES Fund Management Limited, entered into an external management agreement to perform certain property and asset management services for Irish Residential Properties REIT plc (“IRES”), an Irish residential REIT listed on the Irish Stock Exchange. As at September 30, 2016, CAPREIT manages 2,377 suites for IRES, has a 15.7% share ownership in IRES and has significant influence over IRES.

CAPREIT was established under the laws of the Province of Ontario by a declaration of trust (the “DOT”) dated February 3, 1997, as most recently amended and restated on June 12, 2014. As at September 30, 2016, CAPREIT owned interests in 48,190 residential units, comprised of 41,747 residential suites and 31 manufactured home communities (“MHC”), comprising 6,443 land lease sites. As at September 30, 2016, CAPREIT had 988 employees (937 employees as at December 31, 2015).

IRES TRANSACTION

On March 25, 2015, CAPREIT invested €23.5 million in addition to its initial investment in Ordinary Shares in Irish Residential Apartments REIT public limited company (“IRES”) as part of IRES’s €215.0 million secondary equity offering. As at September 30, 2016, CAPREIT LP holds 65.5 million ordinary shares representing 15.7% of the issued share capital of IRES.

The tables below summarize acquisitions and dispositions of properties for the nine months ended September 30, 2016 and for the year ended December 31, 2015:

Acquisitions Completed During the Nine Months Ended September 30, 2016

(\$ Thousands)	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
January 20, 2016	Mid-tier	670	London	\$ 53,200	\$ — ⁽³⁾	— ⁽³⁾	— ⁽³⁾
April 12, 2016	Mid-tier	12	Charlottetown	1,162	729 ⁽³⁾	2.04% ⁽³⁾	3.7 ⁽³⁾
April 26, 2016	Mid-tier	71	Greater Toronto Area	16,630	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
May 11, 2016	Mid-tier	55	Greater Toronto Area	10,178	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
May 11, 2016	MHC	144	Fort St. John	8,668	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 15, 2016	Mid-tier	21	Victoria	2,643	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 30, 2016 ⁽⁴⁾	Various	850	Ottawa	184,668	24,627 ⁽³⁾	3.96% ⁽³⁾	6.3 ⁽³⁾
September 15, 2016	Luxury	71	Halifax	17,407	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
September 30, 2016	Luxury	87	London	22,813	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
Total		1,981		\$ 317,369	\$ 25,356		
Acquisition Financing					\$ 198,622⁽⁵⁾	2.38%⁽⁵⁾	9.9⁽⁵⁾

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

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

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

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

(5) Subsequent acquisition financing of \$39,527 with a weighted average interest rate of 2.39% and a weighted average term to maturity of 9.3 years relates to properties acquired in 2015.

Acquisitions Completed During the Year Ended December 31, 2015

(\$ Thousands)	Demographic Sector	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
January 28, 2015 ⁽⁴⁾	Luxury	270	Dublin, Ireland	\$ 125,416	\$ — ⁽³⁾	— ⁽³⁾	— ⁽³⁾
February 18, 2015	Mid-tier	126	Edmonton	31,092	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
March 31, 2015	Mid-tier	285	Burlington	54,500	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 15, 2015	Mid-tier	32	Victoria	5,479	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 30, 2015	Affordable	108	Langley	13,010	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
July 31, 2015	Luxury	58	Langley	17,070	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
September 14, 2015	Various ⁽⁶⁾	919	Greater Vancouver Area	170,611	— ⁽³⁾	— ⁽³⁾	(3)
September 30, 2015	Various ⁽⁷⁾	3661	Montréal	502,276	— ⁽⁵⁾	— ⁽⁵⁾	— ⁽⁵⁾
November 1, 2015	MHC	4	Bowmanville and Grand Bend	372	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 17, 2015	Mid-tier	169	Victoria	29,474	3,030 ⁽⁸⁾	1.80% ⁽⁸⁾	4.2 ⁽⁸⁾
Total		5,632		\$ 949,300	\$ 3,030		
Acquisition Financing					\$ 382,203	2.36%	8.2

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

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

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

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

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

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

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

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

Dispositions Completed During the Nine Months Ended September 30, 2016

(\$ Thousands)	Demographic Sector	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
July 27, 2016	Mid-tier	145	Montréal	\$ 24,849	\$ 12,480	\$ 12,085
August 22, 2016	Mid-tier	22	Montréal	2,340	2,282	–
September 28, 2016	Affordable	412	Montréal	31,350	16,886	14,322
Total		579		\$ 58,539	\$ 31,648	\$ 26,407

Dispositions Completed During the Year Ended December 31, 2015

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

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

OBJECTIVES

CAPREIT's objectives are to:

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

BUSINESS STRATEGY

To meet its objectives, CAPREIT has established strategies focused on: Customer Service, Cost Management, Capital Investments, Portfolio Growth, and Financial Management.

For a comprehensive description of CAPREIT's business strategies, refer to CAPREIT's MD&A for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report.

KEY PERFORMANCE INDICATORS

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

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

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

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

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

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

Portfolio Growth – Management’s objective is to pursue acquisitions of between 1,500 and 2,000 suites and sites on an annual basis, subject to market conditions and available financing, which meet its strategic objectives, serve to accretively increase NFFO and continue to further diversify the portfolio by geography and by demographic sector. In addition, Management has recently entered into and continues to prudently investigate the opportunity to enter into joint venture relationships with other real estate entities to potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT or other vacant land.

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

PERFORMANCE MEASURES

The following table presents an overview of certain non-IFRS financial measures and operational results of CAPREIT for the periods ended September 30, 2016 and 2015. Management believes these measures are useful in assessing CAPREIT's performance vis-à-vis its objectives, business strategy and KPIs. Effective May 2016, monthly cash distribution declared to Unitholders increased to \$0.1042 per Unit (\$1.25 annually), compared to \$0.102 per Unit (\$1.22 annually) effective since May 2015 and \$0.098 per Unit (\$1.18 annually) effective since June 2014.

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Portfolio Performance				
Overall Portfolio Occupancy ⁽¹⁾			98.7%	98.0%
Overall Portfolio Average Monthly Rents ⁽¹⁾			\$ 999	\$ 964
Operating Revenues (000s)	\$ 151,812	\$ 131,812	\$ 444,106	\$ 391,022
NOI (000s)	\$ 96,274	\$ 82,087	\$ 271,737	\$ 238,187
NOI Margin	63.4%	62.3%	61.2%	60.9%
Operating Performance ⁽²⁾				
FFO Per Unit – Basic	\$ 0.464	\$ 0.411	\$ 1.275	\$ 1.210
NFFO Per Unit – Basic	\$ 0.470	\$ 0.440	\$ 1.335	\$ 1.275
Weighted Average Number of Units - Basic (000s)	132,246	117,912	129,520	115,425
Cash Distributions Per Unit	\$ 0.313	\$ 0.305	\$ 0.925	\$ 0.902
FFO Payout Ratio ⁽⁶⁾	68.4%	75.7%	73.7%	76.4%
NFFO Payout Ratio ⁽⁶⁾	67.5%	70.7%	70.4%	72.5%
Liquidity and Leverage				
Total Debt to Gross Book Value ⁽¹⁾			44.31%	49.27%
Total Debt to Gross Historical Cost ^{(1),(3)}			54.17%	59.21%
Weighted Average Mortgage Interest Rate ⁽¹⁾			3.25%	3.53%
Weighted Average Mortgage Term (years) ⁽¹⁾			6.2	6.2
Debt Service Coverage (times) ⁽⁴⁾			1.63	1.61
Interest Coverage (times) ⁽⁴⁾			3.05	2.93
Available Liquidity – Acquisition and Operating Facility (000s) ⁽¹⁾			\$ 278,760	\$ 18,201
Other				
Number of Suites and Sites Acquired	158	4,638	1,981	5,459
Number of Suites Disposed ⁽¹⁾	579	–	579	530
Closing Price of Trust Units			\$ 30.62	\$ 28.38
Market Capitalization (millions) ⁽⁵⁾			\$ 4,172	\$ 3,416

(1) As at September 30.

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

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

(4) Based on the trailing four quarters.

(5) Defined as the closing price of the Units on the last trading date of the period times the number of Units (including all Unit-based incentive plans except UOP) that date (see discussion of Unitholders' Equity in the Liquidity and Financial Condition section).

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

PROPERTY PORTFOLIO

Types of Property Interests

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

For a comprehensive description of the different forms of property interests listed above, refer to CAPREIT's MD&A for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report.

Portfolio by Type of Property Interest

As at September 30,	2016	%	2015	%
Fee Simple Interests – Apartments and Townhomes	36,881	76.5	35,466	76.1
Operating Leasehold Interests	3,815	7.9	3,815	8.2
Land Leasehold Interests	1,051	2.2	1,051	2.2
Total Residential Suites	41,747	86.6	40,332	86.5
Fee Simple Interests – MHC Land Lease Sites	6,443	13.4	6,285	13.5
Total Suites and Sites	48,190	100.0	46,617	100.0

Portfolio Diversification

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

Portfolio by Demographic Sector

As at September 30,	2016	%	2015	%
Affordable	3,038	6.3	3,291	7.1
Mid-tier	23,014	47.7	21,510	46.1
Luxury	15,695	32.6	15,531	33.3
Total Residential Suites	41,747	86.6	40,332	86.5
MHC Land Lease Sites	6,443	13.4	6,285	13.5
Total Suites and Sites	48,190	100.0	46,617	100.0

Portfolio by Geography**As at September 30,**

	2016	%	2015	%
Residential Suites				
Ontario				
Greater Toronto Area	15,648	32.5	15,518	33.3
Ottawa	2,377	4.9	1,527	3.3
London / Kitchener / Waterloo	2,407	5.0	1,650	3.5
Other Ontario	1,698	3.5	1,696	3.6
	22,130	45.9	20,391	43.7
Québec				
Greater Montréal Region	7,640	15.8	8,243	17.7
Québec City	2,733	5.7	2,729	5.8
	10,373	21.5	10,972	23.5
British Columbia				
Greater Vancouver Region	3,031	6.3	3,030	6.5
Victoria	1,402	2.9	1,212	2.6
	4,433	9.2	4,242	9.1
Alberta				
Edmonton	436	0.9	436	0.9
Calgary	1,884	3.9	1,883	4.1
	2,320	4.8	2,319	5.0
Nova Scotia				
Halifax	1,659	3.4	1,588	3.4
Saskatchewan				
Saskatoon	133	0.3	133	0.3
Regina	234	0.5	234	0.5
	367	0.8	367	0.8
Prince Edward Island				
Charlottetown	465	1.0	453	1.0
Total Residential Suites	41,747	86.6	40,332	86.5
MHC Land Lease Sites				
Ontario	2,693	5.6	2,686	5.8
British Columbia	272	0.6	130	0.3
Alberta	415	0.9	415	0.9
Saskatchewan	246	0.5	246	0.5
Prince Edward Island	504	1.0	500	1.0
New Brunswick	2,313	4.8	2,308	5.0
Total MHC Land Lease Sites	6,443	13.4	6,285	13.5
Total Suites and Sites	48,190	100.0	46,617	100.0

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

CAPREIT continues to target acquisitions of between 1,500 and 2,000 suites and sites on an annualized basis over the long term.

INVESTMENT PROPERTIES

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

The fair value of investment properties is established annually by a qualified, independent appraiser. Each quarter, CAPREIT utilizes market assumptions for rent increases, capitalization and discount rates provided by the external appraiser to determine the fair value of the investment properties for interim reporting purposes. To the extent that the externally provided capitalization rates change or results of operations change significantly from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly.

Investment properties have been valued using the same valuation methods and key assumptions as those described in note 6 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report.

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

As at September 30, (\$ Thousands)		2016	2015
Balance, Beginning of the Period		\$ 6,863,140	\$ 5,749,640
Add:	Acquisitions	319,181	919,454
	Property Capital Investments ⁽¹⁾	124,275	106,296
	Capitalized Leasing Costs ⁽²⁾	870	344
	Unrealized Gain on Remeasurement at Fair Value	162,599	92,212
Less:	Dispositions	(59,120)	(168,622)
	Realized Loss on Dispositions	(1,485)	(639)
	Foreign Currency Translation	–	(3,155)
Investment Properties at Fair Value, End of the Period		\$ 7,409,460	\$ 6,695,530

(1) See Property Capital Investments section.

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

For the periods ended September 30, 2016 and 2015, the unrealized gain on remeasurement of investment properties is primarily the result of changes in net operating income and capitalization rates offset by certain capital investments not having an immediate effect on stabilized NOI and thus not reflected in the fair value of the investment properties at the measurement date.

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

Investment Properties by Geography

As at, (\$ Millions)	Dec 2015 Fair Value	Change Due to Change in				Sep 2016 Fair Value	Dec 2015 Rates ⁽¹⁾	Sep 2016 Rates ⁽¹⁾
		Rates ⁽¹⁾	Stabilized NOI ⁽²⁾	Forex Translation	Net Acquisitions			
Greater Toronto Area	\$ 2,846	\$ 66	\$ 63	\$ –	\$ 27	\$ 3,002	4.41%	4.29%
Other Ontario	601	14	12	–	258	885	4.81%	4.84%
Québec	1,434	18	24	–	(60)	1,416	4.94%	4.88%
British Columbia	905	88	28	–	3	1,024	4.20%	3.81%
Alberta	465	(3)	(27)	–	–	435	4.99%	5.03%
Nova Scotia	237	1	3	–	17	258	5.62%	5.57%
Saskatchewan	45	(1)	(1)	–	–	43	5.99%	5.96%
Prince Edward Island	47	–	1	–	1	49	6.17%	6.18%
MHC Land Lease Sites	283	3	3	–	8	297	6.23%	6.18%
Total	\$ 6,863	\$ 186	\$ 106	\$ –	\$ 254	\$ 7,409	4.74%	4.62%

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

See note 6 to the accompanying unaudited condensed consolidated interim financial statements for further valuation assumption details including discount rates as at September 30, 2016 for Operating and Land Leasehold Interests.

(2) Represents stabilized net operating income.

As at September 30, 2016, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of investment properties:

As at September 30, 2016

(\$ Millions)	Change (basis points) ⁽¹⁾	Estimated (Decrease) Increase
Weighted Average Capitalization Rate	+25	\$ (376)
Weighted Average Capitalization Rate	–25	\$ 420

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

SECTION II

AVERAGE MONTHLY RENTS AND OCCUPANCY

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

As at September 30,	Total Portfolio				Properties Owned Prior to September 30, 2015				Properties Acquired Since September 30, 2015	
	2016		2015		2016		2015		AMR	Occ. %
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %		
Affordable	\$ 903	97.9	\$ 821	97.0	\$ 878	97.8	\$ 845	96.8	\$ 1,284	98.4
Mid-tier	\$ 1,055	98.9	\$ 1,029	98.5	\$ 1,051	99.1	\$ 1,030	98.5	\$ 1,099	97.1
Luxury	\$ 1,195	98.7	\$ 1,151	97.4	\$ 1,192	98.7	\$ 1,151	97.4	\$ 1,536	94.3
Average Residential Suites	\$ 1,097	98.8	\$ 1,060	97.9	\$ 1,094	98.8	\$ 1,065	97.9	\$ 1,151	97.0
Average MHC Land Lease Sites	\$ 377	98.2	\$ 364	98.6	\$ 376	98.2	\$ 364	98.6	\$ 412	100.0
Overall Portfolio Average	\$ 999	98.7	\$ 964	98.0	\$ 994	98.8	\$ 967	98.0	\$ 1,100	97.2

AMR is defined as actual residential rents, net of vacancies, divided by the total number of suites in the property and does not include revenues from parking, laundry or other sources. Overall average monthly rents for the stabilized residential suite portfolio (properties owned prior to September 30, 2015) increased in all demographic sectors to \$1,094 at September 30, 2016 from \$1,065 at September 30, 2015, resulting in a 2.7% increase. Excluding Alberta and Saskatchewan, average monthly rents for the stabilized residential suite portfolio increased a solid 3.7% to \$1,096 at September 30, 2016 from \$1,057 at September 30, 2015. This was due primarily to a combination of ongoing successful sales and marketing strategies, above guideline rent increases, and continued strength in the residential rental sector in the majority of CAPREIT's regional markets. Occupancy for the stabilized residential suite portfolio increased to 98.8% as at September 30, 2016 compared to 97.9% for the same period last year. For the total portfolio AMR increased 3.5% at September 30, 2016 compared to the prior year, while occupancies improved to 98.8% from 97.9% last year.

For the total MHC land lease portfolio, average monthly rents increased to \$377 as at September 30, 2016, compared to \$364 as at September 30, 2015 while occupancy remained strong at 98.2% from 98.6% for the same period last year. Management believes MHC land lease sites provide secure and stable cash flows due to long-term tenancies, high occupancies, steady increases in average monthly rents, and significantly lower capital and maintenance costs.

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

Suite Turnovers and Lease Renewals

For the Three Months Ended September 30,	2016			2015		
	Change in AMR \$	%	% Turnovers & Renewals ⁽¹⁾	Change in AMR \$	%	% Turnovers & Renewals ⁽¹⁾
Suite Turnovers	25.8	2.4	9.4	21.4	2.0	8.2
Lease Renewals	20.7	2.0	27.7	20.4	1.9	23.7
Weighted Average of Turnovers and Renewals	22.0	2.1		20.6	1.9	

For the Nine Months Ended September 30,	2016			2015		
	Change in AMR \$	%	% Turnovers & Renewals ⁽¹⁾	Change in AMR \$	%	% Turnovers & Renewals ⁽¹⁾
Suite Turnovers	7.0	0.6	21.7	18.6	1.7	19.4
Lease Renewals	21.4	2.0	62.3	21.9	2.0	55.6
Weighted Average of Turnovers and Renewals	17.7	1.6		21.1	1.9	

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

Overall, suite turnovers in the residential suite portfolio (excluding co-ownerships) during the three months ended September 30, 2016 resulted in average monthly rent increasing by approximately \$26 or 2.4% per suite compared to an increase of approximately \$21 or 2.0% in the same period last year. For the nine months ended September 30, 2016, suite turnovers resulted in average monthly rent increasing by approximately \$7 or 0.6% compared to an increase of approximately \$19 or 1.7% in the same period last year. During 2016, Management made a strategic decision to reduce rents in Alberta and Saskatchewan in order to increase occupancies and reduce turnovers in these regions. Alberta and Saskatchewan have been facing increased pressure due to falling energy prices resulting in a weaker economy in these regions than in the rest of Canada. Excluding Alberta and Saskatchewan, average monthly rents increased strongly by approximately \$43 or 4.0% and \$38 or 3.5% on suite turnovers for the three and nine months ended September 30, 2016, respectively, compared to an increase of \$29 or 2.7% and \$25 or 2.4% on suite turnovers, respectively for the same period last year, primarily due to the strong rental markets of British Columbia and Ontario.

Pursuant to Management's focus on increasing overall portfolio rents for the three months ended September 30, 2016 average monthly rents on lease renewals increased by approximately \$21 or 2.0% per suite compared to an increase of approximately \$20 or 1.9% for the same period last year. For the nine months ended September 30, 2016, average monthly rents on lease renewals increased by approximately \$21 or 2.0%, compared to an increase of approximately \$22 or 2.0% for the same period last year. The stable rate of growth in average monthly rents on lease renewals during the period is due primarily to the strategically reduced rents in Alberta to increase occupancy, offset by higher guideline increases for 2016 (Ontario – 2.0%, British Columbia – 2.9%), compared to the permitted guideline increases in 2015 (Ontario – 1.6%, British Columbia – 2.5%), and by increases due to above guideline increases ("AGI") achieved in Ontario. Increased portfolio diversification helped mitigate geographical risk in particular areas of Canada. Management continues to pursue applications in Ontario for AGIs where it believes increases above the annual guideline are supported by market conditions to raise average monthly rents on lease renewals (see discussion in the Future Outlook section). For 2017, the permitted guideline increase in Ontario and British Columbia has been set to 1.5% and 3.7% respectively.

Portfolio Average Monthly Rents and Occupancy by Geography

Total Portfolio					Properties Owned Prior to September 30, 2015				Properties Acquired Since September 30, 2015	
As at September 30,	2016		2015		2016		2015		AMR	Occ. %
	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %	AMR	Occ. %		
Residential Suites										
Ontario										
Greater Toronto Area	\$ 1,258	99.7	\$ 1,213	99.3	\$ 1,256	99.7	\$ 1,213	99.3	\$ 1,457	100.0
Ottawa	1,164	98.6	942	99.7	948	99.9	942	99.7	1,356	96.1
London / Kitchener / Waterloo	898	97.8	885	96.9	913	98.1	885	96.9	866	97.2
Other Ontario	1,163	99.3	1,119	99.2	1,163	99.3	1,119	99.2	-	-
	\$ 1,202	99.3	\$ 1,166	99.1	\$ 1,206	99.5	\$ 1,166	99.1	\$ 1,149	96.9
Québec										
Greater Montréal Region	\$ 866	98.0	\$ 827	96.5	\$ 866	98.0	\$ 834	96.4	\$ -	-
Québec City	972	97.3	948	95.9	972	97.3	948	95.9	-	-
	\$ 894	97.8	\$ 857	96.3	\$ 894	97.8	\$ 864	96.2	\$ -	-
British Columbia										
Greater Vancouver Region	\$ 1,141	100.0	\$ 1,076	98.8	\$ 1,141	100.0	\$ 1,076	98.8	\$ -	-
Victoria	1,053	99.6	1,002	99.8	1,054	99.8	1,002	99.8	1,051	98.9
	\$ 1,113	99.9	\$ 1,055	99.1	\$ 1,116	99.9	\$ 1,055	99.1	\$ 1,051	98.9
Alberta										
Edmonton	\$ 1,144	97.5	\$ 1,229	97.0	\$ 1,144	97.5	\$ 1,229	97.0	\$ -	-
Calgary	1,072	96.5	1,192	95.0	1,072	96.5	1,192	95.0	\$ -	-
	\$ 1,086	96.7	\$ 1,199	95.4	\$ 1,086	96.7	\$ 1,199	95.4	\$ -	-
Nova Scotia										
Halifax	\$ 1,079	97.1	\$ 1,034	95.1	\$ 1,061	97.2	\$ 1,034	95.1	\$ 1,494	94.4
Saskatchewan										
Saskatoon	\$ 894	91.7	\$ 919	91.7	\$ 894	91.7	\$ 919	91.7	\$ -	-
Regina	1,040	100.0	1,042	97.0	1,040	100.0	1,042	97.0	-	-
	\$ 987	97.0	\$ 997	95.1	\$ 987	97.0	\$ 997	95.1	\$ -	-
Prince Edward Island										
Charlottetown	\$ 990	99.8	\$ 972	97.4	\$ 992	99.8	\$ 972	97.4	\$ 896	100.0
Total Residential Suites	\$ 1,097	98.8	\$ 1,060	97.9	\$ 1,094	98.8	\$ 1,065	97.9	\$ 1,151	97.0
MHC Land Lease Sites										
Ontario	\$ 510	99.9	\$ 497	99.6	\$ 510	99.9	\$ 497	99.6	\$ 615	100.0
British Columbia	422	100.0	413	97.7	439	100.0	413	97.7	407	100.0
Alberta	416	99.8	402	100.0	416	99.8	402	100.0	-	-
Saskatchewan	378	99.2	350	100.0	378	99.2	350	100.0	-	-
Prince Edward Island	141	96.2	140	95.8	141	96.2	140	95.8	-	-
New Brunswick	260	96.2	251	97.5	260	96.2	251	97.5	-	-
Total MHC Land Lease Sites	\$ 377	98.2	\$ 364	98.6	\$ 376	98.2	\$ 364	98.6	\$ 412	100.0
Total Suites and Sites	\$ 999	98.7	\$ 964	98.0	\$ 994	98.8	\$ 967	98.0	\$ 1,100	97.2

Overall average monthly rents for the stabilized residential suite portfolio as at September 30, 2016 increased by approximately 2.7% compared to the same period last year, while occupancies increased to 98.8%. For the total residential suite portfolio, AMR increased by approximately 3.5%, as compared to September 30, 2015, primarily due to a combination of ongoing successful sales and marketing strategies, above guideline increases, and continued strength in the residential rental sector in the majority of CAPREIT's regional markets, while occupancies remained strong at 98.8%. Management believes annual occupancies can be maintained in the 97% to 98% range and the trend for gradual increases in same-property average monthly rents will continue, providing the basis for sustainable year-over-year increases in revenues.

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

The table below shows the new tenant inducements incurred during the periods ended September 30, 2016 and 2015 as well as the amortization of tenant inducements, loss from vacancies, and bad debt expense included in net rental revenue for the same periods.

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

(\$ Thousands)	Three Months Ended				Nine Months Ended			
	September 30				September 30			
	2016	% ⁽¹⁾	2015	% ⁽¹⁾	2016	% ⁽¹⁾	2015	% ⁽¹⁾
New Tenant Inducements Incurred ^{(2),(3)}	\$ 682		\$ 466		\$ 2,295		\$ 1,402	
Tenant Inducements Amortized	\$ 656	0.4	\$ 408	0.3	\$ 1,732	0.4	\$ 1,236	0.3
Vacancy Loss Incurred	3,149	2.1	3,046	2.3	10,293	2.3	8,827	2.3
Total Amortization and Loss	\$ 3,805	2.5	\$ 3,454	2.6	\$ 12,025	2.7	\$ 10,063	2.6
Bad Debt Expense	\$ 692	0.5	\$ 409	0.3	\$ 1,780	0.4	\$ 1,095	0.3

(1) As a percentage of total operating revenues.

(2) Includes tenant inducements for commercial leases.

(3) New Tenant Inducements increased compared to prior periods in specific regions such as Alberta, Québec, and Nova Scotia.

RESULTS OF OPERATIONS**Total Operating Revenues by Geography**

	Three Months Ended September 30		Nine Months Ended September 30	
(\$ Thousands)	2016	2015	2016	2015
Residential Suites				
Ontario				
Greater Toronto Area	\$ 61,553	\$ 59,021	\$ 181,282	\$ 175,965
Ottawa	5,805	2,301	10,428	6,876
London / Kitchener / Waterloo	6,215	4,464	18,173	13,417
Other Ontario	6,394	6,226	19,107	17,458
	\$ 79,967	\$ 72,012	\$ 228,990	\$ 213,716
Québec				
Greater Montréal Region	\$ 23,123	\$ 14,286	\$ 70,021	\$ 42,788
Québec City	8,625	8,788	26,032	26,312
	\$ 31,748	\$ 23,074	\$ 96,053	\$ 69,100
British Columbia				
Greater Vancouver Region	\$ 11,160	\$ 8,241	\$ 32,926	\$ 22,591
Victoria	5,024	4,144	14,723	12,052
	\$ 16,184	\$ 12,385	\$ 47,649	\$ 34,643
Alberta				
Edmonton	\$ 1,701	\$ 1,781	\$ 5,148	\$ 5,133
Calgary	7,216	8,216	22,378	24,758
	\$ 8,917	\$ 9,997	\$ 27,526	\$ 29,891
Nova Scotia				
Halifax	\$ 5,169	\$ 5,064	\$ 15,128	\$ 15,142
Saskatchewan				
Saskatoon	\$ 358	\$ 378	\$ 1,080	\$ 1,144
Regina	707	738	2,133	2,189
	\$ 1,065	\$ 1,116	\$ 3,213	\$ 3,333
Prince Edward Island				
Charlottetown	\$ 1,380	\$ 1,315	\$ 4,043	\$ 3,826
Ireland				
Dublin	\$ -	\$ -	\$ -	\$ 1,072
Total Residential Suites	\$ 144,430	\$ 124,963	\$ 422,602	\$ 370,723
MHC Land Lease Sites				
Ontario	\$ 4,309	\$ 4,048	\$ 12,684	\$ 12,080
British Columbia	344	159	760	480
Alberta	403	383	1,209	1,128
Saskatchewan	280	260	833	765
Prince Edward Island	214	244	648	658
New Brunswick	1,832	1,755	5,370	5,188
Total MHC Land Lease Sites	\$ 7,382	\$ 6,849	\$ 21,504	\$ 20,299
Total Suites and Sites	\$ 151,812	\$ 131,812	\$ 444,106	\$ 391,022

Results of Operations

(\$ Thousands)	Three Months Ended				Nine Months Ended			
	September 30				September 30			
	2016	% ⁽¹⁾	2015	% ⁽¹⁾	2016	% ⁽¹⁾	2015	% ⁽¹⁾
Operating Revenues								
Net Rental Revenues	\$ 143,817	94.7	\$ 124,581	94.5	\$ 420,606	94.7	\$ 369,685	94.5
Other ⁽²⁾	7,995	5.3	7,231	5.5	23,500	5.3	21,337	5.5
Total Operating Revenues	151,812	100.0	131,812	100.0	444,106	100.0	391,022	100.0
Operating Expenses								
Realty Taxes	(16,976)	11.2	(14,617)	11.1	(49,165)	11.1	(43,801)	11.2
Utilities	(12,361)	8.1	(10,422)	7.9	(44,747)	10.1	(39,426)	10.1
Other ⁽³⁾	(26,201)	17.3	(24,686)	18.7	(78,457)	17.6	(69,608)	17.8
Total Operating Expenses	\$ (55,538)	36.6	(49,725)	37.7	\$ (172,369)	38.8	(152,835)	39.1
NOI	\$ 96,274	63.4	\$ 82,087	62.3	\$ 271,737	61.2	\$ 238,187	60.9

(1) As a percentage of total operating revenues.

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

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

Operating Revenues

For the three and nine months ended September 30, 2016, total operating revenues increased by 15.2% and 13.6%, respectively, compared to the same periods last year due to the contributions from acquisitions, increased same-property average monthly rents, and continuing high occupancies. As CAPREIT continues to enhance the profile of its resident base and increase the level of service to residents, it expects to realize further increases in operating revenues and ancillary revenues. For the three and nine months ended September 30, 2016, ancillary revenues, such as parking, laundry and antenna income were 5.3% and 5.3% of revenues, respectively, compared to 5.5% and 5.5% of revenues, for the same periods last year.

Estimated Net Rental Revenue Run-Rate

As at September 30,	2016	2015
(\$ Thousands)		
Residential Rent Roll ^{(1),(2)}	\$ 559,456	\$ 522,415
Commercial Rent Roll ^{(1),(2)}	22,119	20,308
Annualized Net Rental Revenue Run-Rate	\$ 581,575	\$ 542,723

(1) Based on rent roll as at September 30, 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 September 30.

The table above shows the estimated net rental revenue run-rate (net of average historical vacancy loss, tenant inducements and bad debt) based on the average monthly rents in place and CAPREIT's share of residential suites and sites as at September 30, 2016 and 2015. The estimated annualized net rental revenue run-rate improved by 7.2% to \$581.6 million from \$542.7 million primarily as a result of acquisitions within the last twelve months and higher rents. Net rental revenue for the 12 months ended September 30, 2016 was \$551.6 million (2015 – \$488.6 million).

Operating Expenses

Overall operating expenses as a percentage of operating revenues decreased in the three and nine months ended September 30, 2016, compared to the same periods last year as a result of reduced R&M costs for the three months ended, and reduced R&M and advertising costs for the nine months ended September 30, 2016.

Realty Taxes

For the three and nine months ended September 30, 2016, realty taxes as a percentage of operating revenues remained stable at 11.2% and 11.1%, respectively, compared to 11.1% and 11.2%, for the same periods last year.

Utilities

As a percentage of operating revenues, utility costs for the three and nine months ended September 30, 2016 remained stable at 8.1% and 10.1%, respectively, compared to 7.9% and 10.1% for the same periods last year.

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

(\$ Thousands)	Three Months Ended September 30				Nine Months Ended September 30			
	2016	% ⁽¹⁾	2015	% ⁽¹⁾	2016	% ⁽¹⁾	2015	% ⁽¹⁾
Electricity	\$ 5,764	3.8	\$ 4,720	3.6	\$ 19,826	4.5	\$ 16,963	4.3
Natural Gas	1,701	1.1	1,438	1.1	11,225	2.5	10,546	2.7
Water	4,896	3.2	4,264	3.2	13,696	3.1	11,917	3.1
Total	\$ 12,361	8.1	\$ 10,422	7.9	\$ 44,747	10.1	\$ 39,426	10.1

(1) As a percentage of total operating revenues.

For the three months ended September 30, 2016, electricity costs as a percentage of total operating revenues increased to 3.8% compared to 3.6% for the same period last year, primarily due to higher electricity rates partially offset by lower consumption. For the nine months ended September 30, 2016, electricity costs as a percentage of total operating revenues increased to 4.5% compared to 4.3% for the same period last year, primarily due to higher rates and new acquisitions partially offset by lower consumption, energy saving initiatives, and the positive impacts of sub-metering. As at September 30, 2016, tenants who pay their hydro charges directly, represent 62% of the total 16,474 recently sub-metered suites in Ontario, Alberta and Nova Scotia.

For the three months ended September 30, 2016, natural gas cost as a percentage of total operating revenues remained stable at 1.1% compared to 1.1% for the same period last year due to higher rates offset by lower consumption. For the nine months ended September 30, 2016, natural gas cost as a percentage of total operating revenues decreased to 2.5% compared to 2.7% over the same period last year as a result of lower consumption partially offset by higher rates.

The table below provides information on CAPREIT's fixed natural gas contracts for the fiscal years remaining 2016, 2017, and 2018:

	Actual ⁽²⁾ 2015	Proforma 2016	Estimated 2017	Estimated 2018	Estimated 2019	Estimated 2020
Gas Commodity						
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 3.75	\$ 3.63	\$ 2.93	\$ 2.95	\$ 2.84	\$ 2.79
Total of CAPREIT's Actual/Estimated Requirements	70.0%	63.0%	54.9%	50.7%	48.8%	32.9%
Transport						
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 1.84	\$ 1.59	\$ 1.31	\$ 1.00	\$ 0.96	\$ 0.95
Total of CAPREIT's Actual/Estimated Requirements	52.0%	53.7%	68.4%	49.2%	47.6%	32.9%

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

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

Other Operating Expenses

Other operating expenses, which include repairs and maintenance ("R&M") costs, wages and benefits, insurance and advertising, decreased as a percentage of operating revenues for the three and nine months ended September 30, 2016, at 17.3% and 17.6%, respectively, compared to 18.7% and 17.8%, for the same periods last year.

NOI

Management believes NOI is a key indicator of operating performance in the real estate industry. NOI includes all rental revenues and other related ancillary income (including MHC home sales) generated at the property level, less: (i) related direct costs such as utilities, realty taxes, insurance, R&M costs and on-site wages and salaries; and (ii) an appropriate

allocation of overhead costs. It may not, however, be comparable to similar measures presented by other real estate trusts or companies.

The following table shows the NOI and the NOI margin attained for each regional market for the periods ended September 30, 2016 and 2015.

NOI by Geography

For The Three Months Ended
September 30,

	2016		2015		Increase (Decrease)		
(\$ Thousands)	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area	\$ 39,365	64.0	\$ 36,883	62.5	4.3	0.2	6.7
Ottawa	3,624	62.4	1,241	53.9	152.3	105.8	192.0
London / Kitchener / Waterloo	3,806	61.2	2,696	60.4	39.2	36.3	41.2
Other Ontario	3,960	61.9	3,718	59.7	2.7	(3.0)	6.5
	\$ 50,755	63.5	\$ 44,538	61.8	11.0	6.3	14.0
Québec							
Greater Montréal Region	\$ 13,746	59.4	\$ 8,632	60.4	61.9	65.8	59.2
Québec City	4,967	57.6	5,083	57.8	(1.9)	(1.3)	(2.3)
	\$ 18,713	58.9	\$ 13,715	59.4	37.6	39.3	36.4
British Columbia							
Greater Vancouver Region	\$ 7,863	70.5	\$ 5,565	67.5	35.4	23.2	41.3
Victoria	3,739	74.4	2,796	67.5	21.2	(4.7)	33.7
	\$ 11,602	71.7	\$ 8,361	67.5	30.7	13.9	38.8
Alberta							
Edmonton	\$ 1,189	69.9	\$ 1,247	70.0	(4.5)	(4.1)	(4.7)
Calgary	4,338	60.1	5,062	61.6	(12.2)	(8.8)	(14.3)
	\$ 5,527	62.0	\$ 6,309	63.1	(10.8)	(8.1)	(12.4)
Nova Scotia							
Halifax	\$ 3,460	66.9	\$ 3,368	66.5	2.1	0.8	2.7
Saskatchewan							
Saskatoon	\$ 185	51.7	\$ 197	52.1	(5.3)	(4.4)	(6.1)
Regina	442	62.5	457	61.9	(4.2)	(5.7)	(3.3)
	\$ 627	58.9	\$ 654	58.6	(4.6)	(5.2)	(4.1)
Prince Edward Island							
Charlottetown	\$ 741	53.7	\$ 735	55.9	4.9	10.2	0.8
Total Residential Suites	\$ 91,425	63.3	\$ 77,680	62.2	15.6	12.1	17.7
MHC Land Lease Sites							
Ontario	\$ 2,900	67.3	\$ 2,670	66.0	6.4	2.2	8.6
British Columbia	273	79.4	123	77.4	116.4	97.2	122.0
Alberta	297	73.7	270	70.5	5.2	(6.2)	10.0
Saskatchewan	193	68.9	170	65.4	7.7	(3.3)	13.5
Prince Edward Island	133	62.2	156	63.9	(12.3)	(8.0)	(14.7)
New Brunswick	1,053	57.5	1,018	58.0	4.4	5.7	3.4
Total MHC Land Lease Sites	\$ 4,849	65.7	\$ 4,407	64.3	7.8	3.7	10.0
Total Suites and Sites	\$ 96,274	63.4	\$ 82,087	62.3	15.2	11.7	17.3

For the Nine Months Ended September 30,	2016		2015		Increase (Decrease)		
(\$ Thousands)	NOI	NOI Margin (%)	NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area	\$ 112,708	62.2	\$ 108,077	61.4	3.0	1.0	4.3
Ottawa	5,926	56.8	3,593	52.3	51.7	37.1	64.9
London / Kitchener / Waterloo	10,834	59.6	8,079	60.2	35.4	37.5	34.1
Other Ontario	11,356	59.4	10,179	58.3	9.4	6.5	11.6
	\$ 140,824	61.5	\$ 129,928	60.8	7.1	5.2	8.4
Québec							
Greater Montréal Region	\$ 39,860	56.9	\$ 23,981	56.0	63.6	60.4	66.2
Québec City	14,186	54.5	14,415	54.8	(1.1)	(0.4)	(1.6)
	\$ 54,046	56.3	\$ 38,396	55.6	39.0	36.8	40.8
British Columbia							
Greater Vancouver Region	\$ 22,738	69.1	\$ 15,178	67.2	45.7	37.4	49.8
Victoria	10,505	71.4	8,188	67.9	22.2	9.2	28.3
	\$ 33,243	69.8	\$ 23,366	67.4	37.5	27.7	42.3
Alberta							
Edmonton	\$ 3,472	67.4	\$ 3,600	70.1	0.3	9.3	(3.6)
Calgary	13,301	59.4	15,913	64.3	(9.6)	2.6	(16.4)
	\$ 16,773	60.9	\$ 19,513	65.3	(7.9)	3.6	(14.0)
Nova Scotia							
Halifax	\$ 9,276	61.3	\$ 9,421	62.2	(0.1)	2.3	(1.5)
Saskatchewan							
Saskatoon	\$ 530	49.1	\$ 613	53.6	(5.6)	3.6	(13.5)
Regina	1,328	62.3	1,375	62.8	(2.6)	(1.1)	(3.4)
	\$ 1,858	57.8	\$ 1,988	59.6	(3.6)	0.7	(6.5)
Prince Edward Island							
Charlottetown	\$ 2,025	50.1	\$ 1,861	48.6	5.7	2.7	8.8
Ireland							
Dublin	\$ -	-	\$ 878	81.9	(100.0)	(100.0)	(100.0)
Total Residential Suites	\$ 258,045	61.1	\$ 225,351	60.8	14.0	13.2	14.5
MHC Land Lease Sites							
Ontario	\$ 8,508	67.1	\$ 8,058	66.7	5.0	3.8	5.6
British Columbia	584	76.8	377	78.5	58.3	70.9	54.9
Alberta	852	70.5	766	67.9	7.2	(1.4)	11.2
Saskatchewan	553	66.4	487	63.7	8.9	0.7	13.6
Prince Edward Island	280	43.2	296	45.0	(1.5)	1.7	(5.4)
New Brunswick	2,915	54.3	2,852	55.0	3.5	5.1	2.2
Total MHC Land Lease Sites	\$ 13,692	63.7	\$ 12,836	63.2	5.9	4.7	6.7
Total Suites and Sites	\$ 271,737	61.2	\$ 238,187	60.9	13.6	12.8	14.1

For the three and nine months ended September 30, 2016, NOI increased by 17.3% or \$14.2 million and 14.1% or \$33.6 million respectively, compared to the same periods last year, and the NOI margin increased to 63.4% and 61.2%, respectively, compared to 62.3% and 60.9% for the same periods last year. The significant improvement in the NOI contribution was primarily the result of acquisitions, and higher operating revenues in certain regions of the portfolio 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 investments in capital programs to further reduce costs and enhance the quality and value of its portfolio.

For a comprehensive analysis of stabilized NOI growth or decline compared to the same period last year by region, refer to the Stabilized Portfolio Performance section.

STABILIZED PORTFOLIO PERFORMANCE

For The Three Months Ended September 30,	2016		2015		Increase (Decrease)		
	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
(\$ Thousands)							
Residential Suites							
Ontario							
Greater Toronto Area	\$ 38,809	63.9	\$ 36,547	62.3	3.5	(0.9)	6.2
Ottawa	1,171	50.6	1,241	53.9	0.5	7.6	(5.6)
London / Kitchener / Waterloo	2,957	63.8	2,696	60.4	3.8	(5.1)	9.7
Other Ontario	3,332	62.2	3,156	60.4	2.5	(2.1)	5.6
	\$ 46,269	63.3	\$ 43,640	61.7	3.4	(1.0)	6.0
Québec							
Greater Montréal Region	\$ 7,648	58.4	\$ 7,810	60.5	1.4	6.6	(2.1)
Québec City	4,967	57.6	5,083	57.8	(1.9)	(1.3)	(2.3)
	\$ 12,615	58.1	\$ 12,893	59.4	0.1	3.3	(2.2)
British Columbia							
Greater Vancouver Region	\$ 5,400	70.8	\$ 4,896	67.1	4.5	(7.2)	10.3
Victoria	3,183	74.3	2,723	67.4	6.1	(16.2)	16.9
	\$ 8,583	72.0	\$ 7,619	67.2	5.1	(10.4)	12.7
Alberta							
Edmonton	\$ 910	71.3	\$ 920	70.0	(3.0)	(7.3)	(1.1)
Calgary	4,338	60.1	5,062	61.6	(12.2)	(8.8)	(14.3)
	\$ 5,248	61.8	\$ 5,982	62.8	(10.9)	(8.6)	(12.3)
Nova Scotia							
Halifax	\$ 3,415	66.8	\$ 3,368	66.5	0.9	-	1.4
Saskatchewan							
Saskatoon	\$ 185	51.7	\$ 197	52.1	(5.3)	(4.4)	(6.1)
Regina	442	62.5	457	61.9	(4.2)	(5.7)	(3.3)
	\$ 627	58.9	\$ 654	58.6	(4.6)	(5.2)	(4.1)
Prince Edward Island							
Charlottetown	\$ 729	54.1	\$ 735	55.9	2.4	6.6	(0.8)
Total Residential Suites	\$ 77,486	63.2	\$ 74,891	62.0	1.6	(1.4)	3.5
MHC Land Lease Sites							
Ontario	\$ 2,900	67.3	\$ 2,670	66.0	6.4	2.2	8.6
British Columbia	129	77.2	123	77.4	5.0	5.6	4.9
Alberta	297	73.7	270	70.5	5.2	(6.2)	10.0
Saskatchewan	193	68.9	170	65.4	7.7	(3.3)	13.5
Prince Edward Island	133	62.2	156	63.9	(12.3)	(8.0)	(14.7)
New Brunswick	1,053	57.5	1,018	58.0	4.4	5.7	3.4
Total MHC Land Lease Sites	\$ 4,705	65.3	\$ 4,407	64.3	5.2	2.4	6.8
Total Suites and Sites	\$ 82,191	63.3	\$ 79,298	62.2	1.8	(1.2)	3.6
Stabilized Suites and Sites	39,696		39,696				

For The Nine Months Ended September 30,	2016		2015		Increase (Decrease)		
(\$ Thousands)	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area	\$ 112,134	62.2	\$ 106,986	61.2	3.2	0.7	4.8
Ottawa	3,473	50.1	3,593	52.3	0.9	5.5	(3.3)
London / Kitchener / Waterloo	8,512	61.7	8,079	60.2	2.9	(0.8)	5.4
Other Ontario	9,644	60.0	9,076	58.7	3.8	0.3	6.3
	\$ 133,763	61.6	\$ 127,734	60.7	3.1	0.7	4.7
Québec							
Greater Montréal Region	\$ 22,038	56.2	\$ 21,709	56.1	1.3	1.1	1.5
Québec City	14,186	54.5	14,415	54.8	(1.1)	(0.4)	(1.6)
	\$ 36,224	55.5	\$ 36,124	55.6	0.4	0.5	0.3
British Columbia							
Greater Vancouver Region	\$ 15,534	69.0	\$ 14,506	67.0	4.0	(2.1)	7.1
Victoria	8,944	70.9	8,103	67.9	5.8	(4.0)	10.4
	\$ 24,478	69.7	\$ 22,609	67.3	4.7	(2.8)	8.3
Alberta							
Edmonton	\$ 2,628	68.3	\$ 2,735	69.5	(2.3)	1.4	(3.9)
Calgary	13,301	59.4	15,913	64.3	(9.6)	2.6	(16.4)
	\$ 15,929	60.7	\$ 18,648	65.0	(8.6)	2.5	(14.6)
Nova Scotia							
Halifax	\$ 9,231	61.3	\$ 9,421	62.2	(0.5)	2.1	(2.0)
Saskatchewan							
Saskatoon	\$ 530	49.1	\$ 613	53.6	(5.6)	3.6	(13.5)
Regina	1,328	62.3	1,375	62.8	(2.6)	(1.1)	(3.4)
	\$ 1,858	57.8	\$ 1,988	59.6	(3.6)	0.7	(6.5)
Prince Edward Island							
Charlottetown	\$ 2,000	50.2	\$ 1,861	48.6	4.1	0.9	7.5
Total Residential Suites	\$ 223,483	61.1	\$ 218,385	60.6	1.6	0.6	2.3
MHC Land Lease Sites							
Ontario	\$ 8,508	67.1	\$ 8,058	66.7	5.0	3.8	5.6
British Columbia	364	74.9	377	78.5	1.3	18.4	(3.4)
Alberta	852	70.5	766	67.9	7.2	(1.4)	11.2
Saskatchewan	553	66.4	487	63.7	8.9	0.7	13.6
Prince Edward Island	280	43.2	296	45.0	(1.5)	1.7	(5.4)
New Brunswick	2,915	54.3	2,852	55.0	3.5	5.1	2.2
Total MHC Land Lease Sites	\$ 13,472	63.5	\$ 12,836	63.2	4.6	4.0	5.0
Total Suites and Sites	\$ 236,955	61.1	\$ 231,221	60.8	1.8	0.8	2.5
Stabilized Suites and Sites	39,696		39,696				

Stabilized properties for the three and nine months ended September 30, 2016 are defined as all properties owned by CAPREIT continuously since December 31, 2014, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2016 and 2015. As at September 30, 2016, stabilized suites and sites represent 84.4% of CAPREIT's total portfolio.

For the three and nine months ended September 30, 2016, operating revenues increased by 1.8% and 1.8%, respectively, while operating expenses decreased by 1.2% and increased by 0.8%, respectively, over the same periods last year. As a result, stabilized NOI increased by 3.6% and 2.5%, and the NOI margin increased to 63.3% and 61.1% compared to 62.2% and 60.8%, respectively, for the three and nine months ended September 30, 2016.

For the three and nine months ended September 30, 2016, the NOI margin for properties acquired since December 31, 2014, was 64.4% and 61.8%, respectively.

Ontario:

NOI for the stabilized Ontario portfolio for the three months ended September 30, 2016 increased 6.0% compared to the same period last year primarily due to higher rental revenues, lower vacancies and R&M costs partially offset by higher utility costs. The NOI margin increased to 63.3% compared to 61.7% for the same period last year. NOI for the nine months ended September 30, 2016 increased by 4.7% compared to the same period last year, and the NOI margin improved to 61.6% from 60.7% for the same period last year due to higher rental and parking revenues, and lower vacancies, advertising, and R&M expenditures partially offset by higher utilities and wages. Management believes the Ontario portfolio will remain strong and generate steady returns in the medium term.

Québec:

NOI for the stabilized Québec portfolio for the three months ended September 30, 2016 decreased slightly by 2.2% compared to the same period last year while the NOI margin decreased to 58.1% compared to 59.4% due to higher vacancies, bad debt, and realty taxes partially offset by reduced wage costs. NOI for the nine months ended September 30, 2016 increased 0.3% and the NOI margin remained stable at 55.5% from 55.6% for the same period last year due to higher rental revenues and lower utility and wage costs partially offset by higher vacancies, bad debt, and administrative costs. Management believes the Québec rental market will remain stable and generate steady to improving returns in the medium term.

British Columbia:

NOI for the stabilized British Columbia portfolio for the three months ended September 30, 2016 increased significantly by 12.7% compared to the same period last year primarily due to higher rental revenues, and lower utility and R&M costs. NOI for the nine months ended September 30, 2016 increased by 8.3% compared to the same period last year primarily due to higher rental and parking revenues, and reduced R&M and utility costs partially offset by higher realty taxes. For the three and nine months ended September 30, 2016, NOI margins increased to 72.0% and 69.7% from 67.2% and 67.3%, respectively, compared to the same periods last year. Management believes the British Columbia portfolio will continue to generate steady returns in the medium term.

Alberta:

NOI for the stabilized Alberta portfolio for the three months ended September 30, 2016 decreased by 12.3% compared to the same period last year primarily due to lower rental revenues and higher bad debt and tenant allowances partially offset by lower R&M costs and improved occupancies. NOI for the nine months ended September 30, 2016 decreased by 14.6% compared to the same period last year primarily due to lower rental revenues, higher vacancies and tenant allowances, higher realty taxes and utility costs. For the three and nine months ended September 30, 2016, the NOI margin decreased to 61.8% and 60.7% from 62.8% and 65.0%, respectively, compared to the same periods last year. Alberta represents only 6.7% and 7.1% of CAPREIT's total NOI for the three and nine months ended September 30, 2016 respectively.

Nova Scotia:

NOI for the stabilized Nova Scotia portfolio for the three months ended September 30, 2016 increased by 1.4% compared to the same period last year primarily due to lower vacancies, tenant allowances, bad debt and R&M costs partially offset by higher wage costs. NOI for the nine months ended September 30, 2016 decreased by 2.0% compared to the same period last year primarily due to higher vacancies and wage costs, partially offset by lower tenant allowances and utility costs. For the three and nine months ended September 30, 2016, the NOI margin increased to 66.8% and decreased to 61.3% compared to 66.5% from 62.2%, respectively, compared to the same periods last year. Management believes its presence in downtown Halifax locations will serve to maintain or increase occupancy levels and average monthly rents in the medium term.

MHC Land Lease Sites:

NOI for the stabilized MHC land lease sites portfolio for the three months ended September 30, 2016 increased by 6.8% compared to the same period last year primarily due to higher rental revenues partially offset by higher realty taxes and utility costs. NOI for the nine months ended September 30, 2016 increased by 5.0% compared to the same period last year primarily due to higher rental revenues partially offset by higher realty taxes and utility costs. For the three and nine months ended September 30, 2016, the NOI margin increased to 65.3% and 63.5%

from 64.3% and 63.2%, respectively, compared to the same periods last year. Management believes its MHC land lease portfolio will continue to provide accretive growth in the long term.

The following table reconciles stabilized NOI and NOI from net acquisitions to total NOI for the periods ended September 30, 2016 and 2015.

(\$ Thousands)	Three Months Ended September 30				Nine Months Ended September 30			
	2016 NOI	NOI Margin (%)	2015 NOI	NOI Margin (%)	2016 NOI	NOI Margin (%)	2015 NOI	NOI Margin (%)
Stabilized NOI	\$ 82,191	63.3	\$ 79,298	62.2	\$ 236,955	61.1	\$ 231,221	60.8
Net Acquisitions NOI ⁽¹⁾	14,083	64.4	2,789	65.1	34,782	61.8	6,966	64.2
Total NOI	\$ 96,274	63.4	\$ 82,087	62.3	\$ 271,737	61.2	\$ 238,187	60.9

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

NET INCOME AND OTHER COMPREHENSIVE INCOME

(\$ Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
NOI	\$ 96,274	\$ 82,087	\$ 271,737	\$ 238,187
(Less) Plus:				
Trust Expenses	(6,301)	(5,537)	(23,246)	(17,338)
Unrealized Gain (Loss) on Remeasurement of Investment Properties	67,130	(42,143)	161,967	92,212
Realized Loss on Disposition of Investment Properties	(1,485)	–	(1,485)	(639)
Remeasurement of Exchangeable Units	409	126	(610)	(272)
Unit-based Compensation Recoveries (Expenses)	5,417	(4,296)	(15,073)	(15,492)
Interest on Mortgages Payable and Other Financing Costs	(28,867)	(25,857)	(83,700)	(76,769)
Interest on Bank Indebtedness	(1,074)	(668)	(3,932)	(1,997)
Interest on Exchangeable Units	(52)	(49)	(150)	(145)
Other Income	2,908	2,072	11,873	8,218
Amortization	(725)	(715)	(2,645)	(2,036)
Severance and Other Employee Costs	–	(2,425)	–	(4,842)
Unrealized and Realized (Loss) Gain on Derivative Financial Instruments	(464)	221	(1,315)	437
Dilution Loss on Equity Accounted Investments	–	–	–	(4,346)
(Loss) Gain on Foreign Currency Translation	(2,507)	(6,543)	1,721	(6,920)
Net Income (Loss)	\$ 130,663	\$ (3,727)	\$ 315,142	\$ 208,258
Other Comprehensive Income				
Items That May Be Reclassified Subsequently to Net Income				
Amortization of Losses from AOCL to Interest and Other Financing Costs	\$ 777	\$ 848	\$ 2,330	\$ 2,533
Change in Fair Value of Derivative Financial Instruments	895	(1,058)	159	(2,570)
Change in Fair Value of Investments	(1,304)	(565)	3,435	(718)
Foreign Currency Translation	3,152	7,343	(2,142)	7,659
Reversal of Cumulative Foreign Currency Translation Relating to IRES Ownership Dilution	–	–	–	3,127
Other Comprehensive Income	3,520	6,568	3,782	10,031
Comprehensive Income	\$ 134,183	\$ 2,841	\$ 318,924	\$ 218,289

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, trustee fees, professional fees for legal and advisory services, trustees' and officers' insurance premiums, providing third party property and asset management services, and other general and administrative expenses net of amounts allocated to property operating expenses for properties owned by CAPREIT. Trust expenses increased for the three months ended September 30, 2016, to \$6.3 million from \$5.5 million for the same period last year primarily due to higher legal and general and administrative costs. Trust expenses increased for the nine months ended September 30, 2016 to \$23.2 million from \$17.3 million for the same period last year primarily due to legal costs and \$5.5 million related to transactions that were not completed.

Unrealized (Loss) 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.

Remeasurement of Exchangeable Units

CAPREIT accounts for its Exchangeable Units as a financial liability, remeasures such liability at each reporting period, and includes this remeasurement in the consolidated statement of income. For the three and nine months ended September 30, 2016, there was an unrealized gain of \$0.4 million and a remeasurement expense of \$0.6 million, respectively, from an unrealized gain of \$0.1 million and a remeasurement expense of \$0.3 million for the same periods last year mainly due to the change in market price of the underlying CAPREIT Trust Units. A description of the key components of the remeasurement of Exchangeable Units is included in note 11 of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report.

Unit-based Compensation Recoveries (Expenses)

Unit-based compensation benefits are provided to officers, trustees and certain employees and are intended to facilitate long-term ownership of Trust Units and to provide additional incentives by increasing the participants' interest, as owners, in CAPREIT. Unit-based compensation expenses include costs attributable to these incentive plans, namely the Restricted Unit Rights Plan ("RUR Plan"), Unit Option Plan ("UOP"), Deferred Unit Plan ("DUP"), Long-Term Incentive Plan ("LTIP") and Senior Executive Long-Term Incentive Plan ("SELTIP") (see notes 11 and 12 in CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report).

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

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

As at September 30, 2016, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 9,500,000 Units (December 31, 2015 – 9,500,000). The maximum number of Units available for future issuance under all Unit incentive plans as at September 30, 2016 is 1,378,226 Units (December 31, 2015 – 1,750,051 Units).

A description of the key components of the market-based rates and assumption used to determine the fair values of the awards is included in notes 11 and 12 to CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report.

CAPREIT's Unit-based compensation expense for the three months ended September 30, 2016 decreased to a gain of \$5.4 million, compared to an expense of \$4.3 million primarily due to a decrease in the market price of the underlying CAPREIT Trust Units in the third quarter of 2016. CAPREIT's Unit-based compensation expense for the nine months ended September 30, 2016 decreased to \$15.1 million compared to \$15.5 million for the same period last year primarily due

to the lower increase of the market price of the underlying CAPREIT Trust Units in 2016. The vesting of the UOP granted in 2016 and 2015 is amortized over the annual reporting period subject to satisfaction of performance criteria set by the board. The table below demonstrates the impact of each component of CAPREIT's plans on the total compensation expense.

(\$ Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Remeasurement of Unit-based Compensation Liabilities	\$ (6,933)	\$ 3,030	\$ 11,080	\$ 11,820
Amortization of Fair Value on Grant Date of Unit-based Compensation	1,516	1,266	3,993	3,672
Total	\$ (5,417)	\$ 4,296	\$ 15,073	\$ 15,492

Interest on Mortgages Payable and Other Financing Costs

Interest on mortgages, which includes the amortization of certain financing costs, increased for the nine months ended September 30, 2016, to \$83.7 million from \$76.8 million for the same period last year, due to increased mortgage top-ups in 2015 and 2016. As a percentage of operating revenues, mortgage interest expense represented 19.0% and 18.8% for the three and nine months ended September 30, 2016, respectively, compared to 19.6% and 19.6% for the same periods last year. Additional information on the interest on mortgages payable and other financing costs is included in note 15 to the accompanying unaudited condensed consolidated interim financial statements and the Liquidity and Financial Condition section of this report.

Interest on Bank Indebtedness

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

Other Income

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

(\$ Thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Recurring				
Investment Income	\$ 326	\$ 326	\$ 978	\$ 978
Equity Pick-up on Investment ⁽¹⁾	1,252	851	6,916	4,137
Asset and Property Management Fees	1,327	895	3,842	2,280
Non Recurring ⁽²⁾	3	-	136	823
Total	\$ 2,908	\$ 2,072	\$ 11,872	\$ 8,218

(1) Includes unrealized gain on remeasurement of investment properties of \$3,595 for the nine months ended September 30, 2016 compared to \$2,099 for the nine months ended September 30, 2015.

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

Effective April 11, 2014, CAPREIT entered into an external management agreement, and amended from time to time, to perform certain asset management duties and property services for IRES REIT (formerly CAPREIT's Irish subsidiary) which owns properties in Dublin, Ireland. Asset management and property management fees included in other income for the three and nine months ended September 30, 2016 are \$1.3 million and \$3.8 million, respectively, compared to \$0.9 million and \$2.3 million in the prior year. Expenses related to the asset management and property management services are included in trust expenses for the three and nine months ended September 30, 2016.

Included in non-recurring other income is \$0.8 million (net of taxes) for the nine months ended September 30, 2015 from a one-time underwriters' fee income relating to the sale of the Rockbrook portfolio to IRES pursuant to the Pipeline Agreement.

Amortization

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

Severance and Other Employee Costs

For the nine months ended September 30, 2015, \$4.8 million of severance and other employee costs were incurred including compensation costs related to the accelerated vesting of previously-granted RUR Units.

Unrealized and Realized (Loss) Gain on Derivative Financial Instruments

- i) *Interest rate contracts for which hedge accounting is being applied:* As at September 30, 2016, CAPREIT has two interest rate swap agreements which include:
 - a. \$65 million interest rate swap agreement fixing the interest rate at 3.60%, which matures in September 2022. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a ten-year term. The related floating rate credit facility is for a five-year term. The credit facility was amended effective June 30, 2016 and expires on June 30, 2021. On expiry of the term it is expected to be refinanced to match the term of the interest rate swap. At each reporting date, the hedging derivative will be marked-to-market with the ineffective portion recognized in net income (unrealized loss of \$1.4 million for the nine months ended September 30, 2016), recorded under (loss) gain on derivative financial instruments on the consolidated statements of income and comprehensive income for the nine months ended September 30, 2016.
 - b. The €45 million credit facility agreement and interest rate swap agreement fixing the interest rate at 3.22%, which matures in September 2018 was partially paid down by €5.0 million on April 21, 2014 therefore deemed the entire hedge as ineffective and the marked-to-market loss of approximately \$2.0 million on the date of repayment was recognized in net income in 2014. The new €40 million interest rate swap agreement was not hedged, see below for details.
- ii) *Interest rate contracts for which hedge accounting is not being applied:* The new €40 million interest rate swap agreement effective April 21, 2014, fixes the interest rate at 2.87% (assuming a constant margin of 1.65% per annum), which matures in August 2018. This agreement effectively converts borrowings on a EURIBOR-based floating rate credit facility to a fixed rate facility for a five-year term. At each reporting date, the hedging derivative will be marked-to-market in net income (\$64 thousand unrealized gain for the nine months ended September 30, 2016).
- iii) *Foreign currency exchange contracts for which hedge accounting is not being applied:* CAPREIT had quarterly foreign currency exchange contracts aggregating to €2.8 million which commenced December 2013 and matured quarterly until September 2015 fixed the exchange rate between the Euro and the Canadian dollar for which hedge accounting was not being applied. The mark-to-market gain of \$23 thousand has been recognized in net income for the nine months ended September 30, 2015.

Additional information on the above instruments is included in notes 15 and 16 to the accompanying unaudited condensed consolidated interim financial statements and the Liquidity and Financial Condition section.

Dilution Loss on Equity Accounted Investments

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

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

(Loss) Gain on Foreign Currency Translation

For the three and nine months ended September 30, 2016, CAPREIT recognized a loss on foreign exchange of \$2.5 million and gain of \$1.7 million, respectively, compared to a loss of \$6.5 million and \$6.9 million in prior periods. The gain or loss on foreign currency translation recognized in the consolidated statement of income primarily represents the foreign exchange translation on the €63.5 million Euro LIBOR borrowings. The foreign exchange gain or loss on the investment in IRES relating to this borrowing is recorded in other comprehensive income.

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

SECTION III

NON-IFRS FINANCIAL MEASURES

PER UNIT CALCULATIONS

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

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

	Weighted Average Number of Units				Outstanding Number of Units
	Three Months Ended		Nine Months Ended		As at
	September 30,		September 30,		September 30
(Thousands)	2016	2015	2016	2015	2016
Trust Units	131,822	117,523	129,102	115,047	133,908
Exchangeable Units ⁽¹⁾	161	161	161	161	161
Units under the DUP ⁽²⁾	263	228	257	217	275
Basic Number of Units	132,246	117,912	129,520	115,425	134,344
Plus:					
Units under the LTIP ^{(2),(3)}	427	547	435	577	630
Units under the SELTIP ^{(2),(3)}	320	286	310	329	555
Unit Rights under the RUR Plan ⁽²⁾	717	638	696	613	711
Unexercised Options under the UOP ^{(2),(4)}	281	183	247	242	- ⁽⁵⁾
Dilutive Number of Units	133,991	119,566	131,208	117,186	136,240

(1) See note 11 to the accompanying unaudited condensed consolidated interim financial statements for details of Exchangeable Units.

(2) See notes 12 and 13 to the audited consolidated annual financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 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 unaudited condensed consolidated interim financial statements).

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

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

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

(\$ Thousands)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2016	2015	2016	2015
Distributions Declared on Trust Units	\$ 41,259	\$ 35,878	\$ 119,537	\$ 104,252
Distributions Declared on Exchangeable Units	52	49	150	145
Distributions Declared on Awards Outstanding Under Unit-based Compensation Plans ⁽¹⁾	676	726	2,050	2,332
Total Distributions Declared	41,987	36,653	121,737	106,729
Less:				
Distributions on Trust Units Reinvested	(13,274)	(10,798)	(38,460)	(32,734)
Distributions on Unit Awards Reinvested ⁽¹⁾	(676)	(726)	(2,050)	(2,332)
Net Distributions Paid	\$ 28,037	\$ 25,129	\$ 81,227	\$ 71,663
Percentage of Distributions Reinvested	33.2%	31.4%	33.3%	32.9%

(1) Comprises: (i) non-cash distributions related to the DUP and the RUR plan, and (ii) retained distributions on LTIP and SELTIP Units (see notes 12 and 13 to the audited consolidated annual financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report for a discussion of these plans).

Under CAPREIT's DRIP, a participant may purchase additional Units with the cash distributions paid on the eligible Units, registered in the participant's name or held in a participant's account maintained pursuant to the DRIP. Each participant has the right to receive an additional amount equal to 5% of their monthly distributions reinvested pursuant to the DRIP, which will automatically be paid on each distribution date in the form of additional Units. The price at which Units will be

purchased with cash distributions will be the weighted average trading price for CAPREIT's Trust Units on the Toronto Stock Exchange ("TSX") for the five trading days immediately preceding the relevant distribution date.

The average participation rate in the DRIP and other plans under which distributions are reinvested for the three and nine months ended September 30, 2016 increased to 33.2% and 33.3%, respectively, from 31.4% and 32.9% for the same periods last year. The DRIP participation rate is subject to factors beyond Management's control and varies between investors.

Funds From Operations

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

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

A reconciliation of net income to FFO is as follows:

(\$ Thousands, except per Unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Net Income (Loss)	\$ 130,663	\$ (3,727)	\$ 315,142	\$ 208,258
Adjustments				
Unrealized (Gain) Loss on Remeasurement of Investment Properties	(67,130)	42,143	(161,967)	(92,212)
Realized Loss on Disposition of Investment Properties	1,485	–	1,485	639
Remeasurement of Exchangeable Units	(409)	(126)	610	272
Remeasurement of Unit-based Compensation Liabilities	(6,933)	3,030	11,080	11,820
Interest on Exchangeable Units	52	49	150	145
Corporate Income Taxes	–	28	–	28
Loss (Gain) on Foreign Currency Translation	2,507	6,543	(1,721)	6,920
FFO Adjustment for Income from Equity Accounted Investments ⁽¹⁾	–	–	(3,595)	(2,099)
Unrealized and Realized Loss (Gain) on Derivative Financial Instruments	464	(221)	1,315	(437)
Dilution Loss on Equity Accounted Investments	–	–	–	4,346
Amortization of Property, Plant and Equipment	725	715	2,645	2,036
FFO	\$ 61,424	\$ 48,434	\$ 165,144	\$ 139,716
FFO Per Unit – Basic	\$ 0.464	\$ 0.411	\$ 1.275	\$ 1.210
FFO Per Unit – Diluted	\$ 0.458	\$ 0.405	\$ 1.259	\$ 1.192
Distributions Declared	\$ 41,987	\$ 36,653	\$ 121,737	\$ 106,729
FFO Payout Ratio	68.4%	75.7%	73.7%	76.4%
Net Distributions Paid	\$ 28,037	\$ 25,129	\$ 81,227	\$ 71,663
Excess FFO over Net Distributions Paid	\$ 33,387	\$ 23,305	\$ 83,917	\$ 68,053
FFO Effective Payout Ratio	45.6%	51.9%	49.2%	51.3%

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

Normalized Funds From Operations

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

A reconciliation of FFO to NFFO is as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(\$ Thousands, except per Unit amounts)	2016	2015	2016	2015
FFO	\$ 61,424	\$ 48,434	\$ 165,144	\$ 139,716
Adjustments:				
Amortization of Loss on Derivative Financial Instruments included in Mortgage Interest	777	848	2,330	2,533
Net Mortgage Prepayment Cost ⁽¹⁾	–	123	–	123
Acquisition Research Costs ⁽²⁾	–	–	5,474	–
Severance and Other Employee Costs	–	2,425	–	4,842
NFFO	\$ 62,201	\$ 51,830	\$ 172,948	\$ 147,214
NFFO per Unit – Basic	\$ 0.470	\$ 0.440	\$ 1.335	\$ 1.275
NFFO per Unit – Diluted	\$ 0.464	\$ 0.433	\$ 1.318	\$ 1.256
Total Distributions Declared	\$ 41,987	\$ 36,653	\$ 121,737	\$ 106,729
NFFO Payout Ratio	67.5%	70.7%	70.4%	72.5%
Net Distributions Paid	\$ 28,037	\$ 25,129	\$ 81,227	\$ 71,663
Excess NFFO over Net Distributions Paid	\$ 34,164	\$ 26,701	\$ 91,721	\$ 75,551
Effective NFFO Payout Ratio	45.1%	48.5%	47.0%	48.7%

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

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

NFFO for the three and nine months ended September 30, 2016 increased by 20.0% and 17.5%, respectively, compared to the same periods last year primarily due to the contribution from acquisitions, and higher NOI for properties owned prior to September 30, 2015.

For the nine months ended September 30, 2016, basic NFFO per Unit increased by 4.7% compared to the same period last year despite an approximate 12% increase in the weighted average number of Units outstanding due to the equity offering completed since March 2015 and high DRIP participation. For the three months ended September 30, 2016, basic NFFO per Unit increased by 6.8% compared to the same period last year despite an approximate 12% increase in the weighted average number of Units outstanding due to the equity offerings completed in October 2015 and August 2016, and higher DRIP participation. 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 distributions declared to NFFO, the NFFO payout ratio for the three months ended September 30, 2016 improved to 67.5% compared to 70.7% for the same period last year. For the nine months ended September 30, 2016, NFFO payout ratio improved to 70.4% compared to 72.5% for the same period last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, for the three and nine months ended September 30, 2016, was 45.1% and 47.0%, respectively, compared to 48.5% and 48.7% for the same periods last year.

Cash Flows From Operating Activities and Distributions Declared

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
(\$ Thousands, except per Unit amounts)	2016	2015	2016	2015
Cash Generated From Operating Activities	\$ 102,727	\$ 97,558	\$ 250,147	\$ 218,307
Adjustments				
Interest Paid	(27,839)	(24,658)	(81,689)	(74,133)
Adjusted Cash Flow from Operating Activities	\$ 74,888	\$ 72,900	\$ 168,458	\$ 144,174

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

	Three Months Ended September 30		Nine Months Ended September 30	
(\$ Thousands, except per Unit amounts)	2016	2015	2016	2015
Net Income	\$ 130,663	\$ (3,727)	\$ 315,142	\$ 208,258
Adjusted Cash Flow from Operating Activities	\$ 74,888	\$ 72,900	\$ 168,458	\$ 144,174
Total Distributions Declared	\$ 41,987	\$ 36,653	\$ 121,737	\$ 106,729
Net Distributions Paid	\$ 28,037	\$ 25,129	\$ 81,227	\$ 71,663
Excess of Net Income over (under) Total Distributions Declared	\$ 88,676	\$ (40,380)	\$ 193,405	\$ 101,529
Excess of Net Income over (under) Net Distributions Declared	\$ 102,626	\$ (28,856)	\$ 233,915	\$ 136,595
Excess of Adjusted Cash Flow from Operating Activities over Total Distributions Declared	\$ 32,901	\$ 36,247	\$ 46,721	\$ 37,445
Excess of Adjusted Cash Flow from Operating Activities over Net Distributions Declared	\$ 46,851	\$ 47,771	\$ 87,231	\$ 72,511

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

Adjusted Funds From Operations

Management views AFFO as less reliable or applicable under a gross lease operating structure, as is the case for CAPREIT, because maintenance property capital investments are not clearly identifiable or have a common definition and would require significant judgement to classify property capital investments as maintenance, stabilizing or value enhancing. In addition there is no defined definition of maintenance capital expenditure in the Canadian real estate industry. However, given the current use by investors and other stakeholders of this non-IFRS financial measure, CAPREIT currently intends to continue presenting an estimate of AFFO. AFFO may not be comparable to similar measures presented by other real estate trusts or companies in similar or different industries. Management does not rely on AFFO to operate the business of CAPREIT, plan CAPREIT's capital spending or determine CAPREIT's distributions, or the sustainability of such distributions, thereon. Management views NFFO, adjusted cash flow from operating activities, and disclosure on capital expenditures within the "Capital Property Investments" section as more relevant metrics for investors.

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

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

A reconciliation of NFFO to AFFO is as follows:

(\$ Thousands, except per Unit amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
NFFO	\$ 62,201	\$ 51,830	\$ 172,948	\$ 147,214
Adjustments:				
Maintenance Capital Expenditure Provision ⁽¹⁾	(4,606)	(4,101)	(13,667)	(11,926)
Amortization of Fair Value on Grant Date of Unit-based Compensation	1,516	1,266	3,993	3,672
AFFO	\$ 59,111	\$ 48,995	\$ 163,274	\$ 138,960
AFFO per Unit – Basic	\$ 0.447	\$ 0.416	\$ 1.261	\$ 1.204
AFFO per Unit – Diluted	\$ 0.441	\$ 0.410	\$ 1.244	\$ 1.186
Total Distributions Declared	\$ 41,987	\$ 36,653	\$ 121,737	\$ 106,729
AFFO Payout Ratio	71.0%	74.8%	74.6%	76.8%
Net Distributions Paid	\$ 28,037	\$ 25,129	\$ 81,227	\$ 71,663
Excess AFFO over Net Distributions Paid	\$ 31,074	\$ 23,866	\$ 82,047	\$ 67,297
Effective AFFO Payout Ratio	47.4%	51.3%	49.7%	51.6%

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

Cash Generated From Operating Activities to AFFO Reconciliation

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
(\$ Thousands, except per Unit amounts)	2016	2015	2016	2015
Cash Generated From Operating Activities	\$ 102,727	\$ 97,558	\$ 250,147	\$ 218,307
Adjustments				
Net Income Items Related to Financing and Investing Activities	(27,510)	(24,344)	(77,497)	(71,660)
Changes in Non-Cash Operating Assets and Liabilities	(10,285)	(21,954)	5,725	3,518
Amortization of Other Financing Costs	(1,246)	(805)	(3,435)	(2,320)
Straight-line Rent Adjustment	(21)	16	(28)	2
Interest on Exchangeable Units	52	49	150	145
Severance and Other Employee Costs	–	2,425	–	4,842
Corporate Income Taxes	–	28	–	28
Net Mortgage Prepayment Costs	–	123	–	123
FFO Adjustment for Income from Equity Accounted Investments ⁽¹⁾	–	–	(3,595)	(2,099)
Acquisition Research Costs	–	–	5,474	–
Provision for Maintenance Property Capital Investments	(4,606)	(4,101)	(13,667)	(11,926)
AFFO	\$ 59,111	\$ 48,995	\$ 163,274	\$ 138,960

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

SECTION IV

PROPERTY CAPITAL INVESTMENTS

CAPREIT strives to acquire properties at prices significantly below their current replacement costs, and is committed to improving its operating performance by incurring appropriate capital investments in order to maintain the productive capacity of its property portfolio and to sustain the portfolio's rental income-generating potential over its useful life. CAPREIT continues to invest in environment-friendly and energy-saving initiatives that improve overall NOI. 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.

A breakdown of property capital investments (excluding head office assets) by stabilized properties and net acquisitions is summarized by category below:

Property Capital Investments by Category

Nine Months Ended September 30, 2016				
(\$ Thousands)	Stabilized ⁽¹⁾	Net Acquisitions ⁽²⁾	Total	%
Building Improvements	18,960	12,743	31,703	25.5
Suite Improvements	28,204	12,769	40,973	33.0
Common Area	14,236	8,992	23,228	18.7
Energy-saving Initiatives	1,293	1,152	2,445	2.0
Equipment	5,833	4,119	9,952	8.0
Boilers and Elevators	8,178	3,688	11,866	9.5
Appliances	2,621	1,488	4,109	3.3
Total	79,325	44,951	124,276	100.0

Nine Months Ended September 30, 2015				
(\$ Thousands)	Stabilized ⁽¹⁾	Net Acquisitions ⁽²⁾	Total	%
Building Improvements	20,815	13,001	33,816	31.9
Suite Improvements	24,705	7,832	32,537	30.7
Common Area	12,662	6,177	18,839	17.8
Energy-saving Initiatives	973	532	1,505	1.4
Equipment	5,460	2,107	7,567	7.1
Boilers and Elevators	6,537	2,780	9,317	8.8
Appliances	1,977	467	2,444	2.3
Total	73,129	32,896	106,025	100.0

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

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

The significant portfolio growth generated since 2011 has led CAPREIT to adjust its multi-year capital investment programs. Based on a revised multi-year property capital investment plan, Management expects CAPREIT to complete property capital investments of approximately \$175 million to \$185 million during 2016, including approximately \$96 million targeted at acquisitions completed since January 1, 2011 and approximately \$25 million for high-efficiency boilers and other energy-saving initiatives.

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

2017 Capital Expenditure Budget**Investment Properties**

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

Development

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

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

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

Set out in the next table is Management's current estimate, established through consultation with an independent engineering firm, of CAPREIT's investments in building improvements for 2016 through 2019 for properties owned as of September 30, 2016. Building improvements represent one of the most significant categories of property capital investment at present, but are expected to decline significantly in the coming years.

Future Investments in Building Improvements

(\$ Thousands)	Stabilized ⁽¹⁾ Estimated Range		Acquisitions ⁽²⁾ Estimated Range			
2016	\$ 25,000	–	\$ 29,000	\$ 32,000	–	\$ 36,000
2017	\$ 18,000	–	\$ 22,000	\$ 11,000	–	\$ 15,000
2018	\$ 13,000	–	\$ 17,000	\$ 10,000	–	\$ 14,000
2019	\$ 5,000	–	\$ 9,000	\$ 7,000	–	\$ 11,000

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

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

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

CAPREIT continues its multi-phase implementation of an Enterprise Resource Planning ("ERP") system, and Management believes this unified platform will continue to drive operational efficiencies in the business. To date, \$9.3 million of costs related to this initiative have been capitalized to property, plant and equipment.

PRODUCTIVE CAPACITY

The primary focus of the following discussion is to discuss CAPREIT's longer-term goals of enhanced cash flows and value creation to provide Unitholders with increased total returns and stable Unit distributions through property capital investments.

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

CAPREIT uses industry estimates for annual overall maintenance capital investments, which are approximately \$450 per residential suite. These maintenance property capital investments are in addition to regular R&M costs, which have historically averaged in the range of \$800 to \$850 per residential suite annually and are expensed to NOI.

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

Nine Months Ended September 30, (\$ Thousands)	2016	2015
Total Property Capital Investments ⁽¹⁾	\$ 124,276	\$ 106,025
Less: Estimated Maintenance Property Capital Investments ⁽²⁾	(13,667)	(11,926)
Stabilizing and Value-enhancing Property Capital Investments	\$ 110,609	\$ 94,099

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

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

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

CAPITAL STRUCTURE

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

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

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

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

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

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

As at	September 30, 2016	December 31, 2015
(\$ Thousands)		
Mortgages Payable	\$ 3,355,066	\$ 3,097,773
Bank Indebtedness	61,595	168,211
Unit-based Compensation Liabilities	55,516	46,163
Exchangeable Units	4,940	4,330
Unitholders' Equity	4,063,967	3,659,953
Total Capital	\$ 7,541,084	\$ 6,976,430

Threshold			
Total Debt to Gross Book Value ⁽¹⁾	Maximum 70.00%	44.31%	45.71%
Total Debt to Gross Historical Cost ⁽³⁾		54.17%	55.41%
Tangible Net Worth ⁽⁴⁾	Minimum \$1,500,000	\$ 4,124,423	\$ 3,710,446

For the four quarters ended		September 30, 2016	December 31, 2015
Debt Service Coverage Ratio (times) ^{(2),(5)}	Minimum 1.20	1.63	1.63
Interest Coverage Ratio (times) ^{(2),(6)}	Minimum 1.50	3.05	2.96

- (1) CAPREIT's DOT limits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAPREIT's total assets. GBV is defined as the gross book value of CAPREIT's assets as per CAPREIT's financial statements, determined on a fair value basis for investment properties, plus accumulated amortization on property, plant and equipment, CMHC fees, and deferred loan costs. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments.
- (2) Based on the trailing four quarters.
- (3) Based on the historical cost of investment properties, calculated as CAPREIT's assets, as disclosed under IFRS, plus accumulated amortization on property, plant and equipment, CMHC fees, and deferred loan costs, and minus fair value adjustment on investment properties.
- (4) As per the Credit Facilities agreement, the tangible net worth is generally represented by Unitholders' Equity and Unit-based rights and compensation liabilities or assets, including Exchangeable Units are added back.
As at December 31, 2015 the tangible net worth requirement was \$1,200,000 and was amended to \$1,500,000 effective June 30, 2016.
- (5) As per the Credit Facilities agreement and DOT, the debt service coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes and other adjustments including non-cash costs ("EBITDA") less taxes paid divided by the sum of principal and interest payments.
- (6) As per the Credit Facilities agreement and DOT, the interest coverage ratio is defined as EBITDA less taxes paid divided by interest payments.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

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

- i) CAPREIT's business continues to be stable and is expected to generate sufficient adjusted cash flow from operating activities to fund the current level of distributions. Management expects the combination of the current level of funds reinvested from its DRIP, retained NFFO in excess of distributions declared, mortgage top-ups and the available borrowing capacity of the Credit Facilities to be sufficient to fund its ongoing property capital investments. For the nine months ended September 30, 2016, CAPREIT's NFFO payout ratio was 70.4% compared to 72.5% for the same period last year, and the effective NFFO payout ratio was 47.0% compared to 48.7% for the same period last year, both well within CAPREIT's annual target. CAPREIT anticipates a long-term annual NFFO payout ratio in the 70% to 80% range.
- ii) Management believes CAPREIT is well-positioned to meet its mortgage renewals and refinancing goals for 2016 due to the continuing availability of CMHC-insured financing. Management does not anticipate any material difficulties in completing the renewal of mortgages maturing during 2016 of approximately \$32.3 million, which have an effective interest rate of approximately 3.42%, and refinancing approximately \$26.8 million of principal repayments through 2016 with new mortgages.
- iii) Investment properties with a fair value of \$7.1 billion have been pledged as security as at September 30, 2016. In addition, CAPREIT has investment properties with a fair value of approximately \$278.5 million as at September 30, 2016 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. CAPREIT intends to maintain unencumbered investment properties with an aggregate fair value in the range of \$150 million to \$180 million over the long term.
- iv) Effective June 30, 2016, CAPREIT amended and restated its credit agreement to, among other things: (i) increase its credit facilities to \$505.0 million in the aggregate; (ii) increase the maximum amount of its existing \$340.0 million revolving credit facility to \$440.0 million (the "Acquisition and Operating Facility"); (iii) add an additional lender in the syndicate thereto; (iv) amend the "conversion date", for when the revolving facility converts to a two-year non-revolving term facility, to June 30, 2017; (v) amend the tangible net worth requirement to \$1,500,000; and (vi) extend the maturity date of the existing \$65.0 million non-revolving term credit facility to June 30, 2021. In respect to the Acquisition and Operating Facility, the aggregate amount of euro LIBOR borrowings at any time shall not exceed €70.0 million while the Canadian dollar equivalent of the aggregate principal amount of all advances (including the euro LIBOR borrowings) under the Acquisition and Operating Facility shall not exceed \$440.0 million.
- v) CAPREIT has a \$65.0 million credit facility on two of the MHC land lease sites bearing interest at the bankers' acceptance rate plus 1.4% per annum. This credit facility is a non-revolving term credit facility, and any principal amount repaid under this facility may not be reborrowed maturing June 30, 2021. There is an interest rate swap agreement on this facility, fixing the bankers' acceptance rate to 2.20%, maturing in September 2022. The swap agreement fixes the all-in rate of the loan at 3.60% for a five-year term.
- vi) As at September 30, 2016, the Euro LIBOR borrowings of €63.5 million bear interest at the Euro LIBOR rate plus a margin of 1.65% per annum. The margin is renegotiated annually. There is an interest rate swap agreement on the Euro LIBOR borrowings of €40.0 million, fixing the Euro LIBOR rate to 1.22%, maturing in August 2018. The swap agreement fixes the all-in rate of the loan at 2.87% (assuming a constant margin of 1.65%) for the remaining three years of the original five-year term.
- vii) On July 11, 2016, CAPREIT announced it had agreed to sell, subject to regulatory approval, 4,660,000 Units for \$32.20 per Unit for aggregate gross proceeds of \$150.1 million on a bought-deal basis with an over-allotment option. The transaction closed on August 3, 2016 and under the over-allotment option, 466,000 additional Units were also issued on August 3, 2016 for gross proceeds of \$15.0 million. CAPREIT used the net proceeds of the offering to repay a portion of its borrowings under its Acquisition and Operating Facility.

- viii) On September 21, 2015, CAPREIT announced it had agreed to sell, subject to regulatory approval, 8,720,000 Units for \$28.70 per Unit for aggregate gross proceeds of \$250.3 million on a bought-deal basis with an over-allotment option. The transaction closed on October 9, 2015. CAPREIT used the net proceeds of the offering to repay a portion of its borrowings under its Bridge Increase.
- ix) On March 3, 2015, CAPREIT announced it had agreed to sell, subject to regulatory approval, 5,050,000 Units for \$27.85 per Unit for aggregate gross proceeds of \$140.6 million on a bought-deal basis with an over-allotment option. The transaction closed on March 25, 2015, and under the over-allotment option, 505,000 additional Units were also issued on March 25, 2015 for gross proceeds of \$14.1 million. CAPREIT used the net proceeds of the offering to repay a portion of its borrowings under its Acquisition and Operating Facility.

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

- i) Enhanced disclosure to CMHC;
- ii) Certain financial covenants and commitments and limitations on indebtedness, none of which are inconsistent with CAPREIT's current requirements under its DOT and existing credit and mortgage facilities;
- iii) The posting of a revolving letter of credit with respect to certain capital expenditures on a portfolio basis, rather than an individual property basis; and
- iv) Cross-collateralization of mortgage loans for certain CMHC-insured mortgage lenders.

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

The working capital deficiency, as presented on CAPREIT's consolidated balance sheets as at September 30, 2016, which includes non-cash Unit-based compensation liabilities, is managed through the available liquidity under the Credit Facilities as well as the ongoing refinancing of mortgages payable.

The table below summarizes CAPREIT's bank indebtedness position as at September 30, 2016 and December 31, 2015:

As at September 30, 2016

(\$ Thousands)	Acquisition and Operating Facility
Facility	\$ 440,000
Less: Euro LIBOR Borrowings ⁽¹⁾	(93,605)
Bank Indebtedness	(61,595)
Letters of Credit	(6,040)
Available Borrowing Capacity	\$ 278,760
Weighted Average Floating Interest Rate	2.70%

As at December 31, 2015

(\$ Thousands)	Acquisition and Operating Facility
Facility	\$ 340,000
Less: Euro LIBOR Borrowings ⁽¹⁾	(95,434)
Bank Indebtedness	(168,211)
Letters of Credit	(6,040)
Available Borrowing Capacity	\$ 70,315
Weighted Average Floating Interest Rate	2.56%

(1) Included in mortgages payable.

CAPREIT's key liquidity metrics are summarized as follows:

As at September 30,	2016	2015
Mortgage Debt to Gross Book Value	43.51%	39.63%
Total Debt to Gross Book Value	44.31%	49.27%
Total Debt to Gross Historical Cost ⁽¹⁾	54.17%	59.21%
Total Debt to Total Capitalization	45.05%	50.14%
Debt Service Coverage Ratio (times) ⁽²⁾	1.63	1.61
Interest Coverage Ratio (times) ⁽²⁾	3.05	2.93
Weighted Average Mortgage Interest Rate ⁽³⁾	3.25%	3.53%
Weighted Average Mortgage Term to Maturity (years)	6.2	6.2

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

(2) Based on the trailing four quarters ended September 30, 2016.

(3) Weighted average mortgage interest rate includes deferred financing costs and fair value adjustments on an effective interest rate basis. Including the amortization of the realized component of the loss on settlement of \$32.5 million included in AOCL, the effective portfolio weighted average interest rate at September 30, 2016 would be 3.37% (September 30, 2015 - 3.67%).

As at September 30, 2016, the overall leverage represented by the ratio of total debt to gross book value was 44.31% compared to 49.27% for the same period last year. As at September 30, 2016, CAPREIT's total debt was 45.05% of total market capitalization compared to 50.14% for the same period last year.

The effective portfolio weighted average interest rate has declined from 3.53% as at September 30, 2015 to 3.25% as at September 30, 2016, which Management expects could result in continued interest rate savings in future years. Management believes that as CAPREIT's refinancing plan continues to be realized, there may be scope to further reduce the effective portfolio weighted average interest rate based on foreseeable market conditions. Management is also focused on ensuring the portfolio weighted average term to maturity remains above the five-year range or longer and expects to gradually extend the term, while continuing to balance the maturity profile.

Mortgages Payable

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

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

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

As at September 30,	2016	2015
Percentage of CMHC-Insured Mortgages ⁽¹⁾	96.5%	96.0%
Percentage of Fixed-Rate Mortgages	99.0%	98.7%

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

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

As at September 30, (\$ Thousands)	2016	2015
Balance, Beginning of the Period	\$ 3,097,773	\$ 2,658,454
Add: New Borrowings on Acquisitions	198,622	191,013
Assumed	25,356	—
Refinanced	249,709	252,090
Foreign Currency Translation	(1,829)	4,284
Less: Mortgage Repayments	(75,572)	(62,346)
Mortgages Matured	(111,587)	(136,409)
Mortgages Repaid on Dispositions of Investment Properties	(26,407)	(145,917)
Change in Deferred Financing Costs, Fair Value Adjustments, Net	(999)	(1,725)
Balance, End of the Period	\$ 3,355,066	\$ 2,759,444

The following table presents the refinancing, weighted average interest rates obtained and mortgage top-ups closed or committed up to November 7, 2016, as well as those expected for the remainder of 2016.

(\$ Thousands)	Original Mortgage Amount	Original Interest Rate ⁽¹⁾	New Mortgage Amount	New Interest Rate ^{(1),(2)}	Weighted Average Term on New Mortgage (Yrs)	Top-Up Financing Amount
First Quarter	\$ 27,748	4.44%	\$ 48,574	2.36%	8.1	\$ 20,826
Second Quarter	55,895	4.14%	151,792	2.58%	10.0	95,897
Third Quarter	27,944	5.28%	49,343	2.65%	2.9	21,399
Acquisitions	—	-	198,622	2.38%	10.0	198,622
Total and Weighted Average	\$ 111,587	4.50%	\$ 448,331	2.48%	9.0	\$ 336,744
<i>Subsequent to September 30, 2016:</i>						
Committed or Completed ⁽³⁾	4,822	4.25%	54,715	2.23%	9	49,893
Expected for the Remainder of 2016	27,521	4.25%	75,090	—	—	47,569
Grand Total and Weighted Average	\$ 143,930	4.44%	\$ 578,136	2.45%	9.0	\$ 434,206

(1) Weighted average.

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

(3) Includes new financing on 2015 and 2016 acquisitions of approximately \$39.7 million with a weighted average interest rate of 2.18%.

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 \$275 million and \$325 million in total mortgage renewals and refinancings for 2016 excluding financings on acquisitions.

As at September 30, 2016

(\$ Thousands)

Year of Maturity	Mortgage Maturities ⁽¹⁾	Mortgages on the Same Properties Maturing in Other Years ⁽¹⁾	Total Mortgages	NOI of Properties with Maturing Mortgage(s) ^{(2),(3)}
2016	\$ 32,343	\$ 19,211	\$ 51,554	\$ 8,717
2017	106,163	56,618	162,781	20,540
2018	94,652	35,425	130,077	15,596
2019	367,037	12,780	379,817	42,416
2020	222,914	(3,278)	219,636	25,293
2021 Onward	1,781,367	(120,756)	1,660,611	235,623
Total	\$ 2,604,476	\$ –	\$ 2,604,476	\$ 348,185

(1) Mortgage balance due upon maturity.

(2) NOI for the twelve months ended September 30, 2016.

(3) Projected NOI included for acquisitions since September 30, 2015.

The breakdown of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at September 30, 2016 is as follows:

(\$ Thousands)

Period	Principal Repayments	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) ^{(1),(2)}
Remaining 2016	\$ 26,772	\$ 32,343	\$ 59,115	1.8	3.42
2017	105,215	106,163	211,378	6.3	3.58
2018	106,447	94,652	201,099	6.0	3.40
2019 ⁽³⁾	103,002	367,037	470,039	14.0	3.44
2020	96,888	222,914	319,802	9.5	2.61
2021 ⁽⁴⁾	85,581	339,869	425,450	12.7	3.96
2022	75,914	338,790	414,704	12.3	3.10
2023	57,593	249,786	307,379	9.1	3.23
2024	43,356	230,133	273,489	8.1	3.83
2025	33,976	321,159	355,135	10.6	2.75
2026 – 2030	21,817	301,630	323,447	9.6	3.00
Total	\$ 756,561	\$ 2,604,476	\$ 3,361,037	100.0	3.25 ⁽²⁾
Deferred Financing Costs, Fair Value Adjustments, Net			(5,971)		
Total			\$ 3,355,066		

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

(2) Effective weighted average interest rate includes deferred financing costs and fair value adjustments but excludes CMHC premiums. Including the amortization of the realized component of the loss on settlement of \$32.5 million included in AOCL, the effective portfolio weighted average interest rate at September 30, 2016 would be 3.37% (September 30, 2015 - 3.67%).

(3) Included in mortgages payable is a €63.5 million non-amortizing Euro LIBOR borrowing.

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

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

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

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

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

Equity offerings and over-allotments as at September 30, 2016:

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

Nine Months Ended September 30,	2016
Market Capitalization (\$ thousands)	\$ 4,171,666
Number of Units Outstanding	136,239,901
LTIP and SELTIP Units	1,185,398
Deferred Units	274,506
RUR Plan Units	710,895
Exchangeable Units	161,311
Number of Unit Options Outstanding and Exercisable	1,488,212
Ownership by Trustees, Officers and Senior Managers	3.2%

Normal Course Issuer Bid

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

The table below summarizes the NCIB programs in place since January 1, 2015. No Trust Units were acquired and cancelled under these NCIB programs.

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

SECTION V**SELECTED CONSOLIDATED QUARTERLY INFORMATION**

		Q3 16	Q2 16	Q1 16	Q4 15	Q3 15	Q2 15	Q1 15	Q4 14
Overall Portfolio AMR		\$ 999	\$ 980	\$ 971	\$ 963	\$ 964	\$ 976	\$ 975	\$ 964
Operating Revenues (000s) ⁽¹⁾		\$ 151,812	\$ 146,656	\$ 145,638	\$ 142,776	\$ 131,812	\$ 130,256	\$ 128,954	\$ 128,111
NOI (000s) ⁽¹⁾		\$ 96,274	\$ 91,083	\$ 84,380	\$ 86,427	\$ 82,087	\$ 81,276	\$ 74,824	\$ 76,806
NOI Margin ⁽¹⁾		63.4%	62.1%	57.9%	60.5%	62.3%	62.4%	58.0%	60.0%
Net Income (Loss) (000s)		\$ 130,663	\$ 98,381	\$ 86,098	\$ 137,375	\$ (3,727)	\$ 159,118	\$ 52,867	\$ 82,759
FFO (000s)		\$ 61,424	\$ 57,670	\$ 46,050	\$ 51,640	\$ 48,434	\$ 50,821	\$ 40,461	\$ 45,774
NFFO (000s)		\$ 62,201	\$ 58,452	\$ 52,295	\$ 52,813	\$ 51,830	\$ 51,665	\$ 43,719	\$ 46,620
Total Debt to Gross Book Value		44.31%	47.02%	45.80%	45.71%	49.27%	43.71%	44.32%	46.49%
FFO per Unit	- Basic	\$ 0.464	\$ 0.449	\$ 0.360	\$ 0.408	\$ 0.411	\$ 0.434	\$ 0.364	\$ 0.415
NFFO per Unit	- Basic	\$ 0.470	\$ 0.455	\$ 0.409	\$ 0.417	\$ 0.440	\$ 0.441	\$ 0.393	\$ 0.423
Weighted Average									
Number of Units (000s)	- Basic	132,246	128,469	127,816	126,515	117,912	117,081	111,207	110,193
	- Diluted	133,991	130,209	129,393	128,056	119,566	118,845	113,076	111,962

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

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

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

SECTION VI**ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS****Changes in Accounting Policies and New Accounting Standards**

As of November 7, 2016, there have been no new or amended IFRS issued by the International Accounting Standards Board since the last update provided by CAPREIT in CAPREIT's 2015 Annual Report for the year ended December 31, 2015 that have a material impact on CAPREIT's fiscal years beginning after December 31, 2015. For a detailed description of CAPREIT's accounting policies, refer to CAPREIT's 2015 Annual Report.

CAPREIT has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2016. These changes were made in accordance with the applicable transitional provision.

- CAPREIT has assessed the clarification guidance around materiality and aggregation, presentation of subtotals, the structure of financial statements and the disclosure of accounting policies under IAS 1 and determined that the adoption of this standard did not result in any change in the presentation and disclosure of CAPREIT's financial statements.

- CAPREIT has assessed the impact of specific guidance on accounting for acquisitions of an interest in a joint operation under IFRS 11 and has determined that the adoption of this standard did not result in any current changes.
- CAPREIT has assessed the amendment restoring the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements under IAS 27 and has determined that the adoption of this standard did not result in any changes.
- CAPREIT has assessed the amendment under IAS 34 requiring a cross-reference from the interim financial statements to the location of that information. CAPREIT has determined that there is no impact.

Critical Accounting Estimates, Assumptions, and Judgements

In preparing the accompanying unaudited condensed consolidated interim financial statements in accordance with IFRS, certain accounting policies require the use of estimates, assumptions and judgement that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the unaudited condensed consolidated interim 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 unaudited condensed consolidated interim financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could also differ from those estimates under different assumptions and conditions.

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

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

Valuation of Investment Properties

Fair values are supported by independent external valuations and 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.

Valuation of Unit-based Compensation Liabilities

The basis of valuation for CAPREIT's Unit-based compensation liabilities, such as market assumptions, estimates and valuation methodology, is set out in note 11 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report.

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 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report.

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 terms of the asset management agreement change.

Interest Classification in the Cash Flow Statement

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

CAPREIT maintains appropriate information systems, procedures and controls to provide reasonable assurance that information disclosed externally is complete, reliable and timely. Pursuant to the Canadian Securities Administrators requirements under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, CAPREIT's President and CEO and the Chief Financial Officer have satisfied themselves that as at September 30, 2016, the design of disclosure controls and procedures and the design of internal controls over financial reporting continue to be appropriate.

Management has designed an adequate and appropriate controls 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 appraiser or third-party on an annual basis, as well as multiple levels of reviews of such key assumptions and data within CAPREIT by Management with final approval by the Board of Trustees on an interim and annual basis.

CAPREIT did not make any other changes to the design of internal controls over financial reporting in the nine months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

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

SECTION VII

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and the activities of CAPREIT, which investors should carefully consider before investing in Units. Risks and uncertainties are disclosed in CAPREIT's MD&A for the year ended December 31, 2015 in the Risks and Uncertainties section contained in CAPREIT's 2015 Annual Report and in CAPREIT's latest Annual Information Form.

RELATED PARTY TRANSACTIONS

On March 25, 2015, CAPREIT invested €23.5 million in addition to its initial investment in Ordinary Shares in IRES as part of IRES's €215.0 million secondary equity offering. As at September 30, 2016, CAPREIT has a 15.7% share ownership in IRES and has determined that it has significant influence over IRES. The share ownership interest is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. For a more detailed description, see note 5 to the accompanying unaudited condensed consolidated interim financial statements.

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

Included in other income is \$1.3 million and \$3.8 million for the three and nine months ended September 30, 2016, respectively, from asset management and property management fees. Expenses related to the asset and property management services are included in trust expenses for the year ended September 30, 2016.

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

CAPREIT entered into the Pipeline Agreement with IRES to make available up to €150.0 million for a period of up to one year to acquire high quality properties in Ireland, and to subsequently permit IRES to acquire such properties from CAPREIT once IRES has sourced additional funding. The €150.0 million facility commitment provided by CAPREIT to IRES under the Pipeline Agreement terminated on March 26, 2015 on completion of IRES's secondary equity offering. The facility commitment may be reauthorized by CAPREIT's Board of Trustees at a later date.

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

CAPREIT had the following transactions with key management personnel and trustees. The loans outstanding to key management personnel and trustees for indebtedness relating to the SELTIP and LTIP at September 30, 2016 were \$7.3 million and \$6.1 million, respectively (December 31, 2015 - \$7.6 million and \$6.5 million, respectively). These

amounts are taken into consideration when calculating the fair value of the Unit-based compensation financial liabilities. Key management personnel are eligible to participate in the EUPP. In addition, certain key management personnel also participate in the RUR Plan and trustees currently participate in the DUP. Pursuant to employee contracts, key management personnel are entitled to termination benefits that provides for payments of up to 36 months of benefits (based on base salary, bonus and other benefits) depending on cause.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(\$ Thousands)	2016	2015	2016	2015
Short-term employee benefits and other	\$ 854	\$ 938	\$ 2,554	\$ 3,522
Unit-based compensation - grant date amortization	999	386	2,506	2,236
	1,853	1,324	5,060	5,758
Unit-based compensation - fair value remeasurement	(6,444)	2,851	10,730	9,488
Termination benefits and other ⁽¹⁾	-	-	-	2,074
Total	\$ (4,591)	\$ 4,175	\$ 15,790	\$ 17,320

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

In 2012, as previously disclosed, Intraurban Management Services Inc., a company owned by Thomas Schwartz, terminated its contract for construction management services with CAPREIT and effectively sold its business to a third party. That transaction contemplated aggregate payments by such third party of \$1.85 million. The final payment of \$0.36 million payable to Intraurban is due to be paid in the fourth quarter of 2016.

CAPREIT leases office space from a company in which Thomas Schwartz has an 18% beneficial interest. The rent paid for the office space (which is based on fair market rents at the date the lease was entered into) for the nine months ended September 30, 2016 was \$0.7 million (2015 - \$0.7 million) excluding property operating costs, and has been expensed as trust expenses. In 2012, the lease was amended to extend for an additional three years, expiring on October 31, 2017, and the minimum annual rental payments for the extended period are \$0.5 million, before HST, per year.

COMMITMENTS AND CONTINGENCIES

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

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

SECTION VIII

FUTURE OUTLOOK

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

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

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

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

A significant component of CAPREIT's ability to manage annual rental increases is determined by the annual guideline increases established by certain provincial governments, currently in Ontario and British Columbia, under rent control legislation that CAPREIT must adhere to in setting annual rental rates for renewing tenants. In the Province of Ontario and British Columbia, the guideline increase for 2017 has been set at 1.5% and 3.7%, respectively. In 2016, the rent guideline increase has been set at 2.0% in Ontario and in British Columbia has been set at 2.9%, an increase from 1.6% and 2.5%, respectively, for 2015. An amendment to the *Residential Tenancies Act, 2006*, enacted on June 19, 2012, set Ontario's annual rent increase guideline to not more than 2.5% beginning in 2013. The Ontario rent control legislation provides that landlords may apply to the Landlord and Tenant Board (the "Board") to raise rents by more than the approved annual guideline increase ("AGI"). The Board can allow such an AGI for: (i) eligible capital expenditures; (ii) unusually high increases in property taxes and/or utility costs; and (iii) increases in eligible security costs. The maximum AGI permitted in connection with eligible capital expenditures is three percent per year to a maximum of nine percent over a three-year period. These same limitations do not apply to AGI applications related to unusually high increases in property taxes and/or utilities, or increases in eligible security costs.

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

The following table summarizes the status of cumulative AGI applications filed as at September 30, 2016 and December 31, 2015 for the last 3 years:

	September 30, 2016	December 31, 2015
Number of Suites and Sites Filed	10,371	9,587
Applications Settled:		
Number of Applications	66	58
Term Weighted Average Total Increase ⁽¹⁾	4.00%	4.14%
Weighted Average Term (years) ^{(1),(2)}	1.86	1.91
Applications Outstanding:		
Number of Applications	10	13
Term Weighted Average Total Increase ⁽¹⁾	2.56%	3.53%
Weighted Average Term (years) ^{(1),(2)}	1.26	1.56

(1) Weighted by number of impacted suites filed.

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

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

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

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

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

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



CAPREIT

**CONDENSED CONSOLIDATED
INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2016
(UNAUDITED)**

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CONSOLIDATED BALANCE SHEETS

(CA\$ Thousands)

As at	Note	September 30, 2016	December 31, 2015
Non-Current Assets			
Investment properties	6	\$ 7,409,460	\$ 6,863,140
Other non-current assets	7	221,755	205,939
		7,631,215	7,069,079
Current Assets			
Other current assets	7	32,577	33,749
		\$ 7,663,792	\$ 7,102,828
Non-Current Liabilities			
Mortgages payable	9	\$ 3,114,177	\$ 2,858,622
Bank indebtedness	10	61,595	168,211
Unit-based compensation financial liabilities	11, 12	11,692	6,980
Other non-current liabilities	8	6,667	5,856
		3,194,131	3,039,669
Current Liabilities			
Mortgages payable	9	240,889	239,151
Unit-based compensation financial liabilities	11, 12	43,824	39,183
Accounts payable and accrued liabilities		64,467	72,412
Other current liabilities	8	8,322	8,008
Security deposits		29,179	27,049
Exchangeable Units	11	4,940	4,330
Distributions payable		14,073	13,073
		405,694	403,206
		\$ 3,599,825	\$ 3,442,875
Unitholders' Equity			
Unit Capital		\$ 2,427,374	\$ 2,222,747
Accumulated other comprehensive loss ("AOCL")	19	(10,748)	(14,530)
Retained earnings		1,647,341	1,451,736
		\$ 4,063,967	\$ 3,659,953
		\$ 7,663,792	\$ 7,102,828

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(CA\$ Thousands)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Operating Revenues					
Revenue from investment properties		\$ 151,812	\$ 131,812	\$ 444,106	\$ 391,022
Operating Expenses					
Realty taxes		(16,976)	(14,617)	(49,165)	(43,801)
Property operating costs		(38,562)	(35,108)	(123,204)	(109,034)
		(55,538)	(49,725)	(172,369)	(152,835)
Net Rental Income		96,274	82,087	271,737	238,187
Trust expenses		(6,301)	(5,537)	(23,246)	(17,338)
Unit-based compensation recoveries (expenses)	12	5,417	(4,296)	(15,073)	(15,492)
Fair value adjustments of investment properties	6	67,130	(42,143)	161,967	92,212
Realized loss on disposition of investment properties	5	(1,485)	—	(1,485)	(639)
Amortization of property, plant and equipment		(725)	(715)	(2,645)	(2,036)
Severance and other employee costs	20	—	(2,425)	—	(4,842)
Operating Income		160,310	26,971	391,255	290,052
Remeasurement of Exchangeable Units	11	409	126	(610)	(272)
(Loss) Gain on derivative financial instruments	16	(464)	221	(1,315)	437
Interest and other financing costs	21	(29,993)	(26,574)	(87,782)	(78,911)
Foreign currency translation		(2,507)	(6,543)	1,721	(6,920)
Dilution loss on equity accounted investments		—	—	—	(4,346)
Other income		2,908	2,072	11,873	8,218
Net Income (Loss)		130,663	(3,727)	315,142	208,258
Other Comprehensive Income					
Items That May Be Reclassified Subsequently to Net Income					
Amortization of losses in AOCL to interest on mortgages payable	19	\$ 777	\$ 848	\$ 2,330	\$ 2,533
Change in fair value of derivative financial instruments	16, 19	895	(1,058)	159	(2,570)
Unrealized (loss) gain on change in fair value of investments	19	(1,304)	(565)	3,435	(718)
Gain (loss) on foreign currency translation		3,152	7,343	(2,142)	7,659
Reversal of foreign currency translation relating to IRES ownership dilution	19	—	—	—	3,127
Other Comprehensive Income		\$ 3,520	\$ 6,568	\$ 3,782	\$ 10,031
Comprehensive Income		\$ 134,183	\$ 2,841	\$ 318,924	\$ 218,289

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

(CA\$ Thousands)

		Unit	Retained	Accumulated Other Comprehensive	
	Note	Capital	Earnings	Loss	Total
Unitholders' Equity, January 1, 2016		\$ 2,222,747	\$ 1,451,736	\$ (14,530)	\$ 3,659,953
Unit Capital					
New Units issued	13	157,523	—	—	157,523
Distribution Reinvestment Plan	13	37,780	—	—	37,780
Deferred Unit Plan	12, 13	110	—	—	110
RUR Plan	12, 13	732	—	—	732
Long-Term Incentive Plan	12, 13	7,547	—	—	7,547
Employee Unit Purchase Plan	12	935	—	—	935
		204,627	—	—	204,627
Retained Earnings and Other Comprehensive Income					
Net income		—	315,142	—	315,142
Other comprehensive income		—	—	3,782	3,782
		—	315,142	3,782	318,924
Distributions on Trust Units					
Distributions declared and paid	14	—	(105,464)	—	(105,464)
Distributions payable	14	—	(14,073)	—	(14,073)
		—	(119,537)	—	(119,537)
Unitholders' Equity, September 30, 2016		\$ 2,427,374	\$ 1,647,341	\$ (10,748)	\$ 4,063,967

		Unit	Retained	Accumulated Other Comprehensive	
	Note	Capital	Earnings	Loss	Total
Unitholders' Equity, January 1, 2015		\$ 1,761,313	\$ 1,249,076	\$ (27,284)	\$ 2,983,105
Unit Capital					
New Units issued	13	147,635	—	—	147,635
Distribution Reinvestment Plan	13	32,685	—	—	32,685
Unit Option Plan	12, 13	6,473	—	—	6,473
Deferred Unit Plan	12, 13	116	—	—	116
RUR Plan	12, 13	459	—	—	459
Long-Term Incentive Plan	12, 13	13,842	—	—	13,842
Senior Executive Long-Term Incentive Plan	12, 13	7,162	—	—	7,162
Employee Unit Purchase Plan	12	838	—	—	838
		209,210	—	—	209,210
Retained Earnings and Other Comprehensive Income					
Net income		—	208,258	—	208,258
Other comprehensive income		—	—	10,031	10,031
		—	208,258	10,031	218,289
Distributions on Trust Units					
Distributions declared and paid	14	—	(92,116)	—	(92,116)
Distributions payable	14	—	(12,136)	—	(12,136)
		—	(104,252)	—	(104,252)
Unitholders' Equity, September 30, 2015		\$ 1,970,523	\$ 1,353,082	\$ (17,253)	\$ 3,306,352

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(CA\$ Thousands)

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note	2016	2015	2016	2015
Cash Provided By (Used In):					
Operating Activities					
Net income		\$ 130,663	\$ (3,727)	\$ 315,142	\$ 208,258
Items related to operating activities not affecting cash:					
Fair value adjustment - investment properties		(67,130)	42,143	(161,967)	(92,212)
Remeasurement of Exchangeable Units		(409)	(126)	610	272
Loss on sale of investment properties	5	1,485	—	1,485	639
Loss (Gain) on derivative financial instruments	16	464	(221)	1,315	(437)
Amortization	7, 19, 21	2,748	2,368	8,410	6,889
Unit-based compensation (recoveries) expenses		(5,417)	4,296	15,073	15,492
Straight-line rent adjustment		21	(16)	28	(2)
Dilution loss on equity accounted investments		—	—	—	4,346
Foreign currency translation		2,507	6,543	(1,721)	6,920
		64,932	51,260	178,375	150,165
Net income items related to financing and investing activities	22	27,510	24,344	77,497	71,660
Changes in non-cash operating assets and liabilities	22	10,285	21,954	(5,725)	(3,518)
Cash Provided by Operating Activities		102,727	97,558	250,147	218,307
Investing Activities					
Acquisition of investment properties	22	(40,987)	(689,957)	(293,052)	(906,944)
Capital investments	22	(56,044)	(53,038)	(133,328)	(115,375)
Acquisition of investments		—	—	—	(32,305)
Disposition of investment properties	22	31,648	—	31,648	24,004
Change in restricted cash		117	(27)	(1,007)	(234)
Investment income received		329	314	4,192	1,284
Cash Used in Investing Activities		(64,937)	(742,708)	(391,547)	(1,029,570)
Financing Activities					
Mortgage financings		66,949	113,745	448,331	443,103
Mortgage principal repayments		(26,104)	(21,030)	(75,572)	(62,346)
Mortgages repaid on maturity		(27,944)	(58,068)	(111,587)	(136,409)
Financing costs on mortgages payable		(664)	(657)	(2,667)	(1,366)
CMHC premiums on mortgages payable		(418)	(1,826)	(9,584)	(5,546)
Interest paid	22	(27,839)	(24,658)	(81,689)	(74,133)
Bank indebtedness		(152,067)	657,093	(106,616)	557,255
Proceeds on issuance of Units	22	157,710	4,536	161,541	161,181
Net cash distributions to Unitholders	22	(27,413)	(23,985)	(80,757)	(70,476)
Cash (Used in) Provided by Financing Activities		(37,790)	645,150	141,400	811,263
Changes in Cash and Cash Equivalents During the Period		—	—	—	—
Cash and Cash Equivalents, Beginning of the Period		—	—	—	—
Cash and Cash Equivalents, End of the Period		\$ —	\$ —	\$ —	\$ —

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(CA\$ 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 real estate located in Canada, where it is also domiciled.

CAPREIT converted from a closed-end real estate investment trust to an open-ended mutual fund trust on January 8, 2008, and is governed under the laws of the Province of Ontario by a Declaration of Trust ("DOT") dated February 3, 1997, as most recently amended and restated on June 12, 2014. CAPREIT commenced active operations on February 4, 1997 when it acquired an initial portfolio of properties and became a reporting issuer on May 21, 1997, pursuant to an initial public offering prospectus dated May 12, 1997.

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

CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited, entered into an external investment management agreement to perform property and asset management services for Irish Residential Properties REIT plc ("IRES"), an Irish residential REIT listed on the Irish Stock Exchange. As at September 30, 2016, CAPREIT holds 65.5 million ordinary shares representing 15.7% of the issued share capital of IRES.

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

2. Summary of Significant Accounting Policies

Basis of presentation

These condensed consolidated interim financial statements, which have been approved by CAPREIT's Board of Trustees on November 7, 2016, have been prepared in accordance with IAS 34, "Interim Financial Reporting" ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and footnote disclosure normally included in annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, have been omitted or condensed.

The condensed consolidated interim financial statements are prepared on a going concern basis and have been presented in Canadian dollars, which is also CAPREIT's functional currency. CAPREIT's results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in utility costs and other factors. CAPREIT has historically experienced higher utility expenses in the first and last quarters as a result of the winter months, which create variations in the quarterly results.

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those of CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2015.

CAPREIT has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2016. These changes were made in accordance with the applicable transitional provision.

- CAPREIT has assessed the clarification guidance around materiality and aggregation, presentation of subtotals, the structure of financial statements and the disclosure of accounting policies under IAS 1 and determined that the adoption of this standard did not result in any change in the presentation and disclosure of CAPREIT's financial statements.
- CAPREIT has assessed the impact of specific guidance on accounting for acquisitions of an interest in a joint operation under IFRS 11 and has determined that the adoption of this standard did not result in any current changes.
- CAPREIT has assessed the amendment restoring the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements under IAS 27 and has determined that the adoption of this standard did not result in any changes.
- CAPREIT has assessed the amendment under IAS 34 requiring a cross-reference from the interim financial statements to the location of that information. CAPREIT has determined that there is no impact.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

3. Critical Accounting Estimates, Assumptions and Judgements

The preparation of condensed consolidated interim financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying CAPREIT's accounting policies. The critical accounting estimates and judgements have been set out in detail in note 3 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2015.

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

- i) Valuation of investment properties
- ii) Valuation of financial instruments
- iii) Unit-based compensation
- iv) Investment in Irish Residential Properties REIT plc ("IRES")
- v) Classification of interest paid on consolidated statements of cash flows

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

4. Recent Investment Property Acquisitions

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

For the Nine Months Ended September 30, 2016

	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Interest Rate ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
January 20, 2016	670	London	\$ 53,200	\$ — ⁽³⁾	— ⁽³⁾	— ⁽³⁾
April 12, 2016	12	Charlottetown	1,162	729	2.04%	3.7
April 26, 2016	71	Greater Toronto Area	16,630	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
May 11, 2016	55	Greater Toronto Area	10,178	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
May 11, 2016	144	Fort St. John	8,668	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 15, 2016	21	Victoria	2,643	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 30, 2016 ⁽⁴⁾	850	Ottawa	184,668	24,627	3.96%	6.3
September 15, 2016	71	Halifax	17,407	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
September 30, 2016	87	London	22,813	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
	1,981		\$ 317,369	\$ 25,356		

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

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

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

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

For the Year Ended December 31, 2015

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

5. Dispositions

The tables below summarize the dispositions completed since January 1, 2015. These dispositions do not meet the definition of discontinued operations under IFRS 5, Non-current Assets Held for Sale and Discontinued Operations.

Dispositions Completed During the Nine Months Ended September 30, 2016

Disposition Date	Suite Count	Region	Sale Price	Cash Proceeds	Mortgage Discharged
July 27, 2016	145	Montréal	\$ 24,849	\$ 12,480	\$ 12,085
August 22, 2016	22	Montréal	2,340	2,282	–
September 28, 2016	412	Montréal	31,350	16,886	14,322
	579		\$ 58,539	\$ 31,648	\$ 26,407

Dispositions Completed During the Year Ended December 31, 2015

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

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

For the nine months ended September 30, 2016, a loss of \$1,485 was recognized in connection with the property dispositions in the third quarter of 2016. For the nine months ended September 30, 2015, a loss of \$639 was recognized in connection with the property disposition on February 18, 2015. The loss represents the difference between the net proceeds after transaction costs from the disposition compared to the fair value of the respective properties at the date of disposition.

6. Investment Properties

Valuation basis

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

The fair value of all investment properties is established by a qualified, independent appraiser annually. Each quarter, CAPREIT utilizes market assumptions for rent increases, capitalization and discount rates provided by the external appraiser to determine the fair value of the investment properties for interim reporting purposes. Changes in the externally provided capitalization rates or results of operations from one reporting period to the next would increase or decrease the fair value of the investment properties.

Investment properties have been valued using the same valuation methods and key assumptions as those described in note 6 of CAPREIT's audited consolidated financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

A summary of the market assumptions and ranges for each type of property interest along with their fair values are presented below as at September 30, 2016 and December 31, 2015:

As at September 30, 2016

Type of Interest	Fair Value	WA NOI / Cash Flow ⁽¹⁾	Rate Type	Max	Min	Weighted Average
Fee Simple Interests – Apartments and Townhomes	\$ 6,315,650	2,377	Capitalization rate	7.96%	3.00%	4.57%
MHC Land Lease Sites	297,280	2,427	Capitalization rate	7.00%	4.41%	6.18%
Operating Leasehold Interests ^{(2), (3), (4)}	609,290	3,327	Discount rate ⁽⁵⁾	6.50%	5.75%	5.92%
Land Leasehold Interests ⁽²⁾	187,240	3,651	Discount rate	6.75%	6.75%	6.75%
Total Investment Properties	\$ 7,409,460					

As at December 31, 2015

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

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

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

(3) The fair values of Operating Leasehold Interests include the fair values of the Options to purchase the related freehold interests of \$127,700 as at September 30, 2016 and December 31, 2015, respectively.

(4) The weighted average remaining lease term on Operating Leasehold Interests is 17.0 years as at September 30, 2016 (December 31, 2015 – 17.8 years).

(5) Represents the discount rate used to determine the fair value for Operating Leasehold Interests using the Discounted Cash Flow ("DCF") method. A weighted average stabilized NOI growth of 2.5% has been assumed as at September 30, 2016 and December 31, 2015.

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Reconciliation of carrying amounts of investment properties by type

For the Nine Months Ended September 30, 2016	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
Balance at the beginning of the period	\$ 6,069,250	\$ 598,690	\$ 195,200	\$ 6,863,140
Additions:				
Acquisitions	319,181	—	—	319,181
Property capital investments	108,259	11,087	4,929	124,275
Capitalized leasing costs ⁽¹⁾	684	29	157	870
Dispositions	(59,120)	—	—	(59,120)
Realized loss on disposition of investment properties	(1,485)	—	—	(1,485)
Unrealized fair value adjustments	176,161	(516)	(13,046)	162,599
Balance of Investment Properties at end of period	\$ 6,612,930	\$ 609,290	\$ 187,240	\$ 7,409,460

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

For the Nine Months Ended September 30, 2015	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
Balance at the beginning of the period	\$ 4,986,030	\$ 559,560	\$ 204,050	\$ 5,749,640
Additions:				
Acquisitions	919,454	—	—	919,454
Property capital investments	91,179	11,748	3,369	106,296
Capitalized leasing costs ⁽¹⁾	335	22	(13)	344
Foreign currency translation	(3,155)	—	—	(3,155)
Dispositions	(168,622)	—	—	(168,622)
Realized loss on dispositions of investment properties	(639)	—	—	(639)
Unrealized fair value adjustments	101,558	(3,730)	(5,616)	92,212
Balance of Investment Properties at end of period	\$ 5,926,140	\$ 567,600	\$ 201,790	\$ 6,695,530

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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7. Other Assets

As at	September 30, 2016	December 31, 2015
Other Non-Current Assets		
Property, plant and equipment ⁽¹⁾	\$ 32,666	\$ 26,350
Accumulated amortization of property, plant and equipment	(19,757)	(17,109)
Net property, plant and equipment	12,909	9,241
Prepaid CMHC premiums, net ⁽²⁾	73,171	66,787
Deferred loan costs, net ⁽³⁾	1,514	1,101
Investment	26,285	22,850
Investment in associates ⁽⁴⁾	107,876	105,960
Total	\$ 221,755	\$ 205,939
Other Current Assets		
Prepaid expenses	\$ 11,643	\$ 4,753
Other receivables	10,831	15,220
Restricted cash	7,136	6,129
Deposits	2,967	7,647
Total	\$ 32,577	\$ 33,749

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

(2) Represents prepaid CMHC premiums on mortgages payable net of accumulated amortization of \$19,343 (December 31, 2015 - \$16,900).

(3) Represents deferred loan costs related to the revolving credit facilities net of accumulated amortization of \$8,306 (December 31, 2015 - \$7,822).

(4) On March 25, 2015, IRES raised €215,000 from the secondary equity offering. CAPREIT recorded a loss on ownership dilution of \$1,219 (in dilution loss on equity accounted investments) representing the difference between CAPREIT's share of the fair value of the secondary equity offering (excluding CAPREIT's investment of €23,500 ordinary shares) and the carrying value of CAPREIT's disposed equity interest. Due to CAPREIT's ownership dilution, \$3,127 of accumulated foreign currency loss was reclassified from other comprehensive loss to dilution loss on equity accounted investments on the consolidated statements of income and comprehensive income. CAPREIT has determined that its investment in IRES should be accounted for using the equity method of accounting given the significant influence it has over IRES. In making the determination that CAPREIT does not control IRES, CAPREIT used judgement when considering the extent of its ownership interest in IRES, the level of its involvement, responsibilities and remuneration as IRES's investment manager and the control exerted over IRES by its independent Board of Directors. As at September 30, 2016, CAPREIT concluded that it continues to exert significant influence over IRES. CAPREIT will continue to reassess this conclusion should its ownership interest or terms of the asset management agreement change. Refer to note 23 for further details. The table below discloses CAPREIT's ownership in IRES and IRES's share price:

As at	September 30, 2016	December 31, 2015
IRES Investment		
Share ownership (%)	15.7%	15.7%
Number of IRES shares	65,500,000	65,500,000
IRES share price (€)	1.18	1.17

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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8. Other Liabilities

As at		September 30, 2016	December 31, 2015
	Note		
Other Non-Current Liabilities			
Hedge liability	16(a),(b),(c)	\$ 6,667	\$ 5,856
Total		\$ 6,667	\$ 5,856
Other Current Liabilities			
Mortgage interest payable		\$ 8,322	\$ 8,008
Total		\$ 8,322	\$ 8,008

9. Mortgages Payable

As at September 30, 2016, mortgages payable bear interest at a weighted average effective rate of 3.37% (December 31, 2015 – 3.52%), and mature between 2016 and 2030. The effective interest rate as at September 30, 2016 includes 0.11% (December 31, 2015 – 0.12%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of \$32,494 included in AOCL. Approximately 99.0% of CAPREIT's mortgages payable are financed at fixed interest rates as at September 30, 2016. Investment properties at fair value of \$7,131,000 have been pledged as security as at September 30, 2016. CAPREIT has investment properties with a fair value of \$278,460 as at September 30, 2016 that are not encumbered by mortgages and secure only the Acquisition and Operating Facility. As at September 30, 2016, unamortized deferred financing costs of \$10,990 and fair value adjustments of (\$5,019) are netted against mortgages payable.

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

As at September 30, 2016	Principal Amount	% of Total Principal
2016	\$ 59,115	1.8
2017	211,378	6.3
2018	201,099	6.0
2019 ⁽¹⁾	470,039	14.0
2020	319,802	9.5
Subsequent to 2020 ⁽²⁾	2,099,604	62.4
	3,361,037	100.0
Deferred financing costs and fair value adjustments	(5,971)	
Total Portfolio	\$ 3,355,066	

As at	September 30, 2016	December 31, 2015
Represented by:		
Mortgages Payable - non-current ^{(1),(2)}	\$ 3,114,177	\$ 2,858,622
Mortgages Payable - current	240,889	239,151
	\$ 3,355,066	\$ 3,097,773

(1) Included in mortgages payable as at September 30, 2016 is a €63,500 (\$93,605) non-amortizing Euro LIBOR borrowing. See note 10 for further details.

(2) Included in mortgages payable as at September 30, 2016 is a \$65,000 non-amortizing credit facility on two of the MHC land lease sites.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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10. Bank Indebtedness

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

CAPREIT's Credit Facilities include the \$440,000 Acquisition and Operating Facility, and the existing \$65,000 five-year non-revolving term credit facility (collectively, the "Credit Facilities"). The \$65,000 five-year non-revolving term credit facility bears interest at the bankers' acceptance rate plus 1.4% per annum (included in mortgages payable). As at September 30, 2016, CAPREIT has euro LIBOR borrowings of €63,500 that bears interest at the euro LIBOR rate plus a margin of 1.65% per annum (included in mortgages payable). The margin is renegotiated annually. The interest rate on the Acquisition and Operating Facility is determined by interest rates on prime advances and bankers' acceptances utilized during the year. The Acquisition and Operating Facility matures June 30, 2019. The Credit Facilities are subject to compliance with the various provisions of the Credit Facilities in order to fund operations, acquisitions, capital improvements, letters of credit and other uses.

As at September 30, 2016	Acquisition and Operating Facility
Facility	\$ 440,000
Less: Euro LIBOR borrowings ⁽¹⁾	(93,605)
Bank indebtedness	(61,595)
Letters of credit	(6,040)
Available borrowing capacity	\$ 278,760
Weighted average floating interest rate	2.70%

As at December 31, 2015	Acquisition and Operating Facility
Facility	\$ 340,000
Less: Euro LIBOR borrowings ⁽¹⁾	(95,434)
Bank indebtedness	(168,211)
Letters of credit	(6,040)
Available borrowing capacity	\$ 70,315
Weighted average floating interest rate	2.56%

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

11. Unit-based Compensation Financial Liabilities and Exchangeable Units

Units are issuable pursuant to CAPREIT's Unit-based compensation plans, namely, the Unit Option Plan ("UOP"), the Employee Unit Purchase Plan ("EUPP"), the Deferred Unit Plan ("DUP") and the Restricted Unit Rights ("RUR") Plan (each of which is more fully described in note 12). As at September 30, 2016, the maximum number of Units issuable under all of CAPREIT's Unit-based incentive plans is 9,500,000 Units (December 31, 2015 – 9,500,000). The maximum number of Units available for future issuance under all Unit incentive plans as at September 30, 2016 is 1,378,226 Units (December 31, 2015 – 1,750,051 Units).

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

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The Units, Unit Rights and Unit Options issued or outstanding under CAPREIT's incentive plans and Exchangeable Units as at September 30, 2016 and 2015 are as follows:

Nine Months Ended September 30, 2016 (Number of Units)	UOP	DUP	RUR	SELTIP/ LTIP (1)	Exch. Units (2)	Total
Units, Unit Rights and Unit Options outstanding as at January 1, 2016	1,334,432	248,076	586,313	1,445,398	161,311	3,775,530
Issued, cancelled or granted during the period:						
Issued or granted	153,780	26,008	131,772	—	—	311,560
Exercised or settled	—	(7,500)	(28,364)	(260,000)	—	(295,864)
Distributions reinvested	—	7,922	21,174	—	—	29,096
Units, Unit Rights and Unit Options outstanding as at September 30, 2016	1,488,212	274,506	710,895	1,185,398	161,311	3,820,322

Nine Months Ended September 30, 2015 (Number of Units)	UOP	DUP	RUR	SELTIP/ LTIP (1)	Exch. Units (2)	Total
Units, Unit Rights and Unit Options outstanding as at January 1, 2015	1,134,182	206,726	506,041	2,225,597	161,311	4,233,857
Issued, cancelled or granted during the period:						
Issued or granted	166,650	27,822	123,620	—	—	318,092
Exercised or settled	(228,000)	(5,802)	(31,876)	(760,199)	—	(1,025,877)
Cancelled	—	—	(2,285)	—	—	(2,285)
Distributions reinvested	—	6,923	19,505	—	—	26,428
Units, Unit Rights and Unit Options outstanding as at September 30, 2015	1,072,832	235,669	615,005	1,465,398	161,311	3,550,215

- 1) The distributions payable on SELTIP and LTIP Units do not increase the number of Units outstanding on these plans but are incorporated into the fair value of the plans.
- 2) The outstanding 161,311 Exchangeable Units are entitled to distributions equivalent to distributions on Trust Units, must be exchanged solely for Trust Units on a one-for-one basis, and are exchangeable at any time at the option of the holder. An equivalent number of Special Voting Units were issued at the same time as the Exchangeable Units. The holders of these Units have no entitlement to any share of or interest in the distributions or net assets of CAPREIT. Through Special Voting Units, holders of Exchangeable Units are entitled to an equivalent number of votes at all meetings of Unitholders or in respect of any written resolution of Unitholders equal to the number of Exchangeable Units held. The carrying value of these Units is measured at an amortized cost of \$4,940 as at September 30, 2016 (December 31, 2015 - \$4,330), which approximates the closing price of the Trust Units.

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The table below summarizes the change in the total Unit-based compensation financial liabilities for the nine months ended September 30, 2016 and December 31, 2015, including the settlement of such liabilities through the issuance of Trust Units.

As at	September 30, 2016	December 31, 2015
Total Unit-based compensation financial liabilities, beginning of the period	\$ 46,163	\$ 48,686
Unit-based compensation expenses	14,917	13,226
Early vesting of RURs ⁽¹⁾	—	1,307
Settlement of Unit-based compensation awards for Trust Units	(5,564)	(17,056)
Total Unit-based compensation financial liabilities, end of the period	\$ 55,516	\$ 46,163

The Unit-based compensation financial liabilities comprise:

As at	September 30, 2016	December 31, 2015
Current		
LTIP	\$ 13,150	\$ 14,309
SELTIP	10,613	8,414
DUP	8,405	6,657
RUR	4,876	5,453
UOP	6,780	4,350
	43,824	39,183
Non-Current		
RUR	11,692	6,980
Total Unit-based compensation financial liabilities, end of the period	\$ 55,516	\$ 46,163

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

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

As at September 30, 2016, 3.2% (September 30, 2015 – 3.0%) of all Trust Units outstanding were held by trustees, officers and other senior management of CAPREIT.

Normal course issuer bid ("NCIB")

The table below summarizes the NCIB programs in place since January 1, 2015. No Trust Units were acquired and cancelled under these NCIB programs.

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

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12. Unit-based Compensation Recoveries (Expenses)

These costs represent Unit-based compensation recoveries (expenses), which include fair value remeasurement at each reporting date recognized over the respective vesting periods for each plan for the periods ended September 30, 2016 and 2015, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
UOP	\$ (2,117)	\$ 1,363	\$ 2,430	\$ 2,605
LTIP	(1,486)	894	3,306	5,289
SELTIP	(1,295)	313	2,199	1,881
DUP	(321)	530	1,981	1,655
RUR Plan	(250)	1,150	5,001	3,922
EUPP	52	46	156	140
Unit-based Compensation (Recoveries) Expenses	\$ (5,417)	\$ 4,296	\$ 15,073	\$ 15,492

This Unit-based compensation note disclosure should be read in conjunction with CAPREIT's note 12 to the audited consolidated financial statements for the year ended December 31, 2015 contained in CAPREIT's 2015 Annual Report, which provides a detailed description for each of the Unit-based compensation plans.

a) UOP

On March 25, 2015, the President and CEO was granted 166,650 options at an exercise price of \$29.00 with an expiration date of March 24, 2025 with an intrinsic value of \$3.56 per option at the date of grant. On October 9, 2015, the President and CEO was granted 261,600 options at an exercise price of \$28.70 with an expiration date of October 8, 2025 with an intrinsic value of \$3.27 per option at the date of grant. The vesting of the options granted in 2015 is subject to satisfaction of performance criteria over the annual reporting period before they may be exercisable. The options granted in 2015 vested on December 31, 2015. On August 3, 2016, the President and CEO was granted 153,780 options at an exercise price of \$32.40 with an expiration date of August 2, 2026 with an intrinsic value of \$4.07 per option at the date of grant. The vesting of the options granted in 2016 is subject to satisfaction of performance criteria over the annual reporting period before they may be exercisable.

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	September 30, 2016	December 31, 2015
Number of Units	1,488,212	1,334,432
Weighted average issue price	\$ 25.33	\$ 24.52
Weighted average risk free rate (%)	0.8	1.1
Weighted average distribution yield (%)	4.1	4.5
Weighted average expected years	7.3	7.7
Weighted average volatility (%)	19.9	20.6
Weighted average Unit option value	\$ 4.76	\$ 3.26

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b) LTIP and SELTIP

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

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	September 30, 2016	December 31, 2015
Number of Units	630,683	890,683
Weighted average loan rate (%)	4.62	4.61
Weighted average issue price	\$ 15.15	\$ 15.56
Weighted average loan balance per Unit - current	\$ 9.78	\$ 10.78
Weighted average loan balance per Unit - at maturity	\$ 8.13	\$ 8.89
Weighted average risk-free rate (%)	0.5	0.5
Weighted average distribution yield (%)	4.1	4.5
Weighted average expected years	1.8	2.3
Weighted average volatility (%)	19.6	18.3
Weighted average Unit value	\$ 20.85	\$ 16.06

SELTIP		
As at	September 30, 2016	December 31, 2015
Number of Units	554,715	554,715
Weighted average loan rate (%)	4.96	4.96
Weighted average issue price	\$ 17.84	\$ 17.84
Weighted average loan balance per Unit - current	\$ 12.90	\$ 13.35
Weighted average loan balance per Unit - at maturity ⁽¹⁾	\$ 1.80	\$ 2.20
Weighted average risk-free rate (%)	1.0	1.4
Weighted average distribution yield (%)	4.1	4.5
Weighted average expected years	19.6	20.3
Weighted average volatility (%)	24.0	24.8
Weighted average Unit value	\$ 19.13	\$ 15.15

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

c) DUP

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

	September 30, 2016			September 30, 2015		
	Weighted Avg Issue Price	Fair Value per Unit	Number of Units	Weighted Avg Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the period	\$ 21.87	\$ 26.84	248,076	\$ 20.48	\$ 25.13	206,726
Granted during the period	30.80	—	26,008	28.39	—	27,822
Additional Unit distributions	30.07	—	7,922	28.05	—	6,923
Settled during the period	21.24	—	(7,500)	21.54	—	(5,802)
Outstanding, end of the period	\$ 23.55	\$ 30.62	274,506	\$ 21.26	\$ 28.38	235,669

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d) RUR Plan

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

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

	September 30, 2016			September 30, 2015		
	Weighted Avg Issue Price	Fair Value per Unit	Number of Units	Weighted Avg Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the period	\$ 22.78	\$ 26.84	586,313	\$ 21.19	\$ 25.13	506,041
Granted during the period	28.64	–	131,772	27.27	–	123,620
Additional Unit distributions	30.03	–	21,174	27.95	–	19,505
Settled or cancelled during the period	20.14	–	(28,364)	22.69	–	(34,161)
Outstanding, end of the period	\$ 24.19	\$ 30.62	710,895	\$ 22.72	\$ 28.38	615,005

e) EUPP

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

13. Unitholders' Equity

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

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

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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 Nine Months Ended September 30,	Ref	2016	2015
Units outstanding, beginning of the period		127,139,897	110,088,079
Issued or granted during the period in connection with the following:			
New Units issued	(a)	5,126,000	5,555,000
Distribution Reinvestment Plan ("DRIP")	(b)	1,323,386	1,228,123
EUPP	(c)	31,169	29,703
DUP	(d)	3,529	4,061
RUR Plan	(e)	23,810	3,315
UOP	(f)	—	228,000
LTIP	(g)	260,000	497,000
SELTIP	(h)	—	263,199
Units outstanding, end of the period		133,907,791	117,896,480

a) New Units Issued

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

b) Distribution Reinvestment Plan ("DRIP")

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

c) Employee Unit Purchase Plan ("EUPP")

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

d) Deferred Unit Plan ("DUP")

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

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

During the first nine months of 2016, 28,364 RUR Units were settled, out of which 23,810 RUR Units were settled for an equivalent number of Trust Units, and the remaining RUR Units were cancelled in consideration of withholding taxes owed to the Trust Units issued. During the first nine months of 2015, 31,876 RUR Units were settled, out of which 16,584 RUR Units were settled for an equivalent number of Trust Units, and the remaining RUR Units were cancelled in consideration of withholding taxes owed on the Trust Units issued. In addition, during the first nine months of 2015, 2,285 RUR Units were cancelled.

f) Unit Option Plan ("UOP Plan")

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

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

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

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

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

14. Distributions on Trust Units

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Distributions declared	\$ 41,259	\$ 35,878	\$ 119,537	\$ 104,252
Distributions per Unit	\$ 0.313	\$ 0.305	\$ 0.925	\$ 0.902

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15. Financial Instruments, Investment Properties and Risk Management

a) Fair value of financial instruments

At September 30, 2016, the fair value of CAPREIT's mortgages payable is estimated to be \$3,540,000 (December 31, 2015 - \$3,237,000) due to changes in interest rates since the dates the individual mortgages were financed and the impact of the passage of time on the primarily fixed rate nature of CAPREIT's mortgages. The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions.

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.

	Level 1	Level 2	Level 3	Total
	Quoted prices in active markets for identical assets and liabilities	Significant other observable inputs	Significant unobservable inputs	
Recurring Measurements				
Assets				
Investment properties				
Fee simple and MHC land lease sites	\$ –	\$ –	\$ 6,612,930 ⁽¹⁾	\$ 6,612,930
Operating leasehold interests	–	–	609,290 ⁽¹⁾	609,290
Land leasehold interests	–	–	187,240 ⁽¹⁾	187,240
Investments	26,285 ⁽²⁾	–	–	26,285
Liabilities				
Derivative financial instruments - interest	–	(4,751) ⁽³⁾	–	(4,751)
Derivative financial instruments - interest euro	–	(1,916) ⁽³⁾	–	(1,916)
Total	\$ 26,285	\$ (6,667)	\$ 7,409,460	\$ 7,429,078

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

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

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

Although CAPREIT has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by CAPREIT itself. As at September 30, 2016, CAPREIT has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustment is not significant to the overall valuation of the derivative. As a result, CAPREIT has determined that the derivative valuations in their entirety should be classified as Level 2 of the fair value hierarchy.

b) Risk management

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

Interest rate risk

CAPREIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced on terms as favourable as those of the existing indebtedness. In addition, interest on CAPREIT's bank indebtedness is subject to floating interest rates. CAPREIT is also subject to the risks associated with

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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 nine months ended September 30, 2016 and 2015, a 100 basis point change in interest rates would have the following effect:

	Change in interest rates (basis points)	Increase (decrease) in net income		Increase (decrease) in OCI	
		2016	2015	2016	2015
Floating rate debt	+100	\$ (1,240)	\$ (367)	\$ -	\$ -
Floating rate debt	-100	\$ 1,240	\$ 367	\$ -	\$ -
Forward interest rate hedge	+100	\$ -	\$ 7,176	\$ -	\$ -
Forward interest rate hedge	-100	\$ -	\$ (7,854)	\$ -	\$ -
Interest rate swap agreements	+100	\$ -	\$ -	\$ 3,814	\$ 4,293
Interest rate swap agreements	-100	\$ -	\$ -	\$ (4,032)	\$ (4,262)
Euro interest rate swap agreements	+100	\$ 1,150	\$ 1,760	\$ -	\$ -
Euro interest rate swap agreements	-100	\$ (1,116)	\$ (1,739)	\$ -	\$ -

CAPREIT's objective in managing interest rate risk is to minimize the volatility of earnings. As at September 30, 2016, interest rate risk has been minimized as approximately 99.0% (September 30, 2015 - 98.7%) of the mortgages payable are financed at fixed interest rates, with maturities staggered over a number of years.

Liquidity risk

Liquidity risk is the risk that CAPREIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 96.5% of CAPREIT's mortgages are CMHC-insured (excluding \$166,297 of mortgages on the MHC), which reduces the risk in refinancing mortgages. CAPREIT's overall risk for mortgage refinancings is further reduced as the unamortized mortgage insurance premiums are transferable between approved lenders and are effective for the full amortization period of the underlying mortgages, ranging between 25 and 35 years. To mitigate the risk associated with the refinancing of maturing debt, CAPREIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAPREIT manages its overall liquidity risk by maintaining sufficient available credit facilities and unencumbered assets to fund its ongoing operational and capital commitments, distributions to Unitholders, and to provide future growth in its business. As at September 30, 2016, CAPREIT had undrawn lines of credit in the amount of \$278,760 (December 31, 2015 - \$70,315).

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The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at September 30, 2016 are as follows:

	2016	2017- 2018	2019- 2020	2021 onward
Mortgages payable	\$ 59,115	\$ 412,477	\$ 789,841	\$ 2,099,604
Bank indebtedness	—	—	61,595	—
Mortgage interest ⁽¹⁾	26,499	192,723	154,092	189,031
Bank indebtedness interest ⁽¹⁾	424	3,327	826	—
Other liabilities	72,789	1,916	—	4,751
Security deposits	29,179	—	—	—
Exchangeable Units	4,940	—	—	—
Distributions payable	14,073	—	—	—
	\$ 207,019	\$ 610,443	\$ 1,006,354	\$ 2,293,386

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

Credit risk

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

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

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

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

Foreign currency risk

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

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

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

a) Contracts for which hedge accounting is no longer effective

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

CAPREIT settled these Interest Rate Forward Contracts in 2009. The associated cumulative unamortized loss of \$9,908 included in AOCL at September 30, 2008 is being amortized to mortgage interest expense over the original terms of the hedged contracts. For the three and nine months ended September 30, 2016, \$197 and \$587, respectively, (September 30, 2015 - \$265 and \$790) was amortized from AOCL to mortgage interest expense.

b) Contracts for which hedge accounting is being applied

- (i) As at September 30, 2016, CAPREIT has a \$65,000 interest rate swap agreement fixing the bankers' acceptance rate at 2.20%, which matures in September 2022, for which hedge accounting is being applied. The agreement effectively converts borrowings on a bankers' acceptance-based floating rate credit facility to a fixed rate facility for a 10-year term (see note 9 for further details). The related floating rate credit facility is for a five-year non-revolving term with an effective interest rate of 3.60%, and any principal that is repaid may not be reborrowed. The credit facility was amended effective June 30, 2016 and expires on June 30, 2021. On expiry of the term, it is expected to be refinanced to match the term of the interest rate swap. The ineffective loss component of the hedge of \$1,383 has been recorded under (loss) gain on derivative financial instruments on the consolidated statements of income and comprehensive income for the nine months ended September 30, 2016 and the mark-to-market loss of \$4,751 has been set up in other non-current liabilities as at September 30, 2016.

The interest rate swap agreement has been summarized as follows:

As at	September 30, 2016	December 31, 2015
Hedge liability, beginning of the period	\$ (3,527)	\$ (886)
Change in intrinsic value	(1,224)	(2,641)
Hedge liability, end of the period	\$ (4,751)	\$ (3,527)
Hedge liability in AOCL, beginning of the period	\$ (3,527)	\$ (886)
Change in intrinsic value in OCI	159	(2,641)
Hedge liability in AOCL, end of the period	\$ (3,368)	\$ (3,527)

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

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

As at	September 30, 2016	December 31, 2015
Hedge liability in AOCL, beginning of the period	\$ (15,121)	\$ (17,409)
Amortization from AOCL to interest and other financing costs	1,716	2,288
Hedge liability in AOCL, end of the period	\$ (13,405)	\$ (15,121)

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c) Contracts for which hedge accounting is not being applied

- (i) As at September 30, 2016, CAPREIT had quarterly foreign currency exchange contracts aggregating to €2,800, which settled between December 2013 and matured quarterly up till September 2015, which fixed the exchange rate between the euro and the Canadian dollar, for which hedge accounting was not being applied. All foreign currency exchange contracts have settled since September 2015. The mark-to-market gain of \$23 has been recognized in net income for the nine months ended September 30, 2015.
- (ii) As at September 30, 2016, CAPREIT has a €40,000 interest rate swap agreement fixing the EURIBOR rate at 1.22%, which matures in August 2018, for which hedge accounting is not being applied. The agreement effectively converts borrowings on a EURIBOR-based floating rate credit facility to a fixed rate facility for a five-year term (see note 9 for further details). The mark-to-market gain for 2016 of \$68 has been recorded in net income and the cumulative mark-to-market loss of \$1,916 (including \$829 of crystallized loss previously recognized) is in other liabilities as at September 30, 2016.
- (iii) In October 2015, CAPREIT settled the \$100,000 forward interest hedge agreement fixing the Government of Canada 10-year bond at 1.44% effective October 29, 2015 and the realized gain for 2015 of \$416 has been recorded in net income. The agreement effectively converted anticipated mortgage financings of \$100,000 for a 10-year term.

17. Capital Management

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

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

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

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

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

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

As at		September 30, 2016	December 31, 2015
Mortgages payable		\$ 3,355,066	\$ 3,097,773
Bank indebtedness		61,595	168,211
Unit-based compensation financial liabilities		55,516	46,163
Exchangeable Units		4,940	4,330
Unitholders' equity		4,063,967	3,659,953
Total capital		\$ 7,541,084	\$ 6,976,430
	Threshold		
Total debt to gross book value ⁽¹⁾	Maximum 70.00%	44.31%	45.71%
Tangible net worth ⁽³⁾	Minimum \$1,500,000	\$ 4,124,423	\$ 3,710,446
Debt service coverage ratio (times) ^{(2),(4)}	Minimum 1.20	1.63	1.63
Interest coverage ratio (times) ^{(2),(5)}	Minimum 1.50	3.05	2.96

- (1) CAPREIT's DOT limits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAPREIT's total assets. GBV is defined as the gross book value of CAPREIT's assets as per CAPREIT's financial statements, determined on a fair value basis for the investment properties, plus accumulated amortization on property, plant and equipment, CMHC fees and deferred loan costs. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments.
- (2) Based on the trailing four quarters.
- (3) As per the Credit Facilities agreement, the tangible net worth is generally represented by Unitholders' Equity and Unit-based rights and compensation liabilities or assets, including Exchangeable Units added back. As at December 31, 2015 the tangible net worth requirement was \$1,200,000 and was amended to \$1,500,000 effective June 30, 2016.
- (4) As per the Credit Facilities agreement and DOT, the debt service coverage ratio is defined as earnings before interest, income taxes, depreciation and amortization and other adjustments, including non-cash costs ("EBITDA"), less income taxes paid divided by the sum of principal and interest payments.
- (5) As per the Credit Facilities agreement and DOT, the interest coverage ratio is defined as EBITDA less taxes paid divided by interest payments.

18. Deferred Income Taxes

Trusts that satisfy the REIT Exception are excluded from the SIFT definition and therefore will not be subject to taxation under the SIFT Rules. For a more detailed explanation of the SIFT definition and SIFT Rules, refer to note 18 to the consolidated annual financial statements contained in CAPREIT's 2015 Annual Report. In 2010, CAPREIT qualified for the REIT Exception and continues to meet the REIT Exception as at September 30, 2016 and is therefore not subject to taxation. CAPREIT expects to continue to meet the REIT Exception through the remainder of 2016.

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19. Accumulated Other Comprehensive Loss

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
AOCL balance, beginning of period	\$ (14,268)	\$ (23,821)	\$ (14,530)	\$ (27,284)
Other comprehensive income:				
Amortization from AOCL to interest and other financing costs ^{(1) (2)}	777	848	2,330	2,533
Change in fair value of derivative financial instruments (note 16(b))	895	(1,058)	159	(2,570)
Change in fair value of investments	(1,304)	(565)	3,435	(718)
Gain (loss) on foreign currency translation	3,152	7,343	(2,142)	7,659
Reversal of cumulative foreign currency translation relating to IRES ownership dilution	—	—	—	3,127
Other comprehensive income	3,520	6,568	3,782	10,031
AOCL balance, end of period	\$ (10,748)	\$ (17,253)	\$ (10,748)	\$ (17,253)

	September 30, 2016	December 31, 2015
AOCL comprises:		
Loss on derivative financial instruments		
Cumulative realized loss ⁽¹⁾	\$ (9,908)	\$ (9,908)
Accumulated amortization to interest and other financing costs	7,723	7,136
Unamortized balance of loss on cash flow hedges previously settled	(136)	(163)
Loss on interest rate swap agreements	(3,368)	(3,527)
Loss on forward interest rate hedge ⁽²⁾	(22,884)	(22,884)
Accumulated amortization to interest and other financing costs	9,479	7,763
Change in fair value of investments	7,059	3,624
Cumulative gain on foreign currency translation	991	3,133
Reversal of cumulative foreign currency translation relating to IRES ownership dilution	3,127	3,127
Cumulative realized gain on sale of investments	(2,831)	(2,831)
AOCL balance, end of the period	\$ (10,748)	\$ (14,530)

(1) The cumulative realized loss on derivative financial instruments aggregating to \$9,908 will be amortized to net income as mortgage interest expense over periods ending December 2016 to September 2022, being the original terms of the hedged contracts. The estimated amount of the amortization that is expected to be reclassified to net income from AOCL in the next 12 months is \$755.

(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 \$2,284.

20. Severance and Other Employee Costs

For the three and nine months ended September 30, 2015, \$2,245 and \$4,842, respectively, of severance and other employee costs were incurred including compensation costs related to the accelerated vesting of previously-granted RUR Units.

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21. Interest and Other Financing Costs

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest on mortgages payable ⁽¹⁾	\$ 27,965	\$ 25,130	\$ 81,109	\$ 74,647
Amortization of CMHC premiums and fees	903	727	2,592	2,122
Interest on bank indebtedness and other deferred costs ⁽²⁾	1,074	668	3,932	1,997
Interest on Exchangeable Units	51	49	149	145
	\$ 29,993	\$ 26,574	\$ 87,782	\$ 78,911

(1) For three and nine months ended September 30, 2016, includes amortization of deferred financing costs, fair value adjustments and amortization of amounts from OCI totalling \$943 and \$2,689, respectively (September 30, 2015 - \$778 and \$2,195).

(2) For three and nine months ended September 30, 2016, includes amortization of deferred financing costs of \$177 and \$484, respectively (September 30, 2015 - \$147 and \$534).

22. Supplemental Cash Flow Information

a) Net income items related to investing and financing activities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Investment income received	\$ 329	\$ 314	\$ 4,192	\$ 1,284
Interest paid on Exchangeable Units	(51)	(49)	(149)	(145)
Interest paid on mortgages payable	(26,880)	(24,047)	(78,104)	(72,504)
Interest paid on bank indebtedness	(908)	(562)	(3,436)	(1,484)
Net disbursement	\$ (27,510)	\$ (24,344)	\$ (77,497)	\$ (72,849)

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

b) Changes in non-cash operating assets and liabilities

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Prepaid expenses	\$ 2,824	\$ 866	\$ (6,888)	\$ (8,647)
Tenant inducements and direct leasing costs	(106)	(112)	(1,480)	2,812
Other receivables	(392)	(2,285)	4,304	(3,240)
Deferred loan costs	(41)	(599)	(897)	(630)
Deposits on purchases	4,318	(2,859)	4,898	(6,252)
Deposits	(127)	(20)	(218)	(24)
Accounts payable and other liabilities	3,651	26,081	(7,582)	10,355
Security deposits	158	882	2,138	2,108
Net disbursements	\$ 10,285	\$ 21,954	\$ (5,725)	\$ (3,518)

c) Net cash distributions to Unitholders

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Distributions declared to Unitholders	\$ (41,259)	\$ (35,878)	\$ (119,537)	\$ (104,252)
Add: Distributions payable at beginning of period	(13,489)	(12,066)	(13,073)	(11,045)
Less: Distributions payable at end of period	14,073	12,136	14,073	12,136
Less: Distributions to participants in the DRIP	13,262	11,823	37,780	32,685
Net disbursement	\$ (27,413)	\$ (23,985)	\$ (80,757)	\$ (70,476)

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d) Capital investments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Capital investments	\$ (54,183)	\$ (49,753)	\$ (130,591)	\$ (110,382)
Change in accounts payable and other liabilities	(1,861)	(3,285)	(2,737)	(4,993)
Net disbursement	\$ (56,044)	\$ (53,038)	\$ (133,328)	\$ (115,375)

e) Acquisition of investment properties

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Acquired properties	\$ (40,444)	\$ (689,957)	\$ (319,181)	\$ (919,454)
Fair value adjustment of assumed debt	(543)	—	773	—
Assumed debt	—	—	25,356	—
Deposit on purchases	—	—	—	12,510
Net disbursement	\$ (40,987)	\$ (689,957)	\$ (293,052)	\$ (906,944)

f) Disposition of investment properties

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Proceeds	\$ 60,606	\$ —	\$ 60,606	\$ 170,450
Closing costs	(2,551)	—	(2,551)	(529)
Mortgages assumed by purchasers and discharged	(26,407)	—	(26,407)	(145,917)
Net proceeds	\$ 31,648	\$ —	\$ 31,648	\$ 24,004

g) Issuance of Trust Units

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Issuance of Trust Units	\$ 159,467	\$ 8,011	\$ 166,847	\$ 176,525
Settlement of Unit-based Compensation Awards for Trust Units	(1,757)	(3,475)	(5,306)	(15,344)
Net proceeds	\$ 157,710	\$ 4,536	\$ 161,541	\$ 161,181

23. Related Party Transactions

- a) On March 25, 2015, CAPREIT invested €23,500 in addition to its initial investment in Ordinary Shares in IRES as part of IRES's €215,000 secondary equity offering. As at September 30, 2016, CAPREIT has a 15.7% share ownership in IRES and has determined that it has significant influence over IRES. The share ownership is held through a wholly-owned subsidiary of CAPREIT, Irish Residential Properties Fund. See note 5 for a more detailed description.

Effective April 11, 2014, CAPREIT's wholly-owned subsidiary, IRES Fund Management Limited ("IRES FM"), entered into an external management agreement, amended from time to time, to perform certain property and asset management services for IRES. On October 28, 2015, IRES FM became authorized by the Irish Central Bank as an alternative investment fund manager under the European Union (Alternative Investment Fund Managers) Regulation, 2013 (the "AIFM Regulations"). On November 1, 2015, IRES FM was appointed by IRES as its new alternative investment fund manager in accordance with the AIFM Regulations, and replaced the existing alternative investment fund manager. The

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investment management agreement between IRES FM and IRES came into effect, pursuant to which IRES pays 3.0% per annum of its gross rental income as property management fees and 0.5% per annum of its net asset value as asset management fees to IRES FM. The investment management agreement governs the provision of portfolio management, risk management and other related services to IRES by IRES FM. It has an initial term of five years, unless it is duly terminated pursuant to a provision of the investment management agreement, and thereafter shall continue in force for consecutive five-year periods.

Included in other income for the three and nine months ended September 30, 2016 is \$1,332 and \$3,845, respectively, from asset management and property management fees. Expenses related to the asset and property management services are included in trust expenses for the three and nine months ended September 30, 2016. The amount receivable from IRES as at September 30, 2016 is \$6,227.

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

CAPREIT entered into the Pipeline Agreement with IRES to make available up to €150,000 for a period of up to one year to acquire high quality properties in Ireland, and to subsequently permit IRES to acquire such properties from CAPREIT once IRES has sourced additional funding. The €150,000 facility commitment provided by CAPREIT to IRES under the Pipeline Agreement terminated on March 26, 2015 on completion of IRES's secondary equity offering. The facility commitment may be reauthorized by CAPREIT's Board of Trustees at a later date.

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

- b) CAPREIT had the following transactions with key management personnel and trustees. The loans outstanding to key management personnel and trustees for indebtedness relating to the SELTIP and LTIP as at September 30, 2016 were \$7,264 and \$6,073, respectively (December 31, 2015 - \$7,499 and \$6,417, respectively). These amounts are taken into consideration when calculating the fair value of the Unit-based compensation financial liabilities. Key management personnel are eligible to participate in the EUPP. In addition, certain key management personnel also participate in the RUR, and trustees currently participate in the DUP. Pursuant to employee contracts, key management personnel are entitled to termination benefits that provides for payments of up to 36 months of benefits (based on base salary, bonus and other benefits) depending on cause.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Short-term employee benefits and other	\$ 854	\$ 938	\$ 2,554	\$ 3,522
Unit-based compensation - grant date amortization	999	386	2,506	2,236
	1,853	1,324	5,060	5,758
Unit-based compensation - fair value remeasurement	(6,444)	2,851	10,730	9,488
Termination benefits and other ⁽¹⁾	-	-	-	2,074
Total	\$ (4,591)	\$ 4,175	\$ 15,790	\$ 17,320

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

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- c) In 2012, as previously disclosed, Intraurban Management Services Inc., a company owned by a senior officer and trustee of CAPREIT, terminated its contract for construction management services with CAPREIT and effectively sold its business to a third party. That transaction contemplated aggregate payments by such third party of \$1,850. The final payment of \$364 payable to Intraurban is due to be paid in the fourth quarter of 2016.
- d) CAPREIT has a lease for office space with a company in which an officer has an 18% beneficial interest. The rent paid for the office space for the nine months ended September 30, 2016 and 2015 was \$724 and \$701, respectively, excluding property operating costs, and has been expensed as trust expenses. The lease expires on October 31, 2017. CAPREIT is in the process of renewing the lease. Minimum annual rental payments for the remaining 2016 and next year are as follows:

	Remaining	
	2016	2017
Minimum annual rent	\$ 126	\$ 419

24. Commitments

Natural gas

Through the combination of fixed and variable price contracts, CAPREIT is committed as at September 30, 2016, in the aggregate amount of \$15,671 for its natural gas and transport requirements. These commitments, which range from one to three years, fix the price of natural gas and transport for a portion of CAPREIT's requirements as summarized below.

	Remaining				
	2016	2017	2018	2019	2020
Gas Commodity					
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 3.23	\$ 2.93	\$ 2.95	\$ 2.84	\$ 2.79
Total of CAPREIT's Estimated Requirements	46.3%	54.9%	50.7%	48.8%	32.9%
Transport					
Fixed Weighted Average Cost per GJ ⁽¹⁾	\$ 1.39	\$ 1.31	\$ 1.00	\$ 0.96	\$ 0.95
Total of CAPREIT's Estimated Requirements	52.8%	68.4%	49.2%	47.6%	32.9%

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

Land Leasehold Interests

Four of the investment properties have ground leases with various expiry dates (subject to revisions at periodic intervals) between March 31, 2045 and March 31, 2070. One land lease matures in 2045, two mature in 2068 and another matures in 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations.

Annual lease payments under these four leasehold interests are included in property operating costs. For additional details of minimum annual rent under these leases, see note 25 to the annual consolidated financial statements contained in CAPREIT's 2015 Annual Report.

Property capital investments

Commitments primarily related to capital investments in investment properties of \$66,060 were outstanding as at September 30, 2016 (December 31, 2015 - \$29,247).

25. Contingencies

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

Unitholder Information

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STOCK EXCHANGE LISTING

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