

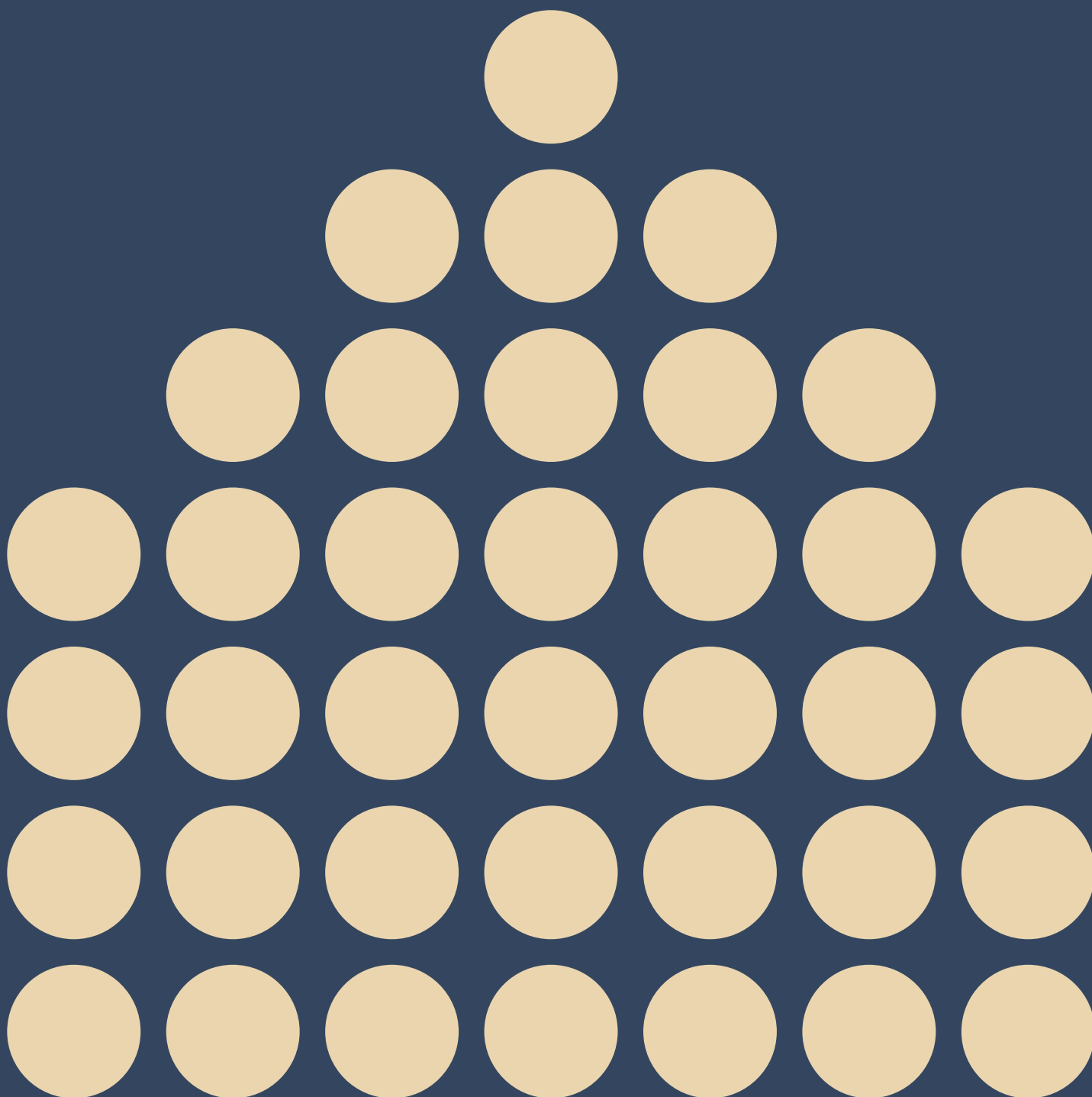


CANADIAN APARTMENT
PROPERTIES • REIT

Investing in Our Future.
2021 Annual Report



Investing in Our Future.





“Investing in our
future builds value”

Mark Kenney
President and Chief Executive Officer

Profile

As Canada's largest publicly traded provider of quality rental housing, Canadian Apartment Properties REIT ("CAPREIT") owns or has interests in approximately 70,000 residential apartment suites, townhomes and manufactured housing community sites well-located across Canada, the Netherlands and Ireland as of December 31, 2021.

2021 Highlights & Objectives

HIGHLIGHTS

- Another resilient year despite the pandemic
- Focused asset allocation strategy continues to build value
- Revenues rise on portfolio growth and increased rents
- Proactive and close resident relations drive 99% of rents collected
- NFFO up 3.4% on strong operating performance
- Solid accretive growth with NFFO per unit rising 2.0%
- Strong, flexible balance sheet and liquidity position
- Over 99% of mortgage portfolio with low 2.5% fixed interest rate
- \$1.0 billion increase in fair market value on portfolio investments, strong sector fundamentals
- Fully integrated ESG programs delivering value

OBJECTIVES

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

Selected Financial Highlights

For the Year Ended December 31,	2021	2020
Portfolio Performance		
Overall portfolio occupancy ⁽¹⁾	98.1%	97.5%
Overall portfolio net Average Monthly Rents ⁽¹⁾	\$ 1,149	\$ 1,121
Operating revenues (000s)	\$ 933,137	\$ 882,643
NOI (000s)	\$ 609,993	\$ 578,171
NOI margin	65.4%	65.5%
Financial Performance		
FFO per Unit – basic ⁽²⁾	\$ 2.262	\$ 2.258
NFFO per Unit – basic ⁽²⁾	\$ 2.318	\$ 2.273
Cash distributions per unit	\$ 1.409	\$ 1.380
FFO payout ratio ⁽²⁾	62.6%	61.4%
NFFO payout ratio ⁽²⁾	61.0%	61.0%
Liquidity and Leverage		
Total debt to gross book value ⁽¹⁾	36.12%	35.54%
Total debt to gross historical cost ⁽¹⁾	52.26%	50.11%
Weighted average mortgage interest rate ⁽¹⁾	2.47%	2.56%
Weighted average mortgage term (years) ⁽¹⁾	5.65	5.76
Debt service coverage (times) ⁽³⁾	1.97	2.01
Interest coverage (times) ⁽³⁾	4.02	3.95
Available liquidity – Acquisition and Operating Facility (000s) ⁽¹⁾	\$ 384,510	\$ 627,997
Available cash and cash equivalents (000s) ⁽¹⁾	\$ 73,411	\$ 121,722

⁽¹⁾ As at December 31.

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

⁽³⁾ Based on the trailing four quarters.

**“Investing in our
people builds value”**



Strong & Diversified Portfolio



59,620

Total Suites and Sites

98.6%

Residential Occupancy

\$1,319

Residential Net Average Monthly Rent

Canada

In Canada, our focus is on growing our portfolio of mid-tier, value-add properties in well-located suburban markets in and around Canada's largest cities. We have proven our ability to invest in these properties to increase value, while the stability of cash flows results from continuing high stable occupancy, larger average suite size, and affordable rental rates.

21%

MHC

Total Suites	12,201
Occupancy	95.8%
Net Avg Rent	\$396

18%

Québec

Total Suites	10,710
Occupancy	97.2%
Net Avg Rent	\$1,048

10%

British Columbia

Total Suites	5,777
Occupancy	99.2%
Net Avg Rent	\$1,449

0%

Saskatchewan

Total Suites	234
Occupancy	97.0%
Net Avg Rent	\$1,033

5%

Nova Scotia

Total Suites	3,288
Occupancy	98.6%
Net Avg Rent	\$1,315

4%

Alberta

Total Suites	2,318
Occupancy	98.1%
Net Avg Rent	\$1,118

41%

Ontario

Total Suites	24,455
Occupancy	99.2%
Net Avg Rent	\$1,439

1%

Prince Edward Island

Total Suites	637
Occupancy	98.7%
Net Avg Rent	\$1,103

As at December 31, 2021

6,545

Total Suites

98.6%

Occupancy

€927

Net Average Monthly Rent

Netherlands

As one of Europe's only fully integrated, professional residential rental property management platforms, our investment in European Residential REIT (ERES) is delivering strong growth in property management fees, while our ownership interest generates solid dividend income.



3,829

Total Suites

99.1%

Occupancy

€1,678

Net Average Monthly Rent

Ireland

Since its initial investment in the Dublin residential rental market in 2014, we have received strong and growing property management fee and dividend income from our 18.7% ownership interest in Irish Residential REIT (IRES). Effective January 31, 2022, CAPREIT's investment management agreement with IRES was terminated.



As at December 31, 2021



Scott Cryer
Chief Financial Officer

Corinne Pruzanski
General Counsel and
Corporate Secretary

Jodi Lieberman
Chief People, Culture
and Brand Officer

Mark Kenney
President and
Chief Executive Officer

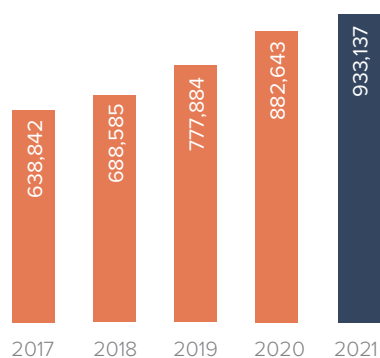
Since 1997, we have responsibly invested in our assets and our people, building one of Canada’s largest portfolios of residential rental properties and one of the best teams and operating platforms in our business. Going forward, we will continue to build value by **Investing in Our Future.**

Report to Unitholders

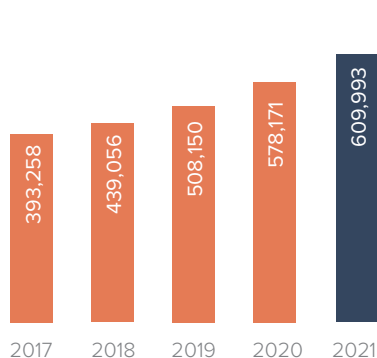
Despite operating for a full year under the significant and unprecedented challenges presented by the COVID-19 pandemic, CAPREIT generated another year of record growth and performance in 2021. Our goals throughout the pandemic were to preserve capital, maintain a strong, flexible financial position, and mitigate risk. Thanks to the experience and dedication of all our teams, we met these objectives and will emerge from the pandemic stronger than ever before. Looking ahead, we are confident in our ability to capitalize on the strong fundamentals in our business, our proven growth programs and asset allocation strategy, and the quality of our asset base to continue building value for our Unitholders.

KEY METRICS

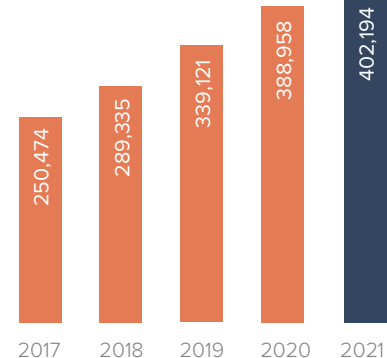
Operating Revenue (000s)



NOI (000s)



NFFO (000s)



Another Record Year



Operating revenues for the year ended December 31, 2021 rose 5.7% to \$993.1 million, driven by our portfolio growth and increasing average monthly rents. With this revenue growth, combined with our proven and successful property management programs, Net Operating Income (NOI) rose 5.5% to \$610.0 million for the year.

Normalized Funds from Operations (NFFO), our key performance benchmark, increased 3.4% in 2021 to \$402.2 million, resulting in another year of accretive growth as NFFO per Unit rose 2.0% to \$2.318. Our payout ratio of distributions declared to NFFO remained very conservative at 61.0%.

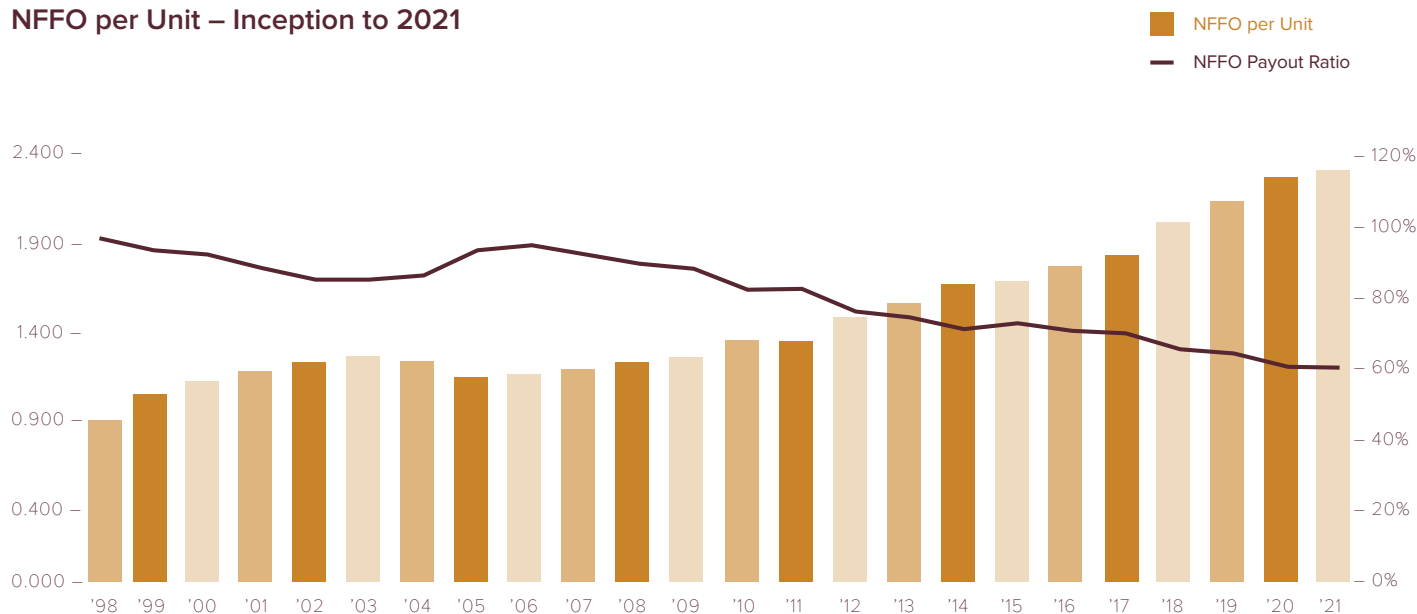
Importantly, we met our goal of maintaining a strong and flexible financial position. Total debt to gross book value was a conservative 36.1% at year end, well within our guidelines and providing the resources and flexibility to maintain our track record of growth. Our mortgage portfolio remained well-balanced with a weighted average term to maturity of 5.7 years, adding to the stability of our long-term cash flows. We also continued to capitalize on low interest rates, reducing our weighted average interest rate to 2.47% at December 31, 2021.

Additionally, our liquidity position remains strong and flexible. Including cash, available capacity on our credit lines, our ability to up-finance existing mortgages, and potential financing on our portfolio of \$1,180 million unencumbered assets, we had total liquidity available of approximately \$1.2 billion at year end. If we were to access all these liquidity resources, our leverage ratio would remain a conservative 40%.

...our liquidity position remains strong and flexible.

Our strong performance through the pandemic is further proof that CAPREIT can generate strong and growing returns for Unitholders in both good and bad economic times. Our results are a testament to the exceptional contribution made by our people and the execution of our proven growth programs and asset allocation strategy. Looking ahead, we will continue to invest in our assets, our people, and our future.

NFFO per Unit – Inception to 2021



Investing in Our Assets



During 2021, we acquired a total of 3,744 residential suites and manufactured housing community (MHC) sites well-located in our target markets for a total purchase price of \$1,053.5 million. Our portfolio grew to 66,165 suites and sites with a book value of \$17.1 billion at year end, maintaining our position as Canada's largest multi-family residential REIT.

Looking ahead, we will continue to deliver on our proven asset allocation strategy.

Our primary focus targets further growth in the Canadian apartment business, expanding our portfolio of primarily value-add properties in the mid-tier segment in well-located suburban markets in Toronto, Vancouver and Montreal – Canada's three largest cities. We have proven our ability to invest in these assets to increase their value, and the stability of their cash flows is driven by continuing high stable occupancies and affordable rental rates. Our growing development pipeline will also generate future accretive growth. Over the long term, we have the potential to add approximately 10,000 new apartment suites to our portfolio through our intensification and redevelopment initiatives on our owned land.

Our second area of growth is the Canadian MHC business. Revenues are highly stable in this sector, and with residents owning their own homes, capital requirements and maintenance needs are significantly reduced. MHC properties also provide another level of

diversification by increasing our presence in rural and smaller markets. With home ownership costs rising significantly, MHCs provide a very affordable option.

Our third focus is on Europe, where we are generating significant and growing dividend and fee income from our investments in the Netherlands. As one of the only professionally managed operating platforms in Europe, and with access to very low-cost European debt, the opportunities for further growth and enhanced value are significant.

We continue to invest in our properties and leading-edge technologies to enhance the value of our asset base and increase its income-producing potential. Our proven capital programs are reducing operating costs through energy saving and other initiatives, making our properties more attractive to current and prospective new residents, increasing our operating efficiency, and helping us meet our ESG commitment to enhanced environmental performance.

All of these investments continue to generate strong increases in our net asset value. In 2021, we recorded a \$1,049 million gain in the fair value of our income producing properties following a \$596 million gain in 2020. With increasing demand and little new supply of rental properties, we believe the value of our asset base will continue to increase, providing another strong driver of Unitholder value over the long term.

OUR ASSET ALLOCATION STRATEGY IS WORKING



Apartment Focus

Portfolio growth is driven by targeting value-add properties in the mid-tier segment in well-located suburban markets in and around Canada's largest cities.



MHC Focus

With residents owning their homes, the Canadian MHC sector provides highly stable and growing revenues with low capital and maintenance needs.



Europe Focus

As one of Europe's only professionally managed operating platforms, fee income is increasing from our asset and property management services.

Investing in Our People.

One of the most important reasons for our success throughout the pandemic, and indeed for the more than twenty-four years since CAPREIT's founding, is the experience and dedication of our people. We believe we have one of the best operating teams and platforms in the business, and we will continue to invest in our employees, fostering an environment of employee inclusion and engagement to ensure we attract and retain the best and most productive people.

We were very proud to have ranked in the "Above Canada Top Quartile Average" for the eighth consecutive year in Kincentric's 2021 Best Employers Program. Our innovative internal leadership training and coaching programs, our communications and engagement initiatives, including our quarterly "Fireside Chats" with senior management, are building a close and unified team that is highly engaged with CAPREIT's goals and objectives.

Our commitment to diversity is a key element. Building a diverse and inclusive workforce helps us to better interact with and support the communities in which we live and work, enabling us to deliver innovative approaches and solutions both within and outside the organization. Our employee base includes an almost equal gender split

between men and women, and we celebrate the more than 61 languages spoken at CAPREIT, a reflection of the diverse makeup of the Canadian population and our resident communities.

The pandemic, while presenting us with unprecedented challenges and issues, also allowed us to get closer to our residents. Our new "Resident Portals" now enable residents to conveniently transact directly with us. Through our "Compassionate Care" program, we personally reached out to our residents to check on their well-being and discuss any rent issues they were experiencing, while our innovative rent payment programs assisted many through these challenging times. As a measure of our success, we collected over 99% of our rents through the pandemic and maintained strong occupancies, rising to 98.1% at December 31, 2021.

These, and many other resident-focused programs, were invaluable in helping us meet our goals during the pandemic and gaining insight into the needs of our resident community. Many of these innovations will be maintained going forward to ensure we stay close to our customers.





Investing in Our Future.

Looking ahead, we are confident that our long-term focus on making CAPREIT “The Best Place to Live, Work and Invest” will generate strong and growing value for our Unitholders.

Our growing property portfolio meets the increasing demand for more affordable, high-quality homes, and our predominantly suburban locations with larger suites, townhomes and MHC sites attract families seeking more space. Our strong acquisition pipeline and development opportunities are driving accretive portfolio growth, and the low interest rate environment provides the opportunity to acquire properties at strong cap rate spreads with reduced interest costs. Finally, our industry-leading balance sheet, low leverage and significant liquidity position give us the financial capacity and flexibility to maintain our growth objectives for years to come.

In closing, we thank everyone at CAPREIT for their ongoing commitment and effort over the last year. We also thank our more than 70,000 resident families for their support. We are very proud of our record performance in what was a very challenging year, a testament to our ongoing commitment to investing in our assets, our people and our future. We look for this progress to continue in the years ahead.

Mark Kenney

President and Chief
Executive Officer

Michael Stein

Chairman

Financial Reporting



Scott Cryer
Chief Financial Officer

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Management's Discussion and Analysis

SECTION I: OVERVIEW AND DISCLAIMER

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") of Canadian Apartment Properties Real Estate Investment Trust's ("CAPREIT") results of operations and financial condition for the year ended December 31, 2021, dated February 23, 2022, should be read in conjunction with CAPREIT's audited consolidated annual financial statements for the year ended December 31, 2021.

Forward-Looking Disclaimer

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to CAPREIT's future outlook and anticipated events or results and may include statements regarding the future financial position, business strategy, budgets, litigation, occupancy rates, rental rates, productivity, projected costs, capital investments, development and development opportunities, financial results, taxes, plans and objectives of or involving CAPREIT. Particularly, statements regarding CAPREIT's future results, performance, achievements, prospects, costs, opportunities and financial outlook, including those relating to acquisition and capital investment strategies and the real estate industry generally, are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue" or the negative thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. In addition, certain specific assumptions were made in preparing forward-looking information, including: that the Canadian, Irish, Dutch, German and Belgian economies will generally experience growth, which, however, may be adversely impacted by the global economy and the ongoing health crisis related to the novel coronavirus ("COVID-19") pandemic and its direct or indirect impacts on the business of CAPREIT. These impacts may include the ability to enforce leases, perform capital expenditure work, increase rents and apply for above guideline increases, obtain financings at favourable interest rates, and the impact and continued availability of government relief programs; that Canada Mortgage and Housing Corporation ("CMHC") mortgage insurance will continue to be available and that a sufficient number of lenders will participate in the CMHC-insured mortgage program to ensure competitive rates; that the Canadian capital markets will continue to provide CAPREIT with access to equity and/or debt at reasonable rates; that vacancy rates for CAPREIT properties will be consistent with historical norms; that rental rates on renewals will grow at levels similar to the rate of inflation; that rental rates on turnovers will grow; that the difference between in-place and market-based rents will be reduced upon such turnovers and renewals; that CAPREIT will effectively manage price pressures relating to its energy usage; and, with respect to CAPREIT's financial outlook regarding capital investments, assumptions respecting projected costs of construction and materials, availability of trades, the cost and availability of financing, CAPREIT's investment priorities, the properties in which investments will be made, the composition of the property portfolio and the projected return on investment in respect of specific capital investments. Although the forward-looking statements contained in this MD&A are based on assumptions, management believes they are reasonable as of the date hereof; however, there can be no assurance actual results will be consistent with these forward-looking statements, and they may prove to be incorrect. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond CAPREIT's control, that may cause CAPREIT's or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, risks related to: public health crises, disease outbreaks, reporting investment properties at fair value, real property ownership, investment restrictions, operating risk, energy costs, environmental matters, catastrophic events, insurance, capital investments, indebtedness, taxation-related risks, government regulations, controls over financial reporting, other legal and regulatory risks, the nature of units of CAPREIT ("Trust Units"), unitholder liability, liquidity and price fluctuation of Trust Units, dilution, distributions, participation in CAPREIT's distribution reinvestment plan, potential conflicts of interest, dependence on key personnel, general economic conditions, competition for residents, competition for real property investments, risks related to acquisitions, cyber security risk, and foreign operation and currency risks. There can be no assurance that the expectations of CAPREIT's management will prove to be correct. For a detailed discussion of risk factors, refer to the Risks and Uncertainties section in Section VI of this MD&A. 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 condensed consolidated interim financial statements and audited consolidated annual financial statements in accordance with International Financial Reporting Standards (“IFRS”). In this MD&A, earnings releases and investor conference calls, CAPREIT discloses financial measures not recognized under IFRS which do not have standard meanings prescribed by IFRS. These include Funds From Operations (“FFO”), Normalized Funds From Operations (“NFFO”), Adjusted Cash Flow from Operations (“ACFO”), FFO and NFFO per unit amounts and FFO, NFFO and ACFO payout ratios, Adjusted Cash Generated from Operating Activities, and Net Trust Expenses (collectively, the “Non-IFRS Measures”). Since these measures are not recognized under IFRS, they may not be comparable to similar measures reported by other issuers. CAPREIT presents Non-IFRS measures because management believes Non-IFRS measures are relevant measures of the ability of CAPREIT to earn revenue and to evaluate its performance and cash flows. These Non-IFRS measures have been assessed for compliance with the new National Instrument 52-112 and a reconciliation of these Non-IFRS measures to the comparable IFRS measures, along with further definitions and discussion, is provided in Section IV under Non-IFRS Financial Measures. The Non-IFRS measures should not be construed as alternatives to net income or cash flows from operating activities determined in accordance with IFRS as indicators of CAPREIT’s performance or the sustainability of our distributions.

Overview

CAPREIT is Canada’s largest publicly-traded provider of quality rental housing. CAPREIT owns or has interests in, and manages, approximately 70,000 residential apartment suites, townhomes and manufactured housing community sites well-located across Canada, in the Netherlands and Ireland as of December 31, 2021.

CAPREIT’s concentration on the residential real estate market is aimed at solid year-over-year income growth in a portfolio with stable occupancy. In addition, CAPREIT mitigates risk through demographic diversification by operating properties across the affordable, mid-tier, and luxury sectors, as well as through geographic diversification.

CAPREIT 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 April 1, 2020. As at December 31, 2021, CAPREIT had 1,076 employees (1,071 employees as at December 31, 2020).

Objectives and Business Strategy

CAPREIT’s objectives are to:

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

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

Customer Service – CAPREIT recognizes that it is in a “people business” and strives to be recognized as the landlord of choice in all of its chosen markets by providing its residents with safe, secure and comfortable homes. It takes a hands-on approach to managing its properties, stressing open and frequent communications to ensure residents’ needs are met efficiently and effectively, thereby maintaining a high occupancy level. Numerous initiatives, such as newsletters, special events, resident committees and other initiatives, are aimed at building a true sense of community at its properties. CAPREIT’s strong sales and marketing team continues to execute innovative and highly effective strategies to help attract and retain residents and adapt to changing conditions in specific markets. In addition, CAPREIT’s lease administration system improves control of rent-setting by suite, increasing resident service and enhancing the overall profile of its resident base. These initiatives are further enhanced by CAPREIT’s strong information technology platform.

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

Capital Investments – CAPREIT strives to acquire both newer properties or value-add properties at prices below their current replacement cost, and is committed to improving its operating performance by investing in appropriate capital investments in order to maintain the productive capacity of its property portfolio and sustain the portfolio's rental income-generating potential over its useful life. CAPREIT continues to invest in innovative technology solutions that enhance productivity as well as environment-friendly and energy-saving initiatives that improve net operating income. CAPREIT completes a review of its portfolio and revises its long-term capital investment plan on an annual basis, which allows management to ensure capital investments extend the useful economic life of CAPREIT's properties, enhance life safety, maximize earnings and improve the long-term cash flow potential of its portfolio.

Portfolio Growth – CAPREIT aims to grow and modernize its portfolio over the long term through accretive acquisitions of newer or value-add properties that meet its strategic criteria and, where possible, enhance geographic diversification and reduce the average age of the portfolio while capturing economies of scale and cost synergies, thereby increasing net operating income. As a component of this growth strategy, CAPREIT will monitor its portfolio and, from time to time, identify certain non-core, older properties for divestiture. The funds from these divestitures will primarily be used to acquire additional, more modern strategic assets better suited to CAPREIT's portfolio composition and property management objectives or to pay down existing debt. Management believes the continued realization and reinvestment of capital is a fundamental component of its growth strategy, and demonstrates the success of CAPREIT's capital investment programs and its ability to maximize and manage the earnings and cash flow potential of its property portfolio. Furthermore, management continues to seek development opportunities within its portfolio to ensure existing assets are put toward their most accretive use and to further modernize the overall portfolio. In addition, management investigates opportunities to enter into joint venture relationships that could potentially develop new multi-unit rental residential properties on excess land owned by CAPREIT.

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

Environmental, Social and Governance ("ESG") Strategy Integration – CAPREIT continues to review and refine its multi-year ESG strategy and road map and integrate it into its corporate strategy. The ESG strategy and road map are supported by CAPREIT's Board of Trustees and all levels of the organization contribute to the implementation of the strategy and achievement of deliverables. This road map allows CAPREIT to better demonstrate its environmental responsibility, attract and retain the best people in the business, build strong relationships with its residents and the communities in which they live, adopt best practice programs in corporate governance, and maintain open and transparent communication with its investors. CAPREIT focuses on several ESG-specific deliverables. Through building in-house ESG subject matter expertise, CAPREIT established the necessary foundation to empower its people to be advocates and enablers of ESG transparency and performance, develop and monitor cross-functional policies, carry out ongoing stakeholder engagements, establish frameworks, platforms and practices to deliver investment-grade data, identify and monitor its progress and build standardized and comprehensive ESG disclosures. In support of CAPREIT's ongoing commitment to ESG integration and performance, management continues to support submission to the Global Real Estate Sustainability Benchmark, the results of which will inform future cycles of improvement and the evolution of CAPREIT's strategy going forward. Refer to CAPREIT's ESG Report for a detailed discussion. The 2021 ESG Report will be issued in May 2022.

SECTION II: KEY HIGHLIGHTS

Summary of Year End 2021 Results of Operations

Key Transactions and Events

- CAPREIT continues to invest in accretive opportunities with total acquisitions for the year ended December 31, 2021 amounting to \$805 million comprised of interests in 3,245 suites and sites located in Canada, and \$249 million comprised of 499 suites located in the Netherlands
- During the year, CAPREIT completed another buyout of an operating lease in midtown Toronto, Ontario for a net purchase price of \$4.5 million. As of December 31, 2021, CAPREIT has two remaining operating leases
- Total dispositions for the year ended December 31, 2021 of \$143 million, which included 592 suites located in Ontario and one single family home located in the Netherlands

Strong Operating Results

- Consistent with prior year, CAPREIT has maintained a very high level of rent collection, with over 99% of rents collected year to date
- On turnovers, monthly residential rents for the year ended December 31, 2021 increased by 5.9% on 21.8% of the Canadian portfolio, compared to an increase of 7.9% on 18.7% of the Canadian portfolio for the year ended December 31, 2020
- Net Average Monthly Rent ("Net AMR") for the stabilized portfolio as at December 31, 2021 increased by 1.9% compared to December 31, 2020, while occupancies increased to 98.1% compared to 97.6% as at December 31, 2020
- Net Operating Income ("NOI") margin for the total portfolio decreased slightly to 65.4% for the year ended December 31, 2021 from 65.5% for the year ended December 31, 2020
- NFFO per unit was up 2.0% for the year ended December 31, 2021 compared to last year

Strong and Flexible Balance Sheet

- CAPREIT's financial position remains strong, with \$384.5 million of available liquidity on CAPREIT's Acquisition and Operating Facility
- Management expects to raise between \$850 million and \$900 million in total mortgage renewals and refinancings for 2022, excluding financings on acquisitions
- CAPREIT closed mortgage refinancing of \$1,023.4 million for the year ended December 31, 2021, with top-ups of \$502.0 million with a weighted average term to maturity of 8.0 years and a weighted average interest rate of 1.97%, and discharges of \$86.8 million
- For the year ended December 31, 2021, the fair value of investment properties increased by \$2,101.3 million. Excluding the impact of net acquisitions, operating lease buyout and foreign exchange, the fair value of investment properties increased by \$1,374.5 million for the year ended December 31, 2021

Acquisitions and Dispositions

The tables below summarize property acquisitions for the year ended December 31, 2021.

Canadian Acquisitions Completed During the Year Ended December 31, 2021

(\$ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate (%) ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
May 5, 2021	485	Oshawa, ON	\$ 105,904	\$ — ⁽³⁾	\$ 54,673 ⁽³⁾	1.88 ⁽³⁾	3.00 ⁽³⁾
May 31, 2021	154	Montréal, QC	31,727	18,037	—	1.78	4.58
June 2, 2021	228	Victoria, BC	78,306	33,702	—	3.08	1.67
June 9, 2021	77	Victoria, BC	20,263	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 24, 2021	30	Victoria, BC	9,906	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 25, 2021	548	London, ON	110,461	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
July 5, 2021	342	Lakeshore, ON	21,703	8,573	—	4.08	4.17
August 31, 2021 ⁽⁴⁾	787	Toronto, ON	165,626	37,225	—	3.16	7.68
September 7, 2021	193	West Kelowna, BC	63,385	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
September 22, 2021 ⁽⁵⁾	141	Toronto, ON	123,111	34,077	—	1.93	0.17
October 1, 2021	260	Québec City, QC	74,159	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
Total	3,245		\$ 804,551	\$ 131,614	\$ 54,673		
2020 Acquisition financing					\$ 146,644 ⁽⁷⁾	1.84 ⁽⁷⁾	5.41 ⁽⁷⁾

The Netherlands Acquisitions Completed During the Year Ended December 31, 2021

(\$ Thousands)	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate (%) ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
June 30, 2021	104	The Netherlands	\$ 45,879	\$ —	\$ 21,593 ⁽⁶⁾	1.16 ⁽⁶⁾	6.00 ⁽⁶⁾
June 30, 2021	33	The Netherlands	27,202	—	13,995 ⁽⁶⁾	1.16 ⁽⁶⁾	6.00 ⁽⁶⁾
November 30, 2021	63	The Netherlands	29,966	—	13,949 ⁽⁶⁾	1.16 ⁽⁶⁾	5.75 ⁽⁶⁾
November 30, 2021	162	The Netherlands	88,732	—	41,921 ⁽⁶⁾	1.16 ⁽⁶⁾	5.75 ⁽⁶⁾
December 22, 2021	137	The Netherlands	57,167	—	24,839 ⁽⁶⁾	1.16 ⁽⁶⁾	5.75 ⁽⁶⁾
Total	499		\$ 248,946	\$ —	\$ 116,297		

⁽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 cash and cash equivalents and CAPREIT's Acquisition and Operating Facility.

⁽⁴⁾ CAPREIT purchased the remaining 50% interest in a portfolio of 787 apartment suites and townhouse units. CAPREIT acquired its initial 50% interest on July 31, 2008.

⁽⁵⁾ Total acquisition cost was increased by \$8.0 million, relating to the difference between the agreed upon issuance price of \$56.00 per Exchangeable LP Unit and the fair value of the Exchangeable LP Units on the acquisition date. Refer to note 17 of the accompanying audited consolidated annual financial statements for further information.

⁽⁶⁾ Subsequent acquisition financing obtained is collateralized by a pool of investment properties. The amount of subsequent acquisition financing shown above has been allocated based on fair value of these properties as determined by the lender. The interest rates shown include the corresponding interest rate swaps.

⁽⁷⁾ Subsequent acquisition financing of \$146.6 million relates to properties acquired in 2020.

The table below summarizes the dispositions completed during the year ended December 31, 2021.

Dispositions Completed During the Year Ended December 31, 2021

Disposition Date	Suite Count	Region(s)	Sale Price	Cash Proceeds ⁽⁴⁾	VTB Issued ⁽²⁾
September 2, 2021 ⁽¹⁾	1	The Netherlands	\$ 461	\$ 461	\$ —
September 29, 2021	86	Toronto, ON	52,000	5,200	46,800
October 1, 2021 ⁽³⁾	506	Toronto, ON	90,920	22,730	68,190
Total	593		\$ 143,381	\$ 28,391	\$ 114,990

⁽¹⁾ Represents disposition of one individual single family home.

⁽²⁾ Refer to note 8 of the accompanying audited consolidated annual financial statements for further information.

⁽³⁾ CAPREIT disposed of its 33.3% interest in 506 apartment suites.

⁽⁴⁾ Prior to working capital adjustments.

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. These KPIs may be impacted by and should be read in conjunction with the risks and uncertainties discussed under The COVID-19 Pandemic.

Occupancy – Through a focused, hands-on approach, CAPREIT strives to achieve occupancies at or greater than market conditions in each of the geographic regions where it operates. Management believes annual occupancies can be maintained at between 97% to 99% over the long term.

Net AMR – Through its active property management strategies, lease administration system and proactive capital investment programs, CAPREIT strives to achieve the highest possible Net AMR in accordance with local market conditions. Management believes same property Net AMR will continue to gradually increase, providing the basis for sustainable year-over-year increases in revenue.

Net Operating Income – NOI is a widely used operating performance indicator in the real estate industry, and is presented in the consolidated statements of income and comprehensive income as net rental income. Management has chosen to refer to net rental income as NOI in all instances in its MD&A. As a measure of its operating performance, CAPREIT currently expects to achieve an annual NOI margin in the range of 62% to 66% of operating revenues over the long term.

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 60% and 70%. 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 debt refinancings, tenant inducements, capital expenditures and other factors that may be beyond the control of CAPREIT.

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

Leverage Ratios and Terms – CAPREIT takes a proactive approach with its mortgage portfolio, striving to manage interest expense volatility risk by fixing the lowest possible average interest rates for long-term mortgages, while mitigating refinancing risk by prudently managing the portfolio's average term to maturity and staggering the maturity dates. For this purpose, CAPREIT strives to ensure its overall leverage ratios and interest and debt service coverage ratios are maintained at a sustainable level. CAPREIT focuses on maintaining capital adequacy by complying with investment and debt restrictions in its DOT and the financial covenants in its credit and mortgage agreements. CAPREIT's credit agreements consist of a revolving acquisition and operating facility, which includes euro LIBOR, USD LIBOR and Canadian dollar borrowings ("Acquisition and Operating Facility"), and the ERES Credit Facility (collectively, the "Credit Facilities"), as described under Liquidity and Financial Condition in Section V.

The COVID-19 Pandemic

The COVID-19 pandemic has given rise to uncertainty throughout the global economy, which may have various direct or indirect impacts on the global real estate market. CAPREIT continues to monitor this evolving situation with a focus on protecting the health and safety of its employees and tenants and implementing appropriate cautionary measures to address potential risks to its business. CAPREIT has implemented a number of support measures to help ease the burden on its various tenants impacted by the pandemic, including a temporary moratorium on evictions and a freeze on rental increases in Canada. CAPREIT is also reviewing and implementing flexible temporary payment plans on a case-by-case basis.

The long-term impacts of the COVID-19 pandemic on financial forecasts, including the KPIs discussed above, are subject to a degree of uncertainty and remain subject to further review and consideration given the uncertainty associated with the full impact of the COVID-19 pandemic.

CAPREIT's financial position and liquidity remain strong, providing it with the financial resources and flexibility to manage through these challenging times. CAPREIT did not see a substantial impact from the COVID-19 pandemic on the majority of its operational results for the year ended December 31, 2021; however, this may not be indicative of CAPREIT's future performance.

Rent Collection

Consistent with prior year, CAPREIT has maintained a very high level of rent collection, with over 99% of rents collected year to date. CAPREIT is closely monitoring its tenant receivables.

Update on Rental Revenue

Due to the current economic uncertainty, there is a greater risk that CAPREIT's estimated net rental revenue run-rate may vary from actual rental revenue, and that such variation may be significant. In addition, tenant incentives which are occasionally used to support revenues may fluctuate significantly from historical trends and depend on the length and severity of the COVID-19 pandemic.

There are expected delays in the settlement of above guideline increase ("AGI") applications, and when settled, these increases will be excluded from the government-imposed rent freeze. CAPREIT has started imposing these increases where appropriate.

The real estate market has been affected by various measures taken by Canadian federal and provincial governments with regard to the prevention of further spread of COVID-19 and to help individuals and businesses affected by the crisis. Some of the legislative initiatives announced include:

- The provinces of Ontario and British Columbia passed legislation to freeze rent increases until December 31, 2021, except for approved above guideline increases. In addition, Ontario and British Columbia have issued rent guideline increases of 1.2% and 1.5% for 2022, respectively. As a result of the expiry of the regulatory rent freeze in Ontario and British Columbia, CAPREIT served tenant notices to 44% of its Canadian tenants, across which the weighted average rental increase was 1.3%, effective January 1, 2022.
- The province of Nova Scotia has capped residential rent increases at 2% each year, retroactive to September 1, 2020 until December 31, 2023, and has capped MHC rent increases at 1.9% for 2021 and at 1.0% for 2022. The rental increase rates will stay at the same level if the state of emergency extends beyond 2023 due to the pandemic.
- Rental tribunal hearings were rescheduled, suspended or stopped in most provinces at the onset of the health emergency. At this time, most rental tribunal hearings have reopened or have converted to online or telephone hearings.
- The federal government had ended the Canada Recovery Benefit ("CRB") on October 23, 2021 and introduced the Canada Worker Lockdown Benefit ("CWLB"). This new program is effective between October 24, 2021 and May 7, 2022 and will provide \$300 a week to eligible workers who are directly impacted by government imposed lockdowns and are not otherwise eligible for EI. The federal government has temporarily expanded the eligibility for the CWLB to include workers subject to capacity limits of 50% or more, effective between December 19, 2021 and February 12, 2022.
- The federal government had replaced the expired Canada Emergency Rent Subsidy ("CERS") with the Tourism and Hospitality Recovery Program ("THRP") and Hardest Hit Business Recovery Program ("HHBRP"), which provide similar support to the previous program for eligible businesses. The program will be available until May 7, 2022, with the proposed subsidy rates available through to March 13, 2022. Afterwards, the subsidy rates will decrease by half. On December 22, 2021, the federal government announced the Local Lockdown Program to temporarily expand eligibility for wage and rent subsidies. Employers who are subject to capacity limit restrictions of 50% or more with at least a 25% decline in revenue will be eligible for the benefits.

- The Dutch government has announced rent increase freezes until June 30, 2022 on regulated suites which are subject to rent control. For liberalized suites not subject to rent control previously, the government enacted a rental cap on annual indexation at CPI + 1.0% from May 1, 2021 to April 30, 2024.
- Assistance programs, such as wage subsidies, government loans, and tax deferrals have also been enacted by the Dutch government.

The above list is not exhaustive and reflects only certain legislation enacted by government. As the situation continues to evolve, the legislation enacted by government may be subject to change.

Valuation

Due to the COVID-19 pandemic and its ongoing impact on the economy, and specifically its unknown future impact on the real estate market, there is heightened uncertainty surrounding the valuation of investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie CAPREIT's valuation methodologies.

For the year ended December 31, 2021, the fair value of investment properties increased by \$2,101.3 million. Excluding the impact of net acquisitions, operating lease buyout and foreign exchange, the fair value of investment properties increased by \$1,374.5 million for the year ended December 31, 2021.

Capital Expenditures

Capital investments and developments may be impacted by factors such as a lack of access to tenant suites and physical distancing restrictions. CAPREIT expects any potential impact to be short term and will normalize over the long term. As at December 31, 2021, CAPREIT has limited, whenever necessary, its capital investments to those that can be done safely following appropriate physical distancing measures such as non-discretionary exterior work, and those required on an emergency basis or to protect the safety of residents. This has not significantly impacted CAPREIT's capital expenditure plan for the year.

The COVID-19 pandemic may result in delays in development application processing by municipalities. Given the evolving situation, CAPREIT will continue to assess and revise, if necessary, the number of applications to be submitted.

Liquidity

Management has determined that CAPREIT is in a strong financial position despite the changes in the market and the heightened risk environment. CAPREIT's Canadian liquidity position as at December 31, 2021 remains strong with:

- \$384.5 million available on the Acquisition and Operating Facility; and
- \$1,180.2 million of Canadian investment properties that are not encumbered by mortgages. Refer to note 13 to the accompanying consolidated annual financial statements for further details.

In addition, management expects to raise between \$850 and \$900 million in total mortgage renewals and refinancings for 2022, excluding financings on acquisitions. CAPREIT's mortgage program has remained stable since the outbreak of the COVID-19 pandemic, with refinancings proceeding as scheduled with favourable interest rates for longer terms, including 10-year terms. The actual refinancing amounts may vary from the forecast.

Performance Measures

The following table presents an overview of certain IFRS and non-IFRS financial measures of CAPREIT for the years ended December 31, 2021 and 2020. Management believes these measures are useful in assessing CAPREIT's performance in relation to its objectives and business strategy.

For the Year Ended December 31,	2021	2020
Portfolio Performance		
Overall portfolio occupancy ⁽¹⁾	98.1%	97.5%
Overall portfolio net Average Monthly Rents ⁽¹⁾	\$ 1,149	\$ 1,121
Operating revenues (000s)	\$ 933,137	\$ 882,643
NOI (000s)	\$ 609,993	\$ 578,171
NOI margin	65.4%	65.5%
Financial Performance		
FFO per unit – basic ⁽²⁾	\$ 2.262	\$ 2.258
NFFO per unit – basic ⁽²⁾	\$ 2.318	\$ 2.273
Cash distributions per unit	\$ 1.409	\$ 1.380
FFO payout ratio ⁽²⁾	62.6%	61.4%
NFFO payout ratio ⁽²⁾	61.0%	61.0%
Liquidity and Leverage		
Total debt to gross book value ⁽¹⁾	36.12%	35.54%
Total debt to gross historical cost ⁽¹⁾	52.26%	50.11%
Weighted average mortgage interest rate ⁽¹⁾	2.47%	2.56%
Weighted average mortgage term (years) ⁽¹⁾	5.65	5.76
Debt service coverage (times) ⁽²⁾	1.97	2.01
Interest coverage (times) ⁽²⁾	4.02	3.95
Available liquidity – Acquisition and Operating Facility (000s) ⁽¹⁾	\$ 384,510	\$ 627,997
Cash and cash equivalents (000s) ⁽¹⁾	\$ 73,411	\$ 121,722

⁽¹⁾ As at December 31.

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

⁽³⁾ Based on the trailing four quarters.

For the Year Ended December 31,	2021	2020
Other Measures		
Weighted average number of units – basic (000s)	173,508	171,123
Number of residential suites and sites acquired ⁽¹⁾	3,744	3,262
Number of suites disposed	593	194
Closing price of Trust Units on the TSX ⁽²⁾	\$ 59.96	\$ 49.99
Market capitalization (millions) ⁽²⁾	\$ 10,539	\$ 8,639

⁽¹⁾ Includes a 50% interest in 787 suites.

⁽²⁾ As at December 31.

SECTION III: OPERATIONAL AND FINANCIAL RESULTS

Net and Occupied Average Monthly Rents and Occupancy

Net AMR is defined as actual residential rents, excluding vacant units, divided by the total number of suites or sites in the property, and does not include revenues from parking, laundry or other sources. Occupied AMR is defined as actual residential rents, excluding vacant units, divided by the total number of occupied suites or sites in the property, and does not include revenues from parking, laundry or other sources. Stabilized AMR includes all properties held as at December 31, 2020 and are not disposed of.

Total Portfolio: Net AMR, Occupied AMR and Occupancy by Geography

As at December 31	Net AMR			Occupied AMR			Occupancy %	
	2021 AMR (\$)	2020 AMR (\$)	% Change AMR	2021 AMR (\$)	2020 AMR (\$)	% Change AMR	2021	2020
Residential Suites								
Ontario								
Greater Toronto Area ⁽¹⁾	1,519	1,490	1.9	1,532	1,513	1.3	99.1	98.5
London / Kitchener / Waterloo	1,090	1,069	2.0	1,098	1,078	1.9	99.3	99.2
Ottawa	1,395	1,363	2.3	1,402	1,372	2.2	99.5	99.4
	1,439	1,418	1.5	1,451	1,437	1.0	99.2	98.7
Québec								
Greater Montréal Region	1,016	991	2.5	1,046	1,025	2.0	97.2	96.7
Québec City	1,138	1,095	3.9	1,169	1,118	4.6	97.3	97.9
	1,048	1,016	3.1	1,078	1,048	2.9	97.2	97.0
British Columbia								
Greater Vancouver Region	1,476	1,466	0.7	1,491	1,484	0.5	99.0	98.8
Victoria and Other British Columbia	1,398	1,301	7.5	1,405	1,306	7.6	99.6	99.6
	1,449	1,413	2.5	1,460	1,426	2.4	99.2	99.1
Nova Scotia								
Halifax	1,315	1,197	9.9	1,334	1,259	6.0	98.6	95.1
Alberta								
Calgary	1,108	1,056	4.9	1,119	1,108	1.0	99.0	95.3
Edmonton	1,153	1,079	6.9	1,209	1,223	(1.1)	95.4	88.2
	1,118	1,061	5.4	1,139	1,133	0.5	98.1	93.7
Prince Edward Island								
Charlottetown	1,103	1,100	0.3	1,117	1,109	0.7	98.7	99.2
Saskatchewan								
Regina	1,033	984	5.0	1,065	1,042	2.2	97.0	94.4
Total Canadian residential suites	1,319	1,282	2.9	1,338	1,311	2.1	98.6	97.8
Europe								
The Netherlands ⁽²⁾	1,335	1,375	(2.9)	1,354	1,399	(3.2)	98.6	98.3
Total residential suites	1,321	1,293	2.2	1,340	1,322	1.4	98.6	97.9
MHC Sites								
Total MHC sites	396	390	1.5	414	407	1.7	95.8	95.8
Total suites and sites	1,149	1,121	2.5	1,171	1,151	1.7	98.1	97.5

⁽¹⁾ Other Ontario has been reclassified into Greater Toronto Area. Prior year comparative figures have been adjusted to conform with current period presentation.

⁽²⁾ Includes foreign exchange impact and service charge income. The amounts in euros for the European portfolio for Net AMR are €927 and €882 as at December 31, 2021 and December 31, 2020, respectively, and for Occupied AMR are €941 and €896 as at December 31, 2021 and December 31, 2020, respectively.

Stabilized Portfolio: Net AMR, Occupied AMR and Occupancy by Geography

As at December 31	Net AMR			Occupied AMR			Occupancy %	
	2021 AMR (\$)	2020 ⁽¹⁾ AMR (\$)	% Change AMR	2021 AMR (\$)	2020 ⁽¹⁾ AMR (\$)	% Change AMR	2021	2020
Residential Suites								
Ontario								
Greater Toronto Area	1,515	1,488	1.8	1,527	1,506	1.4	99.2	98.8
London / Kitchener / Waterloo	1,104	1,069	3.3	1,111	1,078	3.1	99.3	99.2
Ottawa	1,395	1,363	2.3	1,402	1,372	2.2	99.5	99.4
	1,444	1,415	2.0	1,455	1,431	1.7	99.2	98.9
Québec								
Greater Montréal Region	1,020	991	2.9	1,047	1,025	2.1	97.4	96.7
Québec City	1,105	1,095	0.9	1,138	1,118	1.8	97.1	97.9
	1,041	1,016	2.5	1,070	1,048	2.1	97.3	97.0
British Columbia								
Greater Vancouver Region	1,476	1,466	0.7	1,491	1,484	0.5	99.0	98.8
Victoria	1,353	1,301	4.0	1,357	1,306	3.9	99.7	99.6
	1,441	1,413	2.0	1,452	1,426	1.8	99.2	99.1
Nova Scotia								
Halifax	1,315	1,197	9.9	1,334	1,259	6.0	98.6	95.1
Alberta								
Calgary	1,108	1,056	4.9	1,119	1,108	1.0	99.0	95.3
Edmonton	1,153	1,079	6.9	1,209	1,223	(1.1)	95.4	88.2
	1,118	1,061	5.4	1,139	1,133	0.5	98.1	93.7
Prince Edward Island								
Charlottetown	1,103	1,100	0.3	1,117	1,109	0.7	98.7	99.2
Saskatchewan								
Regina	1,033	984	5.0	1,065	1,042	2.2	97.0	94.4
Total Canadian residential suites	1,316	1,280	2.8	1,333	1,308	1.9	98.7	97.9
Europe								
The Netherlands ⁽²⁾	1,321	1,375	(3.9)	1,339	1,399	(4.3)	98.7	98.3
Total residential suites	1,316	1,292	1.9	1,334	1,319	1.1	98.7	98.0
MHC Sites								
Total MHC sites	396	390	1.5	413	407	1.5	95.7	95.8
Total suites and sites	1,140	1,119	1.9	1,162	1,148	1.2	98.1	97.6

⁽¹⁾ Prior year comparable Net and Occupied AMR and occupancy has been restated for properties disposed of since December 31, 2020. Other Ontario has been reclassified into Greater Toronto Area. Prior year comparative figures have been adjusted to conform with current period presentation.

⁽²⁾ Includes foreign exchange impact and service charge income. The amounts in euros for the stabilized portfolio for Net AMR are €918 and €882 as at December 31, 2021 and December 31, 2020, respectively, resulting in a Net AMR change of 4.1%. The Occupied AMR for the stabilized portfolio is €930 and €896 as at December 31, 2021 and December 31, 2020, respectively, resulting in an Occupied AMR change of 3.8%.

The rate of growth in stabilized Net AMR has been primarily due to (i) rental increases on turnover in the rental markets of Ontario, British Columbia and Nova Scotia, (ii) rental increases on renewals where permissible, and (iii) strengthening occupancy rates in Alberta and Nova Scotia. Weighted average gross rent per square foot for Canadian residential suites was approximately \$1.65 as at December 31, 2021, a small improvement from December 31, 2020.

Annual Rental Guidelines as per Rental Board

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

	2022	2021 ⁽¹⁾	2020 ⁽²⁾
Ontario	1.2%	0.0%	2.2%
British Columbia	1.5%	0.0%	2.6%

⁽¹⁾ The provinces of Ontario and British Columbia have passed legislation to freeze rent until December 31, 2021. This is further discussed in Section II under The COVID-19 Pandemic. CAPREIT did not issue any rental renewal increases in Ontario and British Columbia during 2021, other than approved above guideline increases in selected suites and sites. As a result, CAPREIT can issue rental renewal increases for the majority of its Ontario and British Columbia portfolio on January 1, 2022.

⁽²⁾ The rent increases were not applicable in certain periods due to the pandemic.

Above Guideline Increases

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

British Columbia has also announced a change to the annual rental increase formula that will now factor in landlords' costs for necessary capital expenditures. These buildings which incur eligible capital expenditures will be eligible for AGIs. Effective on July 1, 2021, landlords may apply all eligible capital expenditures made over the previous 18 months for AGIs. In addition, the increase will be capped at 3% each year but may be spread out over 3 years to a maximum of 9% over the 3-year period in addition to normal annual increases.

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

	January 1, 2021 – December 31, 2021	January 1, 2020 – December 31, 2020
Applications Settled:		
Number of suites and sites	1,023	970
Weighted average total increase approved ^{(1),(2)}	0.55%	2.13%
Weighted average total increase applied for ^{(1),(3)}	0.61%	2.31%
Applications Outstanding:		
Number of suites and sites	7,879	8,138
Term weighted average total increase applied for ^{(1),(4)}	2.06%	1.88%

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

⁽²⁾ For applications settled during the year ended December 31, 2021, the weighted average total increase approved is to apply over a weighted average of 1.0 year (1.8 years for the year ended December 31, 2020).

⁽³⁾ For applications settled during the year ended December 31, 2021, the weighted average total increase applied for was to apply over a weighted average of 1.0 year (1.8 years for the year ended December 31, 2020).

⁽⁴⁾ For applications outstanding as at December 31, 2021, the weighted average total increase applied for was to apply over a weighted average of 1.4 years (1.3 years for the year ended December 31, 2020).

Suite Turnovers and Lease Renewals – Total Portfolio

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

Canadian Portfolio

For the Year Ended December 31,	2021			2020		
	Change in monthly rent		Turnovers and Renewals ⁽¹⁾	Change in monthly rent		Turnovers and Renewals ⁽¹⁾
	\$	%	%	\$	%	%
Suite turnovers	80.9	5.9	21.8	106.7	7.9	18.7
Lease renewals	15.6	1.4	39.8	16.7	1.3	86.5
Weighted average of turnovers and renewals	38.7	3.0		32.7	2.5	

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

The Netherlands Portfolio

For the Year Ended December 31,	2021			2020		
	Change in monthly rent		Turnovers and Renewals ⁽¹⁾	Change in monthly rent		Turnovers and Renewals ⁽¹⁾
	€	%	%	€	%	%
Suite turnovers	140.0	16.1	13.9	82.4	9.3	14.2
Lease renewals	22.8	2.3	54.3	18.9	2.3	92.5
Weighted average of turnovers and renewals	46.7	5.1		27.4	3.2	

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

Overall, suite turnovers in the Canadian residential portfolio (excluding co-ownerships) during the year ended December 31, 2021 resulted in monthly rent increasing by approximately \$81 or 5.9% compared to an increase of approximately \$107 or 7.9% for last year, primarily due to the strong rental markets in Ontario, British Columbia and Nova Scotia. The reduced turnover increases are mainly due to the impact of the COVID-19 pandemic as discussed in Section II under The COVID-19 Pandemic. Although there were reduced increases in monthly rent, 22% of the suites in the Canadian residential portfolio turned over during the year ended December 31, 2021, an increase compared to 19% of suites turned over during last year. Additionally, turnover rates have been increasing quarter by quarter in 2021 with fourth quarter monthly rents increasing by approximately \$120 or 8.6%.

Monthly rents on lease renewals on the Canadian residential portfolio (excluding co-ownerships) for the year ended December 31, 2021 resulted in monthly rent increasing by approximately \$16 or 1.4% compared to an increase of approximately \$17 or 1.3% for last year. The reduced renewal increases are mainly due to the impact of the COVID-19 pandemic rent freezes as discussed in Section II under The COVID-19 Pandemic. As a result of the expiry of the regulatory rent freeze in Ontario and British Columbia, CAPREIT served tenant notices to 44% of its Canadian tenants, across which the weighted average rental increase was 1.3%, effective January 1, 2022.

For the Netherlands portfolio, suite turnovers in the residential suite portfolio during the year ended December 31, 2021 resulted in monthly rent increasing by approximately €140 or 16.1% compared to an increase of approximately €82 or 9.3% last year. The tenant notices for rent renewal increases beginning on July 1, 2021, with a weighted average rental increase of 2.3%, were served to 94% of the Dutch liberalized residential suites, which comprised 54.3% of the total Netherlands portfolio. There were no increases on regulated suites due to the impact of COVID-19 pandemic rent freezes as discussed in Section II under The COVID-19 Pandemic.

Given the current market environment with the COVID-19 pandemic, there is a high level of uncertainty establishing current market rents. As such it is difficult to estimate the differential between market rents and current rents. Management expects market rents to stabilize in the medium term.

Tenant Inducements, Vacancy Loss and Expected Credit Loss Expense

(\$ Thousands)	2021		2020	
For the Year Ended December 31,		% ⁽¹⁾		% ⁽¹⁾
New tenant inducements incurred – residential	\$ 7,693		\$ 2,659	
New tenant inducements incurred – commercial	30		–	
Total new tenant inducements incurred	\$ 7,723		\$ 2,659	
Tenant inducements amortized	\$ 6,781	0.7	\$ 1,984	0.2
Vacancy loss incurred	26,483	2.8	20,417	2.3
Total amortization and vacancy loss	\$ 33,264	3.5	\$ 22,401	2.5
Bad debt allowance recognized as an expense	\$ 5,708	0.6	\$ 5,219	0.6

⁽¹⁾ As a percentage of total operating revenues.

The increase in residential tenant inducements, vacancy loss, and expected credit loss/bad debt expense (“bad debt”) was due to circumstances caused by the COVID-19 pandemic, as discussed in Section II under The COVID-19 Pandemic.

Results of Operations

Total Operating Revenues by Geography⁽¹⁾

For the Year Ended December 31,	2021		2020 ⁽⁴⁾	
(\$ Thousands)	Revenue	(%)	Revenue	(%)
Residential Suites				
Ontario				
Greater Toronto Area	\$ 332,391	35.7	\$ 322,080	36.5
London / Kitchener / Waterloo	47,297	5.1	39,507	4.4
Ottawa	34,372	3.7	27,912	3.2
	\$ 414,060	44.5	\$ 389,499	44.1
Québec				
Greater Montréal Region	\$ 108,219	11.6	\$ 105,281	11.9
Québec City	38,111	4.1	36,450	4.1
	\$ 146,330	15.7	\$ 141,731	16.0
British Columbia				
Greater Vancouver Region	\$ 68,698	7.4	\$ 66,781	7.5
Victoria and Other British Columbia	31,328	3.4	26,113	3.0
	\$ 100,026	10.8	\$ 92,894	10.5
Nova Scotia				
Halifax	\$ 52,702	5.6	\$ 46,564	5.3
Alberta				
Calgary	\$ 27,265	2.9	\$ 28,943	3.3
Edmonton	7,651	0.8	7,783	0.9
	\$ 34,916	3.7	\$ 36,726	4.2
Prince Edward Island				
Charlottetown	\$ 8,483	0.9	\$ 8,389	1.0
Saskatchewan				
Regina	\$ 2,802	0.3	\$ 2,842	0.3
Total Canadian residential suites	\$ 759,319	81.5	\$ 718,645	81.4
Europe				
The Netherlands ⁽²⁾	\$ 103,395	11.1	\$ 95,838	10.9
Other Europe ⁽³⁾	10,523	1.1	11,130	1.3
	\$ 113,918	12.2	\$ 106,968	12.2
Total residential suites	\$ 873,237	93.7	\$ 825,613	93.6
MHC Sites				
Total MHC sites	\$ 59,900	6.3	\$ 57,030	6.4
Total residential suites and MHC sites	\$ 933,137	100.0	\$ 882,643	100.0

⁽¹⁾ Comprised of residential, commercial, and ancillary revenue.

⁽²⁾ In € thousands, €69,778 and €62,592 for years ended December 31, 2021 and December 31, 2020, respectively.

⁽³⁾ Comprised of revenues for the commercial properties located in Germany and Belgium. In € thousands, €7,094 for the year ended December 31, 2021 and €7,288 for the year ended December 31, 2020.

⁽⁴⁾ Other Ontario has been reclassified into Greater Toronto Area. Prior year comparative figures have been adjusted to conform with current period presentation.

Estimated Net Rental Revenue Run-Rate

The table below shows the estimated net rental revenue run-rate (net of historical vacancy loss and tenant inducements) based on Net AMRs in place for CAPREIT's share of residential suites and sites and commercial leases as at December 31, 2021 and 2020. Increases or decreases in net rental revenue run-rate are primarily due to acquisitions or dispositions, respectively, within the last 12 months.

(\$ Thousands) As at December 31,	2021	2020
Residential rent roll ^{(1),(2)}	\$ 895,299	\$ 836,035
Commercial rent roll ^{(1),(2)}	31,875	32,614
Annualized net rental revenue run-rate	\$ 927,174	\$ 868,649

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

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

Net rental revenue net of dispositions for the 12 months ended December 31, 2021 was \$873.4 million (2020 – \$831.5 million).

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 realty taxes, utilities, R&M costs, on-site wages and salaries, insurance costs and bad debts; and (ii) an appropriate allocation of overhead costs. It may not, however, be comparable to similar measures presented by other real estate investment trusts or companies.

Stabilized properties for the year ended December 31, 2021 are defined as all properties owned by CAPREIT continuously since December 31, 2019, and therefore do not take into account the impact on performance of acquisitions or dispositions completed during 2021 and 2020. As at December 31, 2021, stabilized suites and sites represented 90.0% of CAPREIT's total portfolio.

(\$ Thousands) For the Year Ended December 31,	Total NOI			Stabilized NOI		
	2021	2020	% ⁽¹⁾	2021	2020	% ⁽¹⁾
Operating Revenues						
Net rental revenues	\$ 884,748	\$ 837,384	5.7	\$ 813,816	\$ 805,185	1.1
Other ⁽²⁾	48,389	45,259	6.9	44,683	43,361	3.0
Total operating revenues	\$ 933,137	\$ 882,643	5.7	\$ 858,499	\$ 848,546	1.2
Operating Expenses						
Realty taxes	(87,698)	(81,596)	7.5	(79,905)	(78,070)	2.4
Utilities	(68,901)	(65,459)	5.3	(62,913)	(61,811)	1.8
Other ⁽³⁾	(166,545)	(157,417)	5.8	(151,637)	(149,946)	1.1
Total operating expenses	\$ (323,144)	\$ (304,472)	6.1	\$ (294,455)	\$ (289,827)	1.6
NOI	\$ 609,993	\$ 578,171	5.5	\$ 564,044	\$ 558,719	1.0
NOI margin	65.4%	65.5%		65.7%	65.8%	

⁽¹⁾ Represents the year-over-year percentage change.

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

⁽³⁾ Comprises R&M, wages, insurance, advertising, legal costs and bad debt.

Operating Revenues

For the year ended December 31, 2021, total operating revenues for the total and stabilized portfolio increased compared to last year, due to increases in monthly rents on turnovers and renewals offset by increases in vacancy loss and in tenant allowances mainly in the Greater Toronto Area and Greater Montréal Region. Contributions from acquisitions further contributed to higher operating revenues for the total portfolio.

Operating Expenses

Realty Taxes

For the year ended December 31, 2021, the stabilized portfolio's realty tax increased compared to last year, primarily because of the reclassification of tax recoveries from netting against realty tax expenses to increasing commercial lease revenue impacting primarily Québec.

Utilities

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

(\$ Thousands) For the Year Ended December 31,	Total Utilities			Stabilized Utilities		
	2021	2020	% ⁽¹⁾	2021	2020	% ⁽¹⁾
Electricity	\$ 23,359	\$ 23,322	0.2	\$ 21,065	\$ 21,187	(0.6)
Natural gas	17,096	15,857	7.8	15,645	15,076	3.8
Water	28,446	26,280	8.2	26,203	25,548	2.6
Total	\$ 68,901	\$ 65,459	5.3	\$ 62,913	\$ 61,811	1.8

⁽¹⁾ Represents the year-over-year percentage change.

The table below breaks down the factors causing the above changes in the stabilized portfolio. Refer to the Operational Efficiency and Resilience section of the 2020 ESG Report for details on our conservation efforts.

For the Year Ended December 31, 2021	Decrease due to consumption	Increase due to rate	Explanation
Electricity	(1.4)%	0.8%	Reduced consumption due to warmer weather, partially offset by increased rates
Natural gas	(2.4)%	6.2%	Increased rates due to carbon tax impact, partially offset by reduced consumption due to warmer weather
Water	(1.8)%	4.4%	Higher rates, partially offset by lower consumption
Total	(2.0)%	3.8%	

As at December 31, 2021, tenants who pay their hydro charges directly represented 71% of the total 17,860 sub-metered suites in Ontario, Alberta, and Nova Scotia.

Other Operating Expenses

Stabilized other operating expenses for the year ended December 31, 2021 increased compared to last year, primarily due to higher R&M costs in Ontario and higher overall insurance costs, partially offset by lower advertising costs, legal and collection costs. The higher R&M costs were primarily due to the increased ability to complete work given restrictions and limitations in connection with the COVID-19 pandemic were less impactful in 2021. The increased insurance costs were driven by higher insurance rates.

NOI by Region

For the Year Ended December 31,	2021			2020 ⁽⁴⁾			Increase (Decrease)	
(\$ Thousands)	NOI	NOI % ⁽¹⁾	NOI Margin (%)	NOI	NOI % ⁽¹⁾	NOI Margin (%)	NOI Change (%)	
Residential Suites								
Ontario								
Greater Toronto Area	\$ 213,866	35.2	64.3	\$ 208,978	36.1	64.9	2.3	
London / Kitchener / Waterloo	30,338	5.0	64.1	26,048	4.5	65.9	16.5	
Ottawa	23,277	3.8	67.7	18,350	3.2	65.7	26.9	
	\$ 267,481	44.0	64.6	\$ 253,376	43.8	65.1	5.6	
Québec								
Greater Montréal Region	\$ 64,781	10.6	59.9	\$ 64,613	11.2	61.4	0.3	
Québec City	23,750	3.9	62.3	22,465	3.9	61.6	5.7	
	\$ 88,531	14.5	60.5	\$ 87,078	15.1	61.4	1.7	
British Columbia								
Greater Vancouver Region	\$ 48,188	7.9	70.1	\$ 47,081	8.1	70.5	2.4	
Victoria and Other British Columbia	22,598	3.7	72.1	18,790	3.2	72.0	20.3	
	\$ 70,786	11.6	70.8	\$ 65,871	11.3	70.9	7.5	
Nova Scotia								
Halifax	\$ 31,219	5.1	59.2	\$ 27,014	4.7	58.0	15.6	
Alberta								
Calgary	\$ 14,822	2.4	54.4	\$ 16,060	2.8	55.5	(7.7)	
Edmonton	4,132	0.7	54.0	4,503	0.8	57.9	(8.2)	
	\$ 18,954	3.1	54.3	\$ 20,563	3.6	56.0	(7.8)	
Prince Edward Island								
Charlottetown	\$ 4,448	0.7	52.4	\$ 4,321	0.7	51.5	2.9	
Saskatchewan								
Regina	\$ 1,421	0.2	50.7	\$ 1,467	0.3	51.6	(3.1)	
Total Canadian residential suites	\$ 482,840	79.2	63.6	\$ 459,690	79.5	64.0	5.0	
Europe								
The Netherlands ⁽²⁾	\$ 79,552	13.0	76.9	\$ 72,578	12.6	75.7	9.6	
Other Europe ⁽³⁾	8,655	1.4	82.2	8,893	1.5	79.9	(2.7)	
	\$ 88,207	14.4	77.4	\$ 81,471	14.1	76.2	8.3	
Total residential suites	\$ 571,047	93.6	65.4	\$ 541,161	93.6	65.5	5.5	
MHC Sites								
Total MHC sites	\$ 38,946	6.4	65.0	\$ 37,010	6.4	64.9	5.2	
Total suites and sites	\$ 609,993	100.0	65.4	\$ 578,171	100.0	65.5	5.5	

⁽¹⁾ Represents percentage of the portfolio by NOI.

⁽²⁾ In € thousands, €53,681 and €47,413 for the years ended December 31, 2021 and December 31, 2020, respectively.

⁽³⁾ Comprised of NOI for the commercial properties located in Germany and Belgium. In € thousands, €5,837 and €5,827 for the years ended December 31, 2021 and December 31, 2020, respectively.

⁽⁴⁾ Other Ontario has been reclassified into Greater Toronto Area. Prior year comparative figures have been adjusted to conform with current period presentation.

Stabilized NOI by Region

For the Year Ended December 31,	2021		2020 ⁽¹⁾		Increase (Decrease)		
(\$ Thousands)	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area	\$ 207,285	64.7	\$ 206,749	65.1	0.9	2.0	0.3
London / Kitchener / Waterloo	26,363	65.7	25,452	66.1	4.1	5.2	3.6
Ottawa	19,354	68.5	17,993	65.7	3.1	(5.5)	7.6
	\$ 253,002	65.1	\$ 250,194	65.2	1.3 ⁽¹⁾	1.8 ⁽¹⁾	1.1
Québec							
Greater Montréal Region	\$ 62,868	60.0	\$ 63,037	61.0	1.6	4.4	(0.3)
Québec City	22,957	62.1	22,456	61.6	1.5	0.4	2.2
	\$ 85,825	60.5	\$ 85,493	61.2	1.5 ⁽²⁾	3.4 ⁽²⁾	0.4
British Columbia							
Greater Vancouver Region	\$ 46,959	70.3	\$ 46,967	70.5	0.4	1.2	0.0
Victoria	19,285	72.1	18,790	72.0	2.5	2.1	2.6
	\$ 66,244	70.8	\$ 65,757	70.9	1.0	1.5 ⁽³⁾	0.7
Nova Scotia							
Halifax	\$ 15,228	59.6	\$ 14,947	60.2	2.8	4.2 ⁽⁴⁾	1.9
Alberta							
Calgary	\$ 14,838	54.4	\$ 15,300	55.4	(1.3)	0.8	(3.0)
Edmonton	3,018	51.8	3,792	58.9	(9.5)	6.0	(20.4)
	\$ 17,856	54.0	\$ 19,092	56.0	(2.9) ⁽⁵⁾	1.7 ⁽⁶⁾	(6.5)
Prince Edward Island							
Charlottetown	\$ 4,452	52.5	\$ 4,326	51.7	1.3	(0.4)	2.9
Saskatchewan							
Regina	\$ 1,421	50.7	\$ 1,467	51.6	(1.4) ⁽⁷⁾	0.4 ⁽⁸⁾	(3.1)
Total Canadian residential suites	\$ 444,028	64.0	\$ 441,276	64.3	1.2	2.1	0.6
Europe							
The Netherlands	\$ 73,497	76.9	\$ 71,628	75.7	1.0	(4.1)	2.6
Other Europe	8,613	81.7	8,938	81.6	(3.7)	(4.0)	(3.6)
	\$ 82,110	77.4	\$ 80,566	76.4	0.5	(4.1) ⁽⁹⁾	1.9
Total residential suites	\$ 526,138	65.8	\$ 521,842	65.9	1.1	1.6	0.8
MHC Sites							
Total MHC sites	\$ 37,906	65.0	\$ 36,877	64.9	2.5	2.1 ⁽¹⁰⁾	2.8
Total suites and sites	\$ 564,044	65.7	\$ 558,719	65.8	1.2	1.6	1.0
Stabilized suites and sites	59,553		59,553				

⁽¹⁾ Higher expenses: higher R&M, bad debt and insurance costs, partially offset by lower utilities and realty taxes. Revenue growth has been impacted by higher vacancy loss and tenant inducements.

⁽²⁾ Higher expenses: higher realty taxes, insurance and bad debt, partially offset by lower R&M. Revenue growth has been impacted by higher vacancy loss and tenant inducements.

⁽³⁾ Higher expenses: higher utilities, partially offset by lower bad debt and R&M.

⁽⁴⁾ Higher expenses: higher utilities and R&M, partially offset by lower advertising costs.

⁽⁵⁾ Lower revenues: lower rents, higher rental vacancies and higher tenant incentives.

⁽⁶⁾ Higher expenses: higher utilities, partially offset by lower advertising costs.

⁽⁷⁾ Lower revenues: higher tenant incentives.

⁽⁸⁾ Higher expenses: higher realty taxes, partially offset by lower R&M.

⁽⁹⁾ In € thousands, NOI of €55,436 and €52,694 for the years ended December 31, 2021 and December 31, 2020, respectively. NOI increased by €2,742 and 5.2%. Lower expenses: lower site costs and R&M, partially offset by higher insurance costs.

⁽¹⁰⁾ Higher expenses: higher realty taxes, site costs and wages, partially offset by lower utilities.

⁽¹¹⁾ Other Ontario has been reclassified into Greater Toronto Area. Prior year comparative figures have been adjusted to conform with current period presentation.

Net Income and Other Comprehensive Income

(\$ Thousands) For the Year Ended December 31,	2021	2020
NOI	\$ 609,993	\$ 578,171
(Less) plus:		
Trust expenses	(51,366)	(43,268)
Unit-based compensation expense	(15,111)	(5,160)
Fair value adjustments of investment properties	1,048,742	595,859
Fair value adjustments of Exchangeable LP Units	(665)	(1,230)
Fair value adjustments of investments	14,088	(3,979)
Realized loss on disposition of investment properties	(241)	(1,387)
Amortization of property, plant and equipment	(8,250)	(7,668)
(Loss) gain on non-controlling interest	(38,651)	24,478
Gain (loss) on derivative financial instruments	50,282	(52,672)
Interest on Exchangeable LP Units	(1,119)	(441)
Interest on mortgages payable and other financing costs	(148,334)	(151,722)
Interest on bank indebtedness and other financing costs	(6,110)	(7,955)
Interest on leases	(4,900)	(4,507)
(Loss) gain on foreign currency translation	(6,095)	5,982
Other income	31,713	29,990
Net income before income taxes	\$ 1,473,976	\$ 954,491
Current and deferred income tax expense	(81,181)	(28,563)
Net income	\$ 1,392,795	\$ 925,928
Other comprehensive (loss) income, including items that may be reclassified subsequently to net income		
Amortization of losses from (AOCL) AOCI to interest and other financing costs	\$ 2,440	\$ 2,570
(Loss) gain on foreign currency translation	(115,884)	86,987
Other comprehensive (loss) income	(113,444)	89,557
Comprehensive income	\$ 1,279,351	\$ 1,015,485

Trust Expenses and Net 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 include costs related to the generation of asset management and services fees to ERES and asset and property management fees to Irish Residential Properties REIT plc ("IRES"). The table below shows trust expenses net of external fees income. While Net Trust Expenses are calculated based on items in the financial statements or supporting notes, Net Trust Expenses itself is not a standardized financial measure under IFRS and may not be comparable to similarly termed financial measures disclosed by other real estate investment trusts or companies in similar or different industries.

(\$ Thousands) For the Year Ended December 31,	2021	2020
Trust expenses attributable to CAPREIT (excluding ERES)	\$ 43,287	\$ 35,370
Trust expenses attributable to ERES	8,079	7,898
Trust Expenses	51,366	43,268
Less: Asset management and services fees income from ERES attributed to ERES non-controlling unitholders ⁽¹⁾	(2,805)	(2,546)
Less: Acquisition fees from ERES attributed to ERES non-controlling unitholders ⁽¹⁾	(732)	(430)
Less: Asset and property management fees income from IRES ⁽²⁾	(9,863)	(9,592)
Net Trust Expenses	37,966	30,700
Net Trust Expenses as % of Operating Revenue	4.1%	3.5%

⁽¹⁾ These fees are eliminated upon consolidation.

⁽²⁾ These amounts are included within other income on the statements of income and comprehensive income.

Trust expenses increased for the year ended December 31, 2021 to \$51.4 million compared to \$43.3 million last year primarily as a result of higher salaries and benefits, compliance expenses, and IT expenses, which were partially offset by lower consulting fees. For the year ended December 31, 2021, trust expenses included non-routine items of approximately \$3.7 million related to acquisition research expenses and reorganization costs, compared to approximately \$0.8 million non-routine items related to ERES acquisition research costs that were not completed, restructuring costs, and one-time TSX listing and legal fees for the year ended December 31, 2020.

With the termination of the investment management agreement ("IMA") with IRES, CAPREIT will cease to generate asset and property management fees income from IRES and cease to incur certain related trust expenses. For further details please see the Other Income section in Section III of this MD&A.

Unit-based Compensation Expense

Unit-based compensation expense (recovery) has 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.

(\$ Thousands) For the Year Ended December 31,	2021	2020
Remeasurement of unit-based compensation liabilities	\$ 7,914	\$ (2,170)
Amortization of fair value on grant date of unit-based compensation	7,197	7,330
Total	\$ 15,111	\$ 5,160

Gain (Loss) on Derivative Financial Instruments

The gain (loss) on derivative financial instruments is due to changes in the fair value of derivatives for which hedge accounting is not applied. The gain on derivative financial instruments for the year ended December 31, 2021 primarily relates to changes in foreign exchange rates. CAPREIT uses derivative financial instruments to minimize its exposure to fluctuations in interest rates and foreign exchange rates. These derivative financial instruments allow CAPREIT to take advantage of the low EURIBOR rates, resulting in significant interest savings, and to convert its borrowings to euro-denominated liabilities to hedge against a majority of its euro-denominated assets. See note 21 to the accompanying audited consolidated annual financial statements for further details about derivatives.

(Loss) Gain on Non-Controlling Interest

For the year ended December 31, 2021, CAPREIT recorded a loss of \$38.7 million on ERES units held by non-controlling unitholders. This includes distributions to ERES non-controlling unitholders of \$12.8 million for the year ended December 31, 2021. The remaining balance is the mark-to-market gain or loss due to fluctuations in the ERES unit market price.

Gain (Loss) on Foreign Currency Translation

CAPREIT is exposed to gain/loss on foreign currency translation due to its holdings of assets and liabilities through its investment in IRES, its ERES subsidiary, and foreign-denominated cash and borrowings held by CAPREIT. The following table summarizes the gain or loss recorded in other comprehensive (loss) income and net income on this exposure and its associated derivative instruments. Between December 31, 2020 and December 31, 2021, the euro weakened against the Canadian Dollar from a closing price of 1.5608 to 1.4391.

As of December 31, (\$ Thousands)	2021			
	Other Comprehensive Income (Loss)		Net Income Gain (Loss)	Total Foreign Exchange Gain (Loss)
	Balance	Year Ended	Year Ended	Year Ended
Total Foreign Assets ⁽¹⁾	€ 2,084,855 ⁽⁴⁾	\$ (221,924)	\$ (1,399)	\$ (223,323)
Total Foreign Liabilities ⁽²⁾	996,190	106,040	(4,696)	101,344
Net Equity ⁽³⁾	1,088,665	(115,884)	(6,095)	(121,979)
Cross-Currency Swap	442,358	–	44,563	44,563
Net Foreign Exchange Exposure and Gain (Loss)	€ 646,307	\$ (115,884)	\$ 38,468	\$ (77,416)
Net Foreign Exchange Exposure – Excluding Non-controlling Interest ⁽³⁾	€ 343,199			

As of December 31, (\$ Thousands)	2020			
	Other Comprehensive Income (Loss)		Net Income Gain (Loss)	Total Foreign Exchange Gain (Loss)
	Balance	Year Ended	Year Ended	Year Ended
Total Foreign Assets ⁽¹⁾	€ 1,677,856 ⁽⁴⁾	\$ 159,233	\$ 533	\$ 159,766
Total Foreign Liabilities ⁽²⁾	761,266	(72,246)	5,449	(66,797)
Net Equity ⁽³⁾	916,590	86,987	5,982	92,969
Cross-Currency Swap	442,358	–	(54,661)	(54,661)
Net Foreign Exchange Exposure and Gain (Loss)	€ 474,232	\$ 86,987	\$ (48,679)	\$ 38,308
Net Foreign Exchange Exposure – Excluding Non-controlling Interest ⁽³⁾	€ 223,402			

⁽¹⁾ Foreign assets are comprised of CAPREIT's euro cash, ERES assets, and CAPREIT investment in IRES. Foreign exchange gains or losses related to CAPREIT's euro cash are recorded in foreign currency translation under net income. Foreign exchange gains or losses related to ERES assets and CAPREIT's investment in IRES are recorded in foreign currency translation under other comprehensive (loss) income.

⁽²⁾ Foreign liabilities are comprised of ERES liabilities and CAPREIT's euro borrowings: (a) foreign exchange gains or losses related to loans secured by ERES are recorded in foreign currency translation under other comprehensive (loss) income; (b) gains or losses on CAPREIT's euro borrowings are recorded in foreign currency translation under net income.

⁽³⁾ As at December 31, 2021, net equity includes €891,495 (December 31, 2020 – €737,734) relating to ERES in which CAPREIT has a 66% (December 31, 2020 – 66%) interest. Taking into consideration the non-controlling interest of ERES, net foreign exchange exposure is €343,199 (December 31, 2020 – €223,402).

⁽⁴⁾ Includes ERES assets of €1,887,685 and CAPREIT's investment in IRES of €184,162 (December 31, 2020 – €1,499,000 and €168,632, respectively).

Other Income

Other income primarily consists of income received from investments (see note 9 of the accompanying audited consolidated annual financial statements), net profit from investment in associate, asset management and property management fees and profit from sale of MHC homes.

(\$ Thousands) For the Year Ended December 31,	2021	2020
Investment income	\$ 1,493	\$ 1,226
Net profit from investment in associate ⁽¹⁾	18,455	17,173
Asset and property management fees ⁽²⁾	9,863	9,592
Interest income from mortgages receivable	778	–
Profit from sale of MHC inventory ⁽³⁾	945	–
Other ⁽⁴⁾	179	1,999
Total	\$ 31,713	\$ 29,990

⁽¹⁾ CAPREIT's share of IRES's investment property fair value change, earnings and foreign exchange effects thereon. For the years ended December 31, 2021 and 2020, CAPREIT's share of IRES's investment property fair value gain is \$9.3 million and \$6.1 million respectively.

⁽²⁾ Other income includes asset and property management fees from IRES, which CAPREIT has an 18.7% ownership in as at December 31, 2021 (December 31, 2020 – 18.8%), and excludes asset and property management fees and service fees from ERES, in which CAPREIT has a 65.8% ownership as at December 31, 2021 (December 31, 2020 – 66.0%).

(\$ Thousands) For the Year Ended December 31,	2021	2020
Total fee income generated	\$ 24,239	\$ 22,068
Asset and property management fees, acquisition fees and service fees from ERES which are 100% eliminated on consolidation	14,376	12,476
Asset and property management fees from IRES recognized in other income	\$ 9,863	\$ 9,592

⁽³⁾ Consists of income from sale of MHC home inventory of \$3.5 million offset by cost of sales of \$2.5 million. Previously, this was included within NOI.

⁽⁴⁾ The non-recurring other income is mainly due to the interest earned on cash and cash equivalents held in 2020.

On January 31, 2022, CAPREIT's IMA with IRES was terminated, while CAPREIT continues to provide transition services for a period of three months for total fees of approximately \$1.5 million. There is no change in the fees earned in the first quarter of 2022. As a result of the termination of the IMA, the impact on CAPREIT's net income is expected to be approximately \$3.0 to \$4.0 million for 2022, driven by a decrease in asset and property management fees partially offset by a decrease in related trust expenses. The termination of the IMA will free up a significant amount of head office resources and allow CAPREIT to reallocate its resources to new opportunities.

SECTION IV: UNIT CALCULATIONS, NON-IFRS FINANCIAL MEASURES

Per Unit Calculations

As a result of CAPREIT being an open-ended mutual fund trust, Unitholders are entitled to redeem their Trust Units in accordance with the conditions specified in the DOT. The impact of this redemption feature causes CAPREIT's Trust Units to be treated as financial liabilities under IFRS. Consequently, all per unit calculations are considered non-IFRS measures.

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

(\$ Thousands)	Weighted Average Number of Units		Outstanding Number of Units	
For the Year Ended December 31,	2021	2020	2021	% ⁽¹⁾
Trust Units	172,620	170,685	173,406	98.7
Exchangeable LP Units ⁽²⁾	705	278	1,679	1.0
Units under the DUP ⁽³⁾	183	160	196	0.1
Basic number of units	173,508	171,123	175,281	99.7
Plus:				
Unit rights under the RUR Plan ⁽³⁾	533	571	480	0.3
Diluted number of units	174,041	171,694	175,761	100.0

⁽¹⁾ Represents percentage of total diluted units.

⁽²⁾ See note 17 to the accompanying audited consolidated annual financial statements for details on Exchangeable LP Units.

⁽³⁾ See notes 15 and 16 to the accompanying audited consolidated annual financial statements for the year ended December 31, 2021 for details of CAPREIT's unit-based compensation plans.

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

(\$ Thousands)	2021	2020
For the Year Ended December 31,		
Distributions declared on Trust Units	\$ 243,348	\$ 235,649
Distributions declared on Exchangeable Units	1,119	441
Distributions declared on awards outstanding under unit-based compensation plans ⁽¹⁾	1,012	1,013
Total distributions declared	245,479	237,103
Less:		
Distributions on Trust Units reinvested	(75,739)	(68,108)
Distributions on unit awards reinvested ⁽¹⁾	(1,012)	(1,013)
Net distributions paid	\$ 168,728	\$ 167,982
Percentage of distributions reinvested	31.3%	29.2%

⁽¹⁾ Comprises non-cash distributions related to the DUP and the RUR Plan (see notes 15 and 16 to CAPREIT's accompanying audited consolidated annual financial statements for the year ended December 31, 2021 for a discussion of these plans).

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

Non-IFRS Financial Measures

Funds From Operations

FFO is a measure of operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO as presented is in accordance with the recommendations of the Real Property Association of Canada ("REALpac"), with the exception of (i) the adjustment for unrealized gains or losses on fair value through profit or loss ("FVTPL") marketable securities, (ii) the adjustment for amortization of property, plant, and equipment, (iii) the one-time write-off of prepaid CMHC premiums on expired mortgages and (iv) the adjustment for non-recurring mortgage prepayment penalties. It may not, however, be comparable to similar measures presented by other real estate investment trusts or companies in similar or different industries. Management considers FFO to be an important measure of CAPREIT's operating performance. A reconciliation of net income to FFO is as follows:

(\$ Thousands, except per Unit amounts) For the Year Ended December 31,	2021	2020
Net income	\$ 1,392,795	\$ 925,928
Adjustments:		
Fair value adjustments of investment properties	(1,048,742)	(595,859)
Realized loss on disposition of investment properties	241	1,387
Remeasurement of Exchangeable LP Units	665	1,230
Remeasurement of investments	(14,088)	3,979
Remeasurement of unit-based compensation liabilities	7,914	(2,170)
Interest on Exchangeable LP Units	1,119	441
Deferred income tax expense ⁽¹⁾	77,417	26,368
Loss (gain) on foreign currency translation	6,095	(5,982)
FFO adjustment for income from investment in associate	(9,271)	(6,141)
(Gain) loss on derivative financial instruments	(50,282)	52,672
Fair value mark-to-market adjustment on ERES units held by non-controlling unitholders	25,895	(37,020)
Distributions on ERES units held by non-controlling unitholders	12,756	12,542
Net FFO impact attributable to ERES units held by non-controlling unitholders ⁽²⁾	(17,138)	(16,275)
Amortization of property, plant and equipment	8,250	7,668
Lease principal repayment	(1,207)	(1,157)
Prepaid CMHC Premiums write-offs ⁽³⁾	–	14,348
Net mortgage prepayment costs ⁽⁴⁾	–	4,429
FFO	\$ 392,419	\$ 386,388
FFO per unit – basic	\$ 2.262	\$ 2.258
FFO per unit – diluted	\$ 2.255	\$ 2.250
Total distributions declared	\$ 245,479	\$ 237,103
FFO payout ratio	62.6%	61.4%
Net distributions paid	\$ 168,728	\$ 167,982
Excess FFO over net distributions paid	\$ 223,691	\$ 218,406
FFO effective payout ratio	43.0%	43.5%

⁽¹⁾ The adjustment for the year ended December 31, 2021 consists of \$76.6 million of deferred income tax expenses as well as \$0.8 million tax adjustment related to the 2019 deemed disposition of investment properties associated with the reorganization of legal structure of the Netherlands subsidiaries. The adjustment for the year ended December 31, 2020 consists of \$25.2 million of deferred income tax expenses as well as \$1.2 million of current income taxes on the disposition of a German investment property.

⁽²⁾ The adjustment is based on applying the 34% weighted average ownership held by ERES non-controlling unitholders (December 31, 2020 – 34%) to ERES's FFO of \$52.5 million (€35.4 million) (December 31, 2020 – \$47.9 million or €31.2 million) and adjusting for \$2.1 million of acquisition fees in the year ended December 31, 2021 charged by CAPREIT to ERES, which are eliminated upon consolidation.

⁽³⁾ Consists of \$5.0 million of expensed CMHC premiums relating to mortgages refinanced during the year ended December 31, 2020 and \$9.4 million of expensed prepaid CMHC premiums relating to mortgages refinanced in prior years.

⁽⁴⁾ Consists of non-recurring mortgage prepayment costs related to mortgages of the bought out operating leasehold properties. These costs were incurred in order to accelerate refinancing and take advantage of the favourable interest rate environment.

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 items that are not indicative of CAPREIT's medium and/or long-term performance. These items include amortization of losses on certain hedging instruments previously settled and paid, mortgage prepayment penalties, accelerated vesting of previously granted RUR units, large acquisition research costs relating to transactions that were not completed, one-time IRES internalization expenses impacting FFO adjustment from investment in associate and reorganization, senior management termination, and retirement costs. As it is an operating performance metric, no adjustment is made to NFFO for capital expenditures. NFFO facilitates better comparability than FFO to prior years' performance and provides a better indicator of CAPREIT's long-term operating performance. For further information on CAPREIT's total property capital investments, please refer to the Property Capital Investments in Section V. See discussions under the Net Income and Other Comprehensive Income in Section III for additional information on hedging instruments currently in place. NFFO is not a measure of the sustainability of distributions. A reconciliation of FFO to NFFO is as follows:

(\$ Thousands, except per Unit amounts) For the Year Ended December 31,	2021	2020	% ⁽¹⁾
FFO	\$ 392,419	\$ 386,388	1.6
Adjustments:			
Amortization of losses from (AOCL) AOCI to interest and other financing costs	2,440	2,570	(5.1)
Mortgage prepayment cost	2,517	—	100.0
Reorganization, senior management termination, and retirement costs ⁽²⁾	2,747	—	100.0
Acquisition research costs ⁽³⁾	899	—	100.0
IRES internalization expense impact to CAPREIT's equity pickup ⁽⁴⁾	1,172	—	100.0
NFFO	\$ 402,194	\$ 388,958	3.4
NFFO per unit – basic	\$ 2.318	\$ 2.273	2.0
NFFO per unit – diluted	\$ 2.311	\$ 2.265	2.0
Total distributions declared	\$ 245,479	\$ 237,103	3.5
NFFO payout ratio	61.0%	61.0%	
Net distributions paid	\$ 168,728	\$ 167,982	0.4
Excess NFFO over net distributions paid	\$ 233,466	\$ 220,976	5.7
Effective NFFO payout ratio	42.0%	43.2%	

⁽¹⁾ Represents the year-over-year percentage change.

⁽²⁾ Includes severance and other employee costs relating to reorganization, senior management termination, and retirement.

⁽³⁾ Expenses included in trust expenses and related to transactions that were not completed.

⁽⁴⁾ Represents the impact of \$6.2 million (€4.2 million) of internalization expenses incurred by IRES at CAPREIT's ownership of 18.7%.

FFO and NFFO may be subject to a certain degree of fluctuation from period to period as a result of CMHC premium write-offs which occur upon the refinancing of a mortgage. These write-offs are not added back to FFO or NFFO and as a result may cause fluctuation depending on the timing and amount of mortgages coming due. For further details, please refer to the Liquidity and Financial Condition section found in Section V of the MD&A.

NFFO for the year ended December 31, 2021 increased by 3.4% compared to last year, primarily due to the contribution from acquisitions and higher NOI for properties owned prior to December 31, 2019. Asset and property management fees, acquisition fees and service fees received from ERES increased FFO and consequently NFFO by \$4.9 million for the year ended December 31, 2021 compared to \$4.2 million last year. These fees represent the amount of fees attributed to the ERES units held by non-controlling unitholders based on the weighted average ownership throughout the year.

For the year ended December 31, 2021, basic NFFO per unit increased by 2.0% compared to last year, despite an approximate 1.4% increase in the weighted average number of units outstanding. Management expects per unit FFO and NFFO and related payout ratios to strengthen further in the medium term as a result of NOI contributions from recent acquisitions.

Comparing total distributions declared to NFFO, the NFFO payout ratio for the year ended December 31, 2021 remained stable at 61.0% compared to last year. The effective NFFO payout ratio, which compares NFFO to net distributions paid, improved for the year ended December 31, 2021 to 42.0% from 43.2% last year.

Adjusted Cash Flows From Operations and Distributions Declared

As a measure of economic cash flows, CAPREIT calculates ACFO in accordance with the recommendations of REALpac.

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

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

The following table reconciles cash generated from operating activities to ACFO:

(\$ Thousands, except per Unit amounts) For the Year Ended December 31,	2021	2020 ⁽⁹⁾
Cash generated from operating activities	\$ 551,433	\$ 481,356
Adjustments:		
Working capital adjustment ⁽¹⁾	–	18,116
Interest expense included in cash flow from financing activities ⁽²⁾	(133,665)	(130,398)
Non-discretionary property capital investments ⁽³⁾	(78,006)	(70,545)
Capitalized leasing costs ⁽⁴⁾	(7,471)	(3,909)
Amortization of other financing costs ⁽⁵⁾	(14,574)	(23,725)
Investment income ⁽⁶⁾	8,469	11,670
Net ACFO impact attributed to ERES units held by non-controlling unitholders ⁽⁷⁾	(18,927)	(12,792)
Lease principal and interest repayments	(6,107)	(5,664)
Tax on disposition ⁽⁸⁾	–	1,155
ACFO	\$ 301,152	\$ 265,264
Total distributions declared	\$ 245,479	\$ 237,103
Excess ACFO over distributions declared	\$ 55,673	\$ 28,161
ACFO payout ratio	81.5%	89.4%

⁽¹⁾ On a quarterly basis, a review of working capital is performed to determine whether changes in prepaid expenses, receivables, deposits, accounts payable and other liabilities, security deposits and other non-cash operating assets and liabilities were attributed to items which were not indicative of sustainable cash flows available for distribution in line with the ACFO guidance provided by REALpac. As a result, the one-time current income tax payment of \$18.1 million relating to current income tax expense triggered on the acquisition of European Commercial Real Estate Investment Trust ("ECREIT") on March 29, 2019 was added back for the year ended December 31, 2020.

⁽²⁾ Excludes interest with respect to leases, distributions to ERES non-controlling unitholders, and holders of Exchangeable LP Units.

⁽³⁾ Non-discretionary property capital investments for the year ended December 31, 2021 and 2020 are based on the actual annual 2021 and 2020, respectively. Refer to the "Non-Discretionary Property Capital Actuals to Forecast Reconciliation" for further information.

⁽⁴⁾ Comprises tenant inducements and direct leasing costs.

⁽⁵⁾ Includes amortization of deferred financing costs, CMHC premiums, deferred loan costs and fair value adjustments.

⁽⁶⁾ The investment income in 2020 includes non-recurring interest earned on cash and cash equivalents. In addition, a portion of 2021 dividends from IRES to CAPREIT have not yet been received as at December 31, 2021 due to withholding taxes in Ireland.

⁽⁷⁾ The adjustment is based on applying the 34% weighted average ownership held by ERES non-controlling unitholders (December 31, 2020 – 34%).

⁽⁸⁾ Represents \$1.2 million of income tax expense on the disposition of a German investment property for the year ended December 31, 2020.

⁽⁹⁾ Certain 2020 comparative figures have been adjusted to conform with current period presentation.

For the year ended December 31, 2021, CAPREIT's ACFO was in excess of distributions declared by \$55.7 million. As per OSC Staff Notice 51-724, if distributions are in excess of ACFO, then it represents a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated from CAPREIT's continuing operations during the period.

The table below reconciles actual non-discretionary capital investments incurred to the forecasted amount:

Non-Discretionary Property Capital Actuals to Forecast Reconciliation

(\$ Thousands) For the Year Ended December 31,	2021	2020
Actual	\$ 78,006	\$ 70,545
Forecast	80,117	67,801
Difference	\$ (2,111)	\$ 2,744

For the year ended December 31, 2021, CAPREIT's actual non-discretionary property capital investments of \$78.0 million were lower than the forecast by approximately \$2.1 million, mainly due to reduced ability to proceed on planned projects given restrictions and limitations imposed in connection with the COVID-19 pandemic.

CAPREIT's capital investments programs are affected by seasonal cycles, and professional judgment is used by management to determine the timing of property capital investments. Therefore, actual and forecasted capital investments may differ during the applicable periods. Management continues to monitor the rollout of the capital expenditure plan in an effort to continuously improve the accuracy of its capital expenditure budgets.

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

Discretionary and Non-Discretionary Property Capital Investments

Management does not differentiate between maintenance and value-enhancing property capital investments. Maintenance property capital investments are generally not clearly identifiable, nor do they have a common definition, and would require significant judgment to classify property capital investments as maintenance or value-enhancing capital investments. In addition, there is no generally accepted definition of maintenance capital investments in the Canadian real estate industry. Management has decided to classify property capital investments into two categories: discretionary and non-discretionary. Management is of the view that this classification, while still requiring a degree of professional judgment, provides a better measure of economic cash flows.

Non-Discretionary Property Capital Investments are those investments management believes are essential for the safety of residents and to ensure the structural integrity of the properties. These investments may enhance the property's operating effectiveness, including its profitability, through increases in revenues or reductions in costs over the long term. Included in non-discretionary capital expenditures are items such as building improvements, including items such as roof, structural, balcony, sidewalks, windows, brick, electrical, MHC infrastructure investments, and life and safety. Management uses its professional judgment to include other capital expenditure categories that could impact the safety of residents. These Non-Discretionary Property Capital Investments are in addition to regular R&M costs, which have been in the range of \$800 to \$1,200 per residential suite annually over the last five years and are expensed to NOI.

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

The following table presents the actual 2021, 2020 and 2019 Non-Discretionary Property Capital Investments per suite and site:

(\$ Thousands)	2021 Actual	2020 Actual	2019 Actual
Non-discretionary property capital investments	\$ 78,006	\$ 70,545	\$ 65,532
Weighted average number of suites and sites	63,671	60,929	55,175
Non-discretionary property capital investments per suite and site	\$ 1,225	\$ 1,158	\$ 1,188

Adjusted Cash Generated from Operating Activities

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

(\$ Thousands, except per Unit amounts) For the Year Ended December 31,	2021	2020
Cash generated from operating activities	\$ 551,433	\$ 481,356
Adjustments:		
Interest expense included in cash flow from financing activities ⁽¹⁾	(133,665)	(130,398)
Adjusted Cash Generated from Operating Activities	\$ 417,768	\$ 350,958
Total distributions declared	\$ 245,479	\$ 237,103
Excess	\$ 172,289	\$ 113,855

⁽¹⁾ Excludes interest with respect to leases, distributions to ERES non-controlling unitholders, and holders of Exchangeable LP Units.

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

(\$ Thousands, except per Unit amounts) For the Year Ended December 31,	2021	2020
Net income	\$ 1,392,795	\$ 925,928
Adjusted Cash Generated from Operating Activities	\$ 417,768	\$ 350,958
Total distributions declared	\$ 245,479	\$ 237,103
Net distributions paid	\$ 168,728	\$ 167,982
Excess of net income over total distributions declared	\$ 1,147,316	\$ 688,825
Excess of net income over net distributions paid	\$ 1,224,067	\$ 757,946
Excess of Adjusted Cash Generated from Operating Activities over total distributions declared	\$ 172,289	\$ 113,855
Excess of Adjusted Cash Generated from Operating Activities over net distributions paid	\$ 249,040	\$ 182,976

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

For the year ended December 31, 2021, CAPREIT's Adjusted Cash Generated from Operating Activities exceeded distributions declared by \$172.3 million. As per OSC Staff Notice 51-724, if distributions are in excess of Adjusted Cash Generated from Operating Activities, then it represents a return of capital, rather than a return on capital, since they represent cash payments in excess of cash generated from CAPREIT's continuing operations during the period. Management believes, should it occur, there is adequate overall liquidity to fund excess distributions over Adjusted Cash Generated from Operating Activities on an annual basis through the Acquisition and Operating Facility.

SECTION V: CAPITAL INVESTMENT, INVESTMENT PROPERTY, CAPITAL STRUCTURE, FINANCIAL CONDITION

Property Capital Investments

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

An important component of CAPREIT's property capital investment strategy is to acquire properties significantly below current replacement cost and improve their operating performance by investing annually. This ensures sustainable growth to maximize the portfolio's future rental income-generating potential.

Energy-saving initiatives and suite and common area improvement costs generally tend to increase NOI more quickly compared to other capital investment categories. A breakdown of property capital investments (excluding head office assets and development) is summarized by category below.

Property Capital Investments by Category

(\$ Thousands) Year Ended December 31, 2021	Actual Total Portfolio	% of Actual
Non-discretionary property capital investments:		
Building improvements	\$ 70,583	23.7
MHC infrastructural	6,248	2.1
Life and safety	1,175	0.4
	78,006	26.2
Discretionary property capital investments:		
Suite improvements	105,634	35.5
Common area	71,884	24.1
Energy-saving initiatives	20,506	6.9
Equipment	16,193	5.4
Elevators and risers	2,348	0.8
Others	1,399	0.5
MHC common area	1,692	0.6
	219,656	73.8
Total	\$ 297,662	100.0

(\$ Thousands) Year Ended December 31, 2020	Actual Total Portfolio	% of Actual
Non-discretionary property capital investments:		
Building improvements	\$ 64,447	27.9
MHC infrastructural	5,495	2.4
Life and safety	603	0.3
	70,545	30.6
Discretionary property capital investments:		
Suite improvements	68,092	29.4
Common area	51,196	22.2
Energy-saving initiatives	18,574	8.0
Equipment	13,855	6.0
Elevators and risers	6,489	2.8
Others	1,459	0.6
MHC common area	918	0.4
	160,583	69.4
Total	\$ 231,128	100.0

The table below includes estimated 2022 capital expenditures expected to be completed in 2022. The following budgeted capital expenditures may vary from actuals as the planned expenditures may be accelerated or otherwise adjusted as necessary.

2022 Capital Expenditure Budget

(\$ Thousands)	Budget Total Portfolio	% of Budget	% of Investment Properties Value
Non-discretionary property capital investments:			
Building improvements	\$ 64,795	20.8	0.4
MHC infrastructural	13,164	4.2	0.1
Life and safety	6,194	2.0	0.0
	84,153	27.0	0.5
Discretionary property capital investments:			
Suite improvements	79,837	25.7	0.5
Common area	77,223	24.9	0.5
Energy-saving initiatives	36,356	11.7	0.2
Equipment	11,035	3.6	0.1
Elevators and risers	16,995	5.5	0.1
Others	2,696	0.9	0.0
MHC common area	2,498	0.8	0.0
	226,640	73.0	1.4
Total	\$ 310,793	100.0	1.9

Set out in the table below is management's current estimate, established through consultation with an independent engineering firm, of CAPREIT's investments in building improvements, including investments in MHC sites, for 2022 through 2025 for properties owned as of December 31, 2021.

Future Investments in Building Improvements

(\$ Thousands)	Building Improvements Estimated Range
2022	\$58,000 – \$72,000
2023	\$32,000 – \$40,000
2024	\$30,000 – \$37,000
2025	\$32,000 – \$39,000

Management believes CAPREIT has sufficient liquidity (see Liquidity and Financial Condition in Section V) to execute the above property capital investment strategy.

Investment Properties

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

Beginning in the year ended December 31, 2021, CAPREIT appraises some of its Canadian investment properties using valuations prepared by its internal valuation team using generally the same process and methodology as its external appraiser. CAPREIT's objective is to have a portion of its Canadian investment properties appraised externally every year, on a rotational basis. The partial internalization of valuations for the Canadian portfolio builds synergies within the various CAPREIT sub-functions including Acquisitions, Development, and Asset Management functions.

External valuations for the Canadian portfolio, where obtained, are performed at year-end with quarterly updates provided on capitalization rates. CAPREIT obtains external valuations for a cross-section of investment properties that represent different geographical locations across the Canadian portfolio. For internal valuations, the appraisal methodologies used are consistent with the practices employed by the external appraiser. The fair values of all of CAPREIT's European residential portfolio are determined by qualified external appraisers quarterly. The qualified external appraisers hold recognized relevant professional qualifications and have recent experience in the location and category of the respective property.

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

(\$ Thousands) For the Year Ended December 31,	2021	2020
Balance, beginning of the year	\$ 15,000,591	\$ 13,096,426
Add:		
Acquisitions	1,053,497	825,681
Property capital investments ⁽¹⁾	314,385	242,063
Capitalized leasing costs ⁽²⁾	1,313	659
Right-of-use asset ⁽³⁾	10,067	–
Operating lease buyout	4,457	158,565
Fair value adjustments	1,048,742	595,859
(Loss) gain on foreign currency translation	(187,752)	138,098
Less:		
Dispositions	(143,381)	(56,760)
Balance, end of the year	\$ 17,101,919	\$ 15,000,591

⁽¹⁾ See Section V – Property Capital Investments, Conversions, Infill, and Redevelopment included within the Development Summary.

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

⁽³⁾ On April 1, 2021, the basic annual rent of an existing land lease was increased in accordance with the lease agreement, which stipulates that the basic annual rent be renegotiated every 20 years to reflect the land market value.

During the year ended December 31, 2021, CAPREIT completed the buyout of another operating lease property for a net buyout price of approximately \$4.5 million, resulting in the conversion from an operating leasehold interest, with an option to purchase, to a traditional fee simple property interest, resulting in a fair value gain of \$3.1 million. The operating lease buyout coincides with CAPREIT's strategic initiative of simplifying the company's ownership structure, increasing net asset value, and strengthening overall liquidity and flexibility.

A summary of the fair values of CAPREIT's investment properties and changes, along with key market assumptions, is presented below. For the year ended December 31, 2021, there was a \$2,101.3 million increase in fair value primarily due to capitalization rate compression, new acquisitions, the buyout of one operating lease, progress on the development pipeline, partially offset by foreign exchange loss on the European properties. Excluding the impact of net acquisitions, operating lease buyout and foreign exchange, the fair value of investment properties increased by \$1,374.5 million, or 9.2%.

Investment Properties by Geography

(\$ Millions)	Dec 2020 Fair Value ⁽¹⁾	Fair Value Change Due To					Dec 2021	Dec 2021	Dec 2020
		Net Acquisitions	CAPEX ⁽²⁾	Fair Value Adjustments	Foreign Exchange Translation	Right-of-Use Asset ⁽⁴⁾	Fair Value	Cap Rates ⁽³⁾	Cap Rates ⁽³⁾
Greater Toronto Area	\$ 5,964	\$ 256	\$ 123	\$ 446	\$ –	\$ –	\$ 6,789	3.25%	3.43%
Other Ontario	1,142	110	28	125	–	–	1,405	3.83%	4.00%
Québec	2,043	106	49	52	–	–	2,250	4.02%	4.18%
British Columbia	1,619	172	24	78	–	–	1,893	3.69%	3.80%
Nova Scotia	745	–	27	33	–	–	805	4.17%	4.43%
Alberta	427	–	15	(9)	–	10	443	4.33%	4.37%
Prince Edward Island	95	–	2	4	–	–	101	5.13%	5.47%
Saskatchewan	28	–	2	1	–	–	31	5.12%	5.51%
Subtotal	12,063	644	270	730	–	10	13,717	3.60%	3.80%
Europe	2,300	248	29	287	(188)	–	2,676	3.55%	3.87%
MHC	638	22	17	32	–	–	709	5.66%	5.96%
Total	\$ 15,001	\$ 914	\$ 316	\$ 1,049	\$ (188)	\$ 10	\$ 17,102	3.68%	3.91%

(\$ Millions)	Components of Fair Value Adjustments				Total
	Capitalization Rates	Normalized NOI ⁽⁵⁾	CAPEX ⁽²⁾		
Greater Toronto Area	\$ 362	\$ 207	\$ (123)		\$ 446
Other Ontario	75	78	(28)		125
Québec	82	19	(49)		52
British Columbia	54	48	(24)		78
Nova Scotia	47	13	(27)		33
Alberta	1	5	(15)		(9)
Prince Edward Island	7	(1)	(2)		4
Saskatchewan	2	1	(2)		1
Subtotal	630	370	(270)		730
Europe	286	30	(29)		287
MHC	32	17	(17)		32
Total	\$ 948	\$ 417	\$ (316)		\$ 1,049

⁽¹⁾ Certain properties in Other Ontario have been reclassified into Greater Toronto Area. The opening balances have been adjusted to conform with current period presentation.

⁽²⁾ Represents property capital investments and capitalized leasing costs during the year ended December 31, 2021.

⁽³⁾ Weighted average capitalization rates excluding implied capitalization rates on operating and land leasehold interests. See note 6 to the accompanying audited consolidated annual financial statements for further valuation assumption details, including discount rates as at December 31, 2021 for operating and land leasehold interests. Capitalization rates for Europe represent the implied capitalization rates for these properties.

⁽⁴⁾ On April 1, 2021, the basic annual rent of an existing land lease was increased in accordance with the lease agreement, which stipulates that the basic annual rent be renegotiated every 20 years to reflect the land market value.

⁽⁵⁾ Represents fair value adjustments due to normalized net operating income for valuation purposes.

The table below summarizes the impact of changes in both the capitalization rate and normalized NOI on CAPREIT's fair value of investment properties. It should be noted that the sensitivity analysis below utilizes the direct capitalization method, where the impact of any short-term changes in NOI on fair value will be overstated. Currently, management believes that any impact to NOI resulting from the COVID-19 pandemic would be short-term in nature. Using a discounted cash flow model, the impact would be much smaller than that shown below.

As at December 31, 2021 (\$ Millions)	Change in NOI					
	(0.50)%	(2.00)%	(1.00)%	–%	+1.00%	+2.00%
Change in Capitalization Rate ⁽¹⁾	(0.50)%	\$ 2,388	\$ 2,586	\$ 2,784	\$ 2,982	\$ 3,179
	(0.25)%	918	1,100	1,283	1,466	1,649
	–%	(340)	(170)	–	170	340
	+0.25%	(1,429)	(1,270)	(1,111)	(952)	(793)
	+0.50%	(2,381)	(2,232)	(2,083)	(1,933)	(1,784)

⁽¹⁾ For operating leasehold interests, land leasehold interests and European properties, CAPREIT applies discount rates to determine the fair value of these properties. However, for the purposes of the sensitivity analysis above, CAPREIT has utilized the implied capitalization rates for operating leasehold interests, land leasehold interests and the European properties to determine the impact on fair value of the total portfolio.

Development

Development Progress

The development program remains a component of CAPREIT's growth strategy by allowing for the potential to unlock value within the portfolio's existing assets through intensification and redevelopment to deliver strong net asset value growth to its Unitholders. CAPREIT's development strategy encompasses a combination of three different approaches to add new units to the portfolio: (i) forward purchase of newly constructed properties, (ii) intensification through means of conversion and infill of existing income-producing properties ("IPPs") and (iii) full or partial redevelopment.

Development Pipeline

Over the long term, CAPREIT has intensification and redevelopment potential in excess of 10,000 units, subject to market conditions, cost of construction, and other factors. Shown below are the number of projects and proposed net new units by major market which are targeted for planning approval assessment in the next 12 months, are pending approval, or are approved:

Major Market	Pre-Application (# of projects)	Active Application (# of projects)	Zoning Entitlement (# of projects)	Construction (# of projects)	Potential Growth (Estimated # of net new units) ⁽⁴⁾
Greater Toronto Area (GTA)	3	–	1 ^{(1),(2)}	–	3,454
Québec	1	1	–	–	501
Prince Edward Island	–	–	1 ⁽³⁾	–	59
Total	4	1	2	–	4,014

⁽¹⁾ 141 Davisville Avenue, Toronto, Ontario was approved in December 2020 by the Local Planning Appeal Tribunal. The Zoning By-law Amendment permits 120 net new units in a 14-storey infill building.

⁽²⁾ Previously included in the development pipeline are 128 new units at 100 Wellesley Street East in Toronto, Ontario. Management has reassessed the construction costs for the project and decided to halt further development activity at the current time. Upon discussions with CAPREIT's external valuers, no adjustment was needed as a result of this decision due to the property's development value potential.

⁽³⁾ CAPREIT is currently assessing market conditions in order to proceed with building permit submission.

⁽⁴⁾ CAPREIT regularly re-evaluates its assets for highest and best use where the value may be realized through development or sale of a property.

Development Summary

For the Year Ended December 31, (\$ Thousands)	2021 Actual Total Portfolio	2020 Actual Total Portfolio
Conversion	\$ 5,890	\$ 10,936
Infill ⁽¹⁾	1,960	3,289
Redevelopment ⁽¹⁾	116	1,174
Total for development	\$ 7,966	\$ 15,399

⁽¹⁾ Infill and Redevelopment costs relate primarily to pre-approval costs such as application, consultant fees, and levies.

Development costs include costs related to planning, rezoning, architectural surveys, application fees and building permits. Actual costs may vary as expectations of processing time for development applications become better defined. The regulatory and application processing is subject to factors beyond management's control and varies between projects. In addition, projects are impacted by variable costs which affect financial viability. As such, CAPREIT is no longer providing forecasted development spending due to the highly variable nature of costs depending on numerous external factors.

Capital Structure

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

As at December 31, 2021, 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 and liquidity metrics are summarized below:

(\$ Thousands)			
As at		December 31, 2021	December 31, 2020
Mortgages payable		\$ 6,100,065	\$ 5,401,202
Bank indebtedness		310,866	118,553
Unitholders' equity		10,399,886	9,273,702
Exchangeable LP Units		100,684	16,632
Total capital		\$ 16,911,501	\$ 14,810,089
Threshold			
Total debt to gross book value ⁽¹⁾	Maximum 62.50%	36.12%	35.54%
Mortgage debt to gross book value		34.37%	34.78%
Total debt to gross historical cost ⁽²⁾		52.26%	50.11%
Total debt to total capitalization ⁽³⁾		37.82%	38.98%
Tangible net worth ⁽⁴⁾	Minimum of \$5,000,000	\$ 10,522,332	\$ 9,307,613
For the four quarters ended ⁽⁴⁾		December 31, 2021	December 31, 2020
Debt service coverage ratio (times) ⁽¹⁾	Minimum 1.40	1.97	2.01
Interest coverage ratio (times) ⁽¹⁾	Minimum 1.65	4.02	3.95

⁽¹⁾ See note 22 to the accompanying audited consolidated annual financial statements for details.

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

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

⁽⁴⁾ CAPREIT's FFO payout ratio did not exceed 100% for the trailing four quarters ended December 31, 2021. As at December 31, 2021, CAPREIT is in compliance with its debt covenant on the FFO payout ratio.

Liquidity and Financial Condition

Liquidity and Capital Resources

Management believes there is adequate overall liquidity to fund property capital investment commitments to provide for future growth in the business. CAPREIT finances these commitments through: (i) ACFO on an annual basis; (ii) the Acquisition and Operating Facility; (iii) mortgage debt secured by its investment properties; and (iv) equity and funds reinvested from its DRIP. Management's assessment of CAPREIT's liquidity position continues to be stable for the foreseeable future based on its evaluation of capital resources, as summarized below:

- i) CAPREIT's business continues to be stable and is expected to generate sufficient ACFO on an annual basis to fund the current level of distributions.
- ii) CAPREIT's Canadian liquidity position as at December 31, 2021 remains strong with \$384.5 million available on the Acquisition and Operating Facility.

CAPREIT has investment properties with a fair value of approximately \$1,182.4 million as at December 31, 2021 that are not encumbered by mortgages. Of these, \$893.3 million of the investment properties are located in Canada and secure only the Acquisition and Operating Facility. \$274.2 million of these investment properties also carry a negative pledge relating to the ERES Credit Facility. Refer to note 14 to the accompanying consolidated annual financial statements for further details. CAPREIT intends to maintain unencumbered investment properties with an aggregate fair value in the range of \$800 million to \$900 million over the medium term. The majority of CAPREIT's MHC sites are included in this pool.

The working capital deficiency, as presented on CAPREIT's consolidated balance sheet as at December 31, 2021, is funded through the DRIP and the Credit Facilities. Management does a liquidity forecast on a monthly basis which includes refinancings, property capital investments, potential acquisitions and potential dispositions to monitor the available capacity.

Mortgages Payable

CAPREIT is in compliance with all of its CMHC and lender requirements.

(\$ Thousands) As at December 31,	2021	2020
Percentage of CMHC-insured mortgages ⁽¹⁾	98.5%	98.7%
Percentage of fixed-rate mortgages ⁽²⁾	99.1%	99.3%
Weighted average mortgage interest rate ⁽³⁾	2.47%	2.56%
Weighted average mortgage term to maturity (years) ⁽⁴⁾	5.65	5.76
Cross-currency interest rate swaps ⁽⁵⁾	\$ 675,319	\$ 675,765
Weighted average interest rate on swaps – pay	0.24%	0.24%
Weighted average interest rate on swaps – receive	1.18%	1.19%
Weighted average remaining term to maturity on swaps (years)	2.39	3.29

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

⁽²⁾ Taking into consideration interest rate swaps where hedge accounting is not being applied, 100% of mortgages are subject to fixed rates.

⁽³⁾ Weighted average mortgage interest rate includes deferred financing costs, fair value adjustments, and prepaid CMHC premiums on an effective interest rate basis. Including the amortization of the realized component of the loss on settlement of \$32.5 million included in accumulated other comprehensive (loss) income, the effective portfolio weighted average interest rate as at December 31, 2021 would be 2.52% (December 31, 2020 – 2.61%).

⁽⁴⁾ The mortgages on the Canadian and European properties have a weighted average term to maturity of 6.1 years and 3.9 years (December 31, 2020 – 6.1 years and 4.4 years), respectively.

⁽⁵⁾ Euro equivalent of €442.4 million (December 31, 2020 – €442.4 million) and excludes ERES cross-currency interest rate swaps.

During 2021, CAPREIT's Large Borrower Agreement ("LBA") with CMHC expired. The expiry of the LBA has not affected the manner in which CAPREIT conducts its business or its approach to mortgage financing, including the use of CMHC financing. CAPREIT continues to obtain CMHC financing under substantively similar provisions.

Based on new cross-currency interest rate swaps entered in late 2020 and early January 2021, the weighted average all-in effective interest rate on the total Canadian swapped debt of \$675.3 million is 0.85%. The swaps have been staggered between one to five years to take advantage of the low rates, with a current weighted average swap term of 2.39 years as at December 31, 2021.

The following table presents refinancings, weighted average interest rates obtained, and mortgage top-ups closed or committed up to 2021:

(\$ Thousands)	Original Mortgage Amount	Original Stated Interest Rate	New Mortgage Amount	Weighted Average New Stated Interest Rate ⁽¹⁾	Weighted Average Term on New Mortgages (Years)	Net Top-Up Financing Amount
The Canadian Portfolio						
First Quarter	\$ 89,073	1.76%	\$ 38,363	2.23%	7.6	\$ (50,710) ⁽²⁾
Second Quarter	121,578	3.90%	344,753	2.40%	9.9	223,175 ⁽²⁾
Third Quarter	162,152	2.80%	329,409	1.90%	6.1	167,257 ⁽²⁾
Fourth Quarter	88,391	3.20%	198,070	2.20%	8.5	109,679
Acquisitions	–	–%	201,317	1.85%	4.8	201,317
Total and Weighted Average	\$ 461,194	2.97%	\$ 1,111,912	2.11%	7.5	\$ 650,718
The ERES Portfolio						
Refinancings	60,181	2.05%	112,756	1.16%	6.0	52,575
Acquisitions	–	–%	116,297	1.16%	5.8	116,297 ⁽³⁾
Total and Weighted Average	\$ 60,181	2.05%	\$ 229,053	1.16%	5.9	\$ 168,872
Grand Total and Weighted Average						
	\$ 521,375	2.86%	\$ 1,340,965	1.95%	7.3	\$ 819,590

⁽¹⁾ Excludes prepaid CMHC premiums, other financing costs and impact of hedging.

⁽²⁾ Includes \$86.8 million of mortgage discharges not refinanced, including the repayment of the non-revolving \$65.0 million credit facility on two of the MHC sites.

⁽³⁾ ERES financing obtained is collateralized by a pool of investment properties. The amount of refinancing and acquisition financing shown above has been allocated based on fair value of these properties as determined by the lender. The interest rates shown include the corresponding interest rate swaps.

Management expects to raise between \$850 and \$900 million in total mortgage renewals and refinancings for 2022, excluding financings on acquisitions, while continuing to benefit from the low interest rate environment. As a strategy, CAPREIT leverages CMHC insurance to get access to stable financing at lower interest rates than would be available with conventional mortgage financing or other forms of debt. The premiums associated with the initial mortgage financing along with any additional premiums on future expected mortgage renewals or refinancing are analyzed to ensure the all-in cost of CMHC financing continues to be CAPREIT's cheapest form of debt.

CMHC premiums are amortized over the amortization period of the underlying mortgage loans when incurred. If CAPREIT fully refinances an existing mortgage, any unamortized prepaid CMHC premiums and fees associated with the existing mortgages on that property will be written off through interest and other financing costs in the period in which full refinancing occurs. CAPREIT accelerates the amortization for prepaid CMHC premiums for mortgages that management intends to fully refinance within the next year, from the date the decision is made to refinance to the date the mortgage is due to be refinanced. During the year ended December 31, 2021, CMHC amortization expense including net write-offs of CMHC premiums on refinancings amounted to \$10.0 million.

CMHC amortization expense, including write-offs, for next year is expected to be in the range of \$10.0 million to \$11.0 million, depending on refinancing activity. Due to the timing of refinancing activities, a larger portion of the expense is expected to be incurred in the first half of the year.

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.

As at December 31, 2021
(\$ 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)}
2022	\$ 486,238	\$ 15,603	\$ 501,841	\$ 74,552
2023	407,569	187,410	594,979	72,929
2024	479,947	115,318	595,265	52,821
2025	807,170	31,145	838,315	93,202
2026	782,528	(11,287)	771,241	79,126
2027 onwards	2,329,937	(338,189)	1,991,748	175,234
Total	\$ 5,293,389	\$ -	\$ 5,293,389	\$ 547,864

⁽¹⁾ Mortgage balance due upon maturity.

⁽²⁾ NOI for the 12 months ended December 31, 2021.

⁽³⁾ Projected NOI included for acquisitions since December 31, 2020.

The breakdown of CAPREIT's Canadian dollar-denominated future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2021 is as follows:

As at December 31, 2021
(\$ Thousands)

Period	Principal Amortization	Mortgage Maturities	Mortgage Balance	% of Total Mortgage Balance	Interest Rate (%) ^{(1),(2)}
2022	\$ 154,070	\$ 414,407	\$ 568,477	11.3	3.23
2023	136,642	321,223	457,865	9.1	3.39
2024	123,741	366,124	489,865	9.7	2.93
2025	114,445	480,388	594,833	11.8	2.57
2026	91,667	505,956	597,623	11.8	2.40
2027	70,573	265,238	335,811	6.6	2.70
2028	63,664	268,091	331,755	6.6	2.73
2029	69,790	289,874	359,664	7.1	2.83
2030	35,614	290,875	326,489	6.5	2.27
2031–2036	62,847	926,816	989,662	19.5	2.74
	\$ 923,053	\$ 4,128,992	\$ 5,052,044	100.0%	2.69%
Deferred financing costs, fair value adjustments and prepaid CMHC premiums, net			(120,815)		
Total			\$ 4,931,229		
Weighted average term to maturity (years)			6.07		

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

⁽²⁾ Effective weighted average interest rate includes the amortization of deferred financing costs, prepaid CMHC premiums, and fair value adjustments.

The breakdown for ERES of future principal repayments, including mortgage maturities, and effective weighted average interest rates as at December 31, 2021 is as follows:

As at December 31, 2021
(\$ Thousands)

Period	Principal Amortization	Mortgage Maturities	Mortgage Balance (\$)	Mortgage Balance (€)	% of Total Mortgage Balance	Interest Rate (%) ^{(1),(2)}
2022	\$ 3,152	\$ 71,831	\$ 74,983	€ 52,104 ⁽³⁾	6.4	1.43
2023	3,163	86,346	89,509	62,198 ⁽³⁾	7.6	1.08
2024	2,556	113,823	116,379	80,869 ⁽³⁾	9.9	1.39
2025	410	326,782	327,192	227,301 ⁽³⁾	27.9	1.87
2026	–	276,572	276,572	192,184 ⁽³⁾	23.6	1.47
2027	–	289,043	289,043	200,850 ⁽³⁾	24.6	1.29
	\$ 9,281	\$ 1,164,397	\$ 1,173,678	€ 815,506	100.0%	1.52%
Deferred financing costs and fair value adjustments, net			(4,842)			
Total			\$ 1,168,836			
Weighted average term to maturity (years)			3.93			

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

⁽²⁾ Effective weighted average interest rate includes deferred financing costs and fair value adjustments.

⁽³⁾ Included in mortgages payable are non-amortizing mortgages from ERES.

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

Unitholders' Equity represents the issued and outstanding Trust Units, and excludes the Exchangeable LP Units and any units issued in connection with unit-based incentive plans.

Market capitalization and units outstanding are as follows:

As at December 31, 2021	
Market capitalization (\$ Thousands)	\$ 10,538,673
Total number of units outstanding	175,761,719
Trust Units	173,406,406
Deferred units	196,423
RUR Plan units	479,700
Exchangeable LP Units	1,679,190
Ownership by trustees, officers and other senior management	0.7%

Unitholder Taxation

Portions of the distributions received by taxable Canadian Unitholders are characterized as other income, capital gain income, or return of capital. While return of capital is not immediately taxable, it reduces the tax cost of Units, and thus will increase future gain for Unitholders on the sale of the Units. The deferral rate is the portion of distributions treated as return of capital.

For the year ended December 31, 2021, Unitholders may expect to be allocated capital gain as a result of CAPREIT's disposal of some properties. The capital gain will decrease the deferral for Unitholders compared to a year when no dispositions occurred.

As CAPREIT expands its presence in Europe, the deferral rate may decrease. Also, Unitholders may expect the deferral rate to decrease gradually as depreciation claimed to offset taxable income diminishes over time. However, an increase in CAPREIT's payout ratio will increase the deferral rate.

SECTION VI: COMPLIANCE AND GOVERNANCE DISCLOSURES, RISKS AND UNCERTAINTIES

Selected Consolidated Quarterly Information

	Q4 21	Q3 21	Q2 21	Q1 21	Q4 20	Q3 20	Q2 20	Q1 20
Overall portfolio net AMR	\$ 1,149	\$ 1,143	\$ 1,118	\$ 1,115	\$ 1,121	\$ 1,113	\$ 1,104	\$ 1,105
Operating revenues (000s) ⁽¹⁾	\$ 240,678	\$ 236,097	\$ 228,856	\$ 227,506	\$ 225,238	\$ 221,420	\$ 219,925	\$ 216,060
NOI (000s) ^{(1),(2)}	\$ 153,429	\$ 158,126	\$ 151,786	\$ 146,652	\$ 148,646	\$ 148,234	\$ 143,233	\$ 138,058
NOI Margin ⁽¹⁾	63.7%	67.0%	66.3%	64.5%	66.0%	66.9%	65.1%	63.9%
Net Income (000s)	\$ 644,959	\$ 190,213	\$ 453,561	\$ 104,062	\$ 484,958	\$ 300,075	\$ 61,262	\$ 79,633
FFO (000s) ^{(1),(2)}	\$ 97,270	\$ 102,962	\$ 97,503	\$ 94,684	\$ 99,311	\$ 100,342	\$ 94,056	\$ 92,513
NFFO (000s) ^{(1),(2)}	\$ 100,353	\$ 105,819	\$ 100,080	\$ 95,942	\$ 99,985	\$ 101,114	\$ 94,712	\$ 93,147
Total debt to gross book value ⁽³⁾	36.12%	37.20%	36.37%	35.21%	35.54%	35.70%	36.02%	35.86%
FFO per unit ⁽¹⁾ – basic	\$ 0.556	\$ 0.593	\$ 0.564	\$ 0.549	\$ 0.577	\$ 0.585	\$ 0.551	\$ 0.544
NFFO per unit ⁽¹⁾ – basic	\$ 0.573	\$ 0.610	\$ 0.579	\$ 0.556	\$ 0.581	\$ 0.589	\$ 0.555	\$ 0.547
Weighted average number of units (000s) – basic	175,089	173,495	172,950	172,469	172,054	171,628	170,588	170,206
Weighted average number of units (000s) – diluted	175,567	173,985	173,512	173,072	172,616	172,188	171,175	170,780

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

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

⁽³⁾ Certain comparative figures have been adjusted to conform with current period presentation.

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 its annual distributions and the annual distribution rate by, among other considerations, its assessment of ACFO (a non-IFRS measure). As such, CAPREIT believes the cash distributions are not an economic return of capital, but a distribution of adjusted cash flow from operating activities.

Fourth Quarter

Operating revenues in the fourth quarter of 2021 increased by 6.9% over the same quarter in 2020, and NOI increased by 3.2%, driven by acquisitions and higher operating revenues. Net income in the fourth quarter of 2021 increased over the same period last year to \$645.0 million, mainly due to higher fair value adjustments of investment properties of \$568.3 million compared to \$398.4 million for the same period last year. Loan interest and mortgage interest decreased by \$13.7 million due to a large one-time CMHC premium amortization adjustment recorded in the prior year. Higher NFFO for the fourth quarter of 2021 was primarily due to NOI contribution from acquisitions completed over the prior 12 months offset by a 2.0% decrease in stabilized property. The decrease in stabilized property NOI was mainly driven by increases in R&M costs, tenant incentives and utilities. The increased R&M costs are mainly due to the increased ability to complete work given restrictions and limitations in connection with the COVID-19 pandemic were less impactful in the fourth quarter of 2021.

The following table shows the NOI and the NOI margin attained for each regional market for the periods ended December 31, 2021 and 2020.

NOI by Geography

For the Three Months Ended December 31, (\$ Thousands)	2021			2020 ⁽⁴⁾			Increase (Decrease)
	NOI	NOI % ⁽¹⁾	NOI Margin (%)	NOI	NOI % ⁽¹⁾	NOI Margin (%)	NOI Change (%)
Residential Suites							
Ontario							
Greater Toronto Area	\$ 54,511	35.8	63.4	\$ 52,690	35.4	64.8	3.5
London / Kitchener / Waterloo	7,995	5.2	62.4	7,101	4.8	66.1	12.6
Ottawa	5,860	3.8	67.7	4,995	3.4	66.7	17.3
	\$ 68,366	44.8	63.7	\$ 64,786	43.6	65.1	5.5
Québec							
Greater Montréal Region	\$ 14,956	9.7	54.8	\$ 16,289	11.0	61.7	(8.2)
Québec City	6,307	4.1	61.2	5,737	3.9	61.9	9.9
	\$ 21,263	13.8	56.6	\$ 22,026	14.9	61.7	(3.5)
British Columbia							
Greater Vancouver Region	\$ 11,712	7.6	67.6	\$ 12,457	8.4	74.6	(6.0)
Victoria and Other British Columbia	6,592	4.3	70.8	4,653	3.1	71.4	41.7
	\$ 18,304	11.9	68.7	\$ 17,110	11.5	73.7	7.0
Nova Scotia							
Halifax	7,532	4.9	55.1	7,007	4.7	55.9	7.5
Alberta							
Calgary	\$ 3,634	2.4	52.0	\$ 3,857	2.6	56.3	(5.8)
Edmonton	1,116	0.7	53.9	1,104	0.7	55.7	1.1
	\$ 4,750	3.1	52.5	\$ 4,961	3.3	56.2	(4.3)
Prince Edward Island							
Charlottetown	\$ 1,182	0.8	55.3	\$ 1,137	0.8	53.7	4.0
Saskatchewan							
Regina	359	0.2	50.7	318	0.2	45.8	12.9
Total Canadian residential suites	\$ 121,756	79.5	61.7	\$ 117,345	79.0	64.3	3.8
Europe							
The Netherlands ⁽²⁾	\$ 20,627	13.4	77.5	\$ 19,370	13.0	76.8	6.5
Other Europe ⁽³⁾	\$ 1,913	1.2	85.9	\$ 2,208	1.5	79.9	(13.4)
	\$ 22,540	14.6	78.1	\$ 21,578	14.5	77.1	4.5
Total residential suites	\$ 144,296	94.1	63.8	\$ 138,923	93.5	66.0	3.9
MHC sites							
Total MHC sites	\$ 9,133	5.9	62.4	\$ 9,723	6.5	66.5	(6.1)
Total suites and sites	\$ 153,429	100.0	63.7	\$ 148,646	100.0	66.0	3.2

⁽¹⁾ Represents percentage of the portfolio by NOI.

⁽²⁾ In € thousands, €14,309 and €12,464 for the three months ended December 31, 2021 and December 31, 2020, respectively.

⁽³⁾ Comprised of NOI for the commercial properties located in Germany and Belgium. In € thousands, €1,331 for the three months ended December 31, 2021 and €1,421 for the three months ended December 31, 2020.

⁽⁴⁾ Other Ontario has been reclassified into Greater Toronto Area. Prior year comparative figures have been adjusted to conform with current period presentation.

The stabilized portfolio performance for the three months ended December 31, 2021 compared to December 31, 2020, is summarized as follows:

Three Months Ended December 31,	2021		2020 ⁽⁹⁾		Increase (Decrease)		
	Stabilized NOI	NOI Margin (%)	Stabilized NOI	NOI Margin (%)	Revenue Change (%)	Expense Change (%)	NOI Change (%)
(\$ Thousands)							
Residential Suites							
Ontario							
Greater Toronto Area	\$ 51,602	63.7	\$ 51,936	64.9	1.1	4.3	(0.6)
London / Kitchener / Waterloo	6,548	64.6	6,567	66.7	2.9	9.4	(0.3)
Ottawa	4,902	68.9	4,638	66.4	2.0	(5.4)	5.7
	\$ 63,052	64.2	\$ 63,141	65.2	1.3 ⁽¹⁾	4.1 ⁽¹⁾	(0.1)
Québec							
Greater Montréal Region	\$ 14,423	54.9	\$ 15,706	60.9	1.9	17.5	(8.2)
Québec City	5,511	59.9	5,727	61.8	(0.7)	4.3	(3.8)
	\$ 19,934	56.2	\$ 21,433	61.1	1.2 ⁽²⁾	14.0 ⁽²⁾	(7.0)
British Columbia							
Greater Vancouver Region	\$ 11,403	67.6	\$ 12,342	74.7	2.0	30.4	(7.6)
Victoria	4,801	70.5	4,653	71.4	4.4	7.4	3.2
	\$ 16,204	68.4	\$ 16,995	73.7	2.7	23.3 ⁽³⁾	(4.7)
Nova Scotia							
Halifax	\$ 3,791	56.4	\$ 3,564	58.1	9.5	13.9 ⁽⁴⁾	6.4
Alberta							
Calgary	3,634	52.0	3,859	56.3	2.0	12.0	(5.8)
Edmonton	857	52.9	852	56.5	7.4	16.2	0.6
	\$ 4,491	52.2	\$ 4,711	56.4	2.9	12.8 ⁽⁵⁾	(4.7)
Prince Edward Island							
Charlottetown	\$ 1,182	55.3	\$ 1,139	53.8	1.1	(2.0)	3.8
Saskatchewan							
Regina	\$ 359	50.7	\$ 318	45.8	2.0	(7.2) ⁽⁶⁾	12.9
Total Canadian residential suites	\$ 109,013	62.1	\$ 111,301	64.6	1.9	9.0	(2.1)
Europe							
The Netherlands	\$ 18,599	77.6	\$ 18,547	76.7	(0.9)	(4.8)	0.3
Other Europe	1,913	85.9	2,299	83.1	(19.5)	(32.8)	(16.8)
	\$ 20,512	78.3	\$ 20,846	77.4	(2.8)	(6.9) ⁽⁷⁾	(1.6)
Total residential suites	\$ 129,525	64.2	\$ 132,147	66.3	1.2	7.6	(2.0)
MHC sites							
Total MHC sites	\$ 9,343	64.0	\$ 9,589	66.4	1.1	8.4 ⁽⁸⁾	(2.6)
Total suites and sites	\$ 138,868	64.2	\$ 141,736	66.3	1.2	7.6	(2.0)
Stabilized suites and sites	59,553		59,553				

⁽¹⁾ Higher expenses: higher R&M and bad debt, partially offset by lower utilities and realty taxes. Revenue growth has been impacted by higher tenant inducements.

⁽²⁾ Higher expenses: higher R&M, realty taxes, and utilities, partially offset by lower advertising costs. Revenue growth has been impacted by higher tenant inducements.

⁽³⁾ Higher expenses: higher R&M and utilities costs, partially offset by lower bad debt.

⁽⁴⁾ Higher expenses: higher R&M and utilities costs, partially offset by lower advertising costs.

⁽⁵⁾ Higher expenses: higher utilities, R&M, and bad debt, partially offset by advertising costs.

⁽⁶⁾ Lower expenses: lower R&M costs.

⁽⁷⁾ In € Thousands, €14,235 and €13,425 for the three months ended December 31, 2021 and December 31, 2020, respectively. NOI increased by €810 and 6.0%. Lower expenses: lower site costs and R&M, partially offset by higher bad debt.

⁽⁸⁾ Higher expenses: higher R&M and realty taxes, partially offset by lower utilities.

⁽⁹⁾ Other Ontario has been reclassified into Greater Toronto Area. Prior year comparative figures have been adjusted to conform with current period presentation.

Selected Consolidated Financial Information

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

(\$ Thousands, except per Unit amounts) Year Ended December 31,	2021	2020	2019 ⁽¹⁾
Income Statement			
Operating revenues	\$ 933,137	\$ 882,643	\$ 780,780
Net income	\$ 1,392,795	\$ 925,928	\$ 1,195,447
Distributions			
Distributions declared	\$ 243,348	\$ 235,649	\$ 218,136
Distributions per unit	\$ 1.409	\$ 1.380	\$ 1.372
Balance Sheet			
Investment properties	\$ 17,101,919	\$ 15,000,591	\$ 13,096,426
Total assets	\$ 17,712,973	\$ 15,499,131	\$ 13,938,182
Mortgages payable	\$ 6,100,065	\$ 5,401,202	\$ 4,228,805
Bank indebtedness	\$ 310,866	\$ 118,553	\$ 623,893

⁽¹⁾ Certain 2019 comparative figures have been adjusted to conform with current period presentation.

Accounting Policies and Critical Accounting Estimates, Assumptions and Judgments

Summary of Significant Accounting Policies

A summary of significant accounting policies can be found in note 2 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2021.

Critical Accounting Estimates, Assumptions, and Judgments

A summary of accounting estimates, assumptions and judgments can be found in note 3 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2021.

Controls and Procedures

Disclosure Controls and Procedures

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

As at December 31, 2021, CAPREIT's executive officers, with the assistance of management, evaluated the effectiveness of the disclosure controls and procedures in accordance with the rules adopted by the Canadian Securities Administrators under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, and based on that evaluation concluded that the design and operation of the disclosure controls and procedures were effective as at December 31, 2021.

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

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS. As at December 31, 2021, CAPREIT's executive officers, with the assistance of management, assessed the effectiveness of the internal controls over financial reporting using the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013 and, based on that assessment, determined that the internal controls over financial reporting were designed and operating effectively as at December 31, 2021.

CAPREIT did not make any changes to the design of internal controls over financial reporting in 2021 that have materially affected, or are reasonably likely to materially affect, the internal controls over financial reporting.

Risks and Uncertainties

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

COVID-19 and Other Public Health Crises

Public health crises, including the ongoing health crisis related to the COVID-19 pandemic, or relating to any other virus, flu, epidemic, pandemic or any other similar disease or illness (each a "Health Crisis") could adversely impact CAPREIT, including through: a general or acute decline in economic activity in the countries and regions in which CAPREIT's properties and investments are located; increased unemployment, reduced immigration, closure of college and university campuses, household consolidation (young adults moving back in with their parents), supply shortages, mobility restrictions and other quarantine measures; increased government regulation, inability to access governmental programs or processes on a timely basis, efficacy of governmental relief efforts; and the quarantine or contamination of one or more of CAPREIT's properties. Contagion in a property or market in which CAPREIT operates could negatively impact its occupancy, reputation or attractiveness of that market. Furthermore, increased government regulation relating to a Health Crisis could result in legislation or regulations that may restrict CAPREIT's ability to enforce material provisions under its leases among other potential adverse impacts. All of these occurrences may have a material adverse effect on the business, cash flows, financial condition and results of operations of CAPREIT, including, but not limited to: the ability to implement rent increases; rent collection and receivables; vacancy levels; mortgage renewals and refinancings on attractive terms; submission and processing of various applications and approvals; deferral of certain capital expenditures and R&M expenditures; valuation of investment properties; and CAPREIT's ability to meet its debt covenants.

The current public health crisis has also resulted in general economic slowdown and increased volatility in financial markets. In addition to impacting CAPREIT's Trust Unit price, this may create difficulty in raising capital in debt and equity markets, which could in turn adversely impact CAPREIT's strategy. While various governments and central banks have announced or implemented a range of measures targeted to alleviate these impacts and encourage economic growth, the impact of these measures remains uncertain, particularly in the short term. In the medium to long term, government debt accumulated as a result of relief measures may lead to tax increases for consumers and businesses. The duration and impact of the COVID-19 pandemic on CAPREIT remains unknown at this time. As such, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of CAPREIT.

Related to Reporting Investment Property at Fair Value

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

An appraisal is an estimate of market value, and caution should be used in evaluating data with respect to appraisals. It is a measure of value based on information gathered in the investigation, appraisal techniques employed and reasoning both quantitative and qualitative, leading to an opinion of value. Market assumptions applied for appraisals and valuation purposes do not necessarily reflect CAPREIT's specific history or experience and the conditions for realizing the fair values through a sale may change or may not be realized. In addition, there is an inherent risk related to the reliance on and use of a limited number of appraisers, as this approach may not adequately capture the range of fair values that market participants would assign to the investment properties. CAPREIT mitigates this risk by undertaking a detailed review of the assumptions utilized, which includes a comparison of assumptions used by appraisers to the corresponding benchmarks derived from management's own observations of market transactions. Downturns in the real estate market could negatively affect CAPREIT's operating revenues and cash flows; such a downturn could also significantly impact the fair values of CAPREIT's investment properties, as well as certain of its financial ratios and covenants.

Related to Ownership and Operation of Real Property

Real Property Ownership

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

Investment Restrictions

CAPREIT has been structured and operates in adherence to the stringent investment restrictions and operating policies set out in its DOT and as applicable under tax laws relating to real estate investment trusts (also see Taxation Related Risks in this section). These policies cover such matters as the type and location of properties that CAPREIT can acquire, the maximum leverage allowed, environmental matters and investment restrictions. In addition, pursuant to the DOT, CAPREIT's overall leverage is limited to 70% of its reported gross book value, unless a majority of trustees, at their discretion, determine that the maximum amount of indebtedness shall be based on the appraised value of the real properties of CAPREIT. Fluctuations in the capitalization rates of CAPREIT's properties could impact these fair values and CAPREIT's debt covenant compliance.

Operating Risk

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

In general, economic conditions will also affect the performance of the portfolio. Additionally, the portfolio is currently weighted with 43.7% of the overall portfolio (by number of suites and sites) in Ontario (27.0% in the GTA), making CAPREIT's performance particularly sensitive to economic conditions in and changes affecting Ontario and, in particular, the GTA.

CAPREIT's investment properties generate income through rental payments made by residents. Residential tenant leases are relatively short, exposing CAPREIT to market rental-rate volatility. Upon the expiry of any lease, there can be no assurance that such lease will be renewed or the resident replaced. The terms of any subsequent lease may be less favourable to CAPREIT than the existing lease. Renewal rates may be subject to restrictions on increases to the then current rent (see Government Regulations in this section). In addition, the ongoing COVID-19 pandemic could result in legislation or regulations that may restrict CAPREIT's ability to enforce material provisions under its leases (see "COVID-19 and Other Public Health Crises" under this section). As well, unlike commercial leases, which are generally "net" leases and allow a landlord to recover expenditures, residential leases are generally "gross" leases (with the exception of sub-metering of certain utilities at some properties) under which the landlord is not able to pass on costs to residents. Moreover, there is no assurance that occupancy levels achieved to date at the properties will continue to be achieved and/or that occupancy levels expected in the future will be achieved. Any one, or a combination, of these factors may adversely affect the cash available to or financial position of CAPREIT.

Energy Costs

As a significant part of CAPREIT's operating expenses is attributable to energy and energy-related charges and fees, fluctuations in the price of energy and any related charges and fees (including transportation costs and commodity taxes) can have a material impact on the performance of CAPREIT, its ability to pay distributions and the value of its units. The impact of such fluctuations could be exacerbated if such energy costs cannot be hedged.

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

Environmental Matters

Environmental and ecological legislation and policies have become increasingly important, and generally more restrictive, in recent years. Under various laws CAPREIT could be liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in monitoring its properties or disposed of by or on behalf of CAPREIT at other locations. The failure to monitor, remove or remediate any such substances, if any, may adversely affect CAPREIT's ability to sell its real estate, or to borrow using such real estate as collateral, and could potentially result in regulatory enforcement proceedings and/or private claims against CAPREIT.

Although CAPREIT is not aware of any material non-compliance with environmental laws at any of its properties nor is it aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties, or any material pending or threatened claims relating to environmental conditions at its properties, no assurance can be given that environmental laws will not result in significant liability to CAPREIT in the future or otherwise adversely affect CAPREIT's business, financial condition or results of operations.

Environmental laws and regulations can change rapidly and CAPREIT may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have a material adverse effect on CAPREIT's business, financial condition or results of operations.

CAPREIT has formal policies and procedures to review and monitor environmental exposure. CAPREIT has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Refer to CAPREIT's ESG report for more details on our supporting policies and programs.

Catastrophic Events

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

Privacy and Cyber Security Risk

CAPREIT may be vulnerable to privacy and cyber security incidents given its reliance on processing personal and business confidential information using information technology systems. Given the increased work from home policies as a result of the COVID-19 pandemic, CAPREIT's reliance on using information technology systems is further elevated during this time period. Third-party vendors, such as cloud host providers and software and application providers and consultants, may also expose CAPREIT to cyber security or privacy incidents.

As technology continues to become more sophisticated and complex, governments are responding with stricter legislation, requiring higher levels of data protection. In Canada, CAPREIT is subject to federal and provincial privacy, anti-spam, and data protection laws. In Europe, CAPREIT and its Dutch subsidiaries are required to comply with the EU General Data Protection Regulation (GDPR). Under GDPR, CAPREIT and its subsidiaries are classified as either data processors, sub-processors or controllers, based on their function with regards to processing of EU personal data. Controllers and (sub)processors may share liability, to varying degrees, in the event of a breach. Non-compliance with either of the Canadian or European laws would also expose CAPREIT and/or its subsidiaries to the risks above.

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

CAPREIT has implemented processes, procedures and controls to help mitigate these risks. However, these measures, as well as increased awareness of risks of a cyber-incidents, do not guarantee that its financial results will not be negatively impacted by such an incident.

Climate Change

Climate change presents a multi-faceted risk for CAPREIT considering its investment in and management of real estate assets in multiple geographical territories.

Increases in the frequency and magnitude of climate-related risks such as floods, fires, windstorms and ice storms in certain locales can lead to increased capital expenditure, repairs and maintenance and interruptions to the operation. Ongoing operating costs such as energy costs can potentially be impacted by more extreme weather, and anticipation of more frequent and severe weather events may have an adverse effect on insurance premiums. Investment properties in areas that are more prone to weather-related events may be subject to adverse effects on valuations.

In addition, transitioning to a low carbon economy will drive extensive regulatory, market, and technology changes to address mitigation and adaptation requirements related to climate change. How CAPREIT meets these challenges will also impact our reputation. Regulatory changes may include those related to carbon pricing, a shift to low emission energy sources, the adoption of energy efficiency measures and technology, and changes to building codes to allow for climate resiliency and mitigation. Market changes may include adjustments in the goods and services purchased by CAPREIT as well as shifts in the preferences of occupants. Technology is moving towards more climate-friendly options including renewable energy, battery storage and energy efficiency equipment. CAPREIT's reputation is important to all stakeholders and will include considerations of the company's demonstrated understanding of climate-related financial risk and its plan to manage (mitigate or adapt to) these risks.

Lenders, investors, credit rating agencies and regulators are increasingly viewing climate change as an important issue that requires greater consideration. A lack of investment strategy, and operational management plan concerning climate change may have an adverse effect on CAPREIT's ability to raise funds via debt and/or equity, as well as related investment returns and sentiment.

CAPREIT is evaluating the potential impact of climate change related considerations with a view to developing a climate risk and resiliency strategy in order to understand and address material risks. In the event that material risks are identified, such strategy will support CAPREIT's investment and development decisions and the ongoing management of CAPREIT's standing investments. Additionally, CAPREIT maintains a strong insurance program that considers the impacts of weather-related events by providing coverage for property damage and business interruption.

Insurance

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

Captive Insurance

Captive insurance risk is the exposure to financial loss resulting from a wholly-owned subsidiary reinsuring certain risks related to CAPREIT. The captive insurance program was created to reduce CAPREIT's overall insurance costs. The wholly owned subsidiary will reinsure the first \$10 million per claim under CAPREIT's property insurance program and the first \$2 million per claim under CAPREIT's general liability insurance program. CAPREIT's aggregate liability for claims made on an annual basis under the reinsurance agreement is limited to \$25 million.

Capital Investments

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

Related to Financing

Indebtedness

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

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

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

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

Related to Regulations and Taxes

Rent Control Regulations

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

In the Netherlands, rental properties where rent is greater than the government prescribed rent control threshold are subject to rent control, which includes a limit on the amount of starting rent that can be charged, as well as the amount of annual rent increases.

The lack of availability of affordable housing and related housing policy and regulations is continuing to increase in prominence as a topic of concern at the various levels of government. Accordingly, through different approaches, governments may enact policy or amend legislation in a manner that may have a material adverse effect on the ability of CAPREIT to grow or maintain the historical level of cash flow from its properties. In addition, laws and regulations providing for compliance with various housing matters involving tenant evictions, work orders, health and safety issues or fire and maintenance standards, etc., including in relation to the ongoing COVID-19 pandemic, may become more stringent in the future. CAPREIT may incur increased operating costs as part of its compliance with any such additional government legislation and regulations relating to housing matters, which may have an adverse effect on revenues.

Taxation-Related Risks

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

There can be no assurance that Canadian federal income tax laws in respect of the treatment of mutual fund trusts will not be changed in a manner that adversely affects CAPREIT or its Trust Unitholders. If CAPREIT ceases to qualify as a “mutual fund trust”, the income tax considerations would be materially and adversely different in certain respects and there may be adverse income tax consequences for certain of CAPREIT’s Unitholders, including non-resident persons and trusts governed by registered retirement savings plans, registered disability savings plans, deferred profit-sharing plans, registered retirement income funds, tax-free savings accounts and registered education savings plans (“designated savings plans”), which acquired an interest in CAPREIT directly or indirectly from another Unitholder.

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

There are rules under the Tax Act (the “SIFT Rules”) that apply to specified investment flow-through trusts or partnerships (“SIFTs”), and their beneficiaries or partners. Under the SIFT Rules, certain distributions will not be deductible in computing the SIFT’s taxable income and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. The SIFT Rules do not apply to certain real estate investment trusts that satisfy a number of technical tests relating to the nature of the revenue and investments of the trust for the particular taxation year (the “REIT Exemption”). Although CAPREIT expects to qualify for the REIT Exemption throughout 2022 and in future years, there can be no assurance that CAPREIT will not be subject to the SIFT Rules. If the SIFT Rules apply, the impact to Unitholders will depend in part on the status of the Unitholder and, in part on the amount of income distributed which would not be deductible by CAPREIT in computing its income in a particular year, and on what portions of CAPREIT’s distributions constitute “non-portfolio earnings”, other than income and returns of capital.

To the extent that CAPREIT does not qualify for the REIT Exception, CAPREIT will consider alternative measures, including restructuring, assuming that these measures are in the best interests of its Unitholders, to qualify for the REIT Exception in the following year.

There can be no assurance that Canadian federal income tax laws, the judicial interpretation thereof, or the administrative and assessing practices and policies of the Canada Revenue Agency (“CRA”) or the Minister of Finance (Canada) will not change in a manner that adversely affects CAPREIT, its affiliates or the Unitholders. In addition, the Tax Act may impose additional withholding or other taxes on distributions made by CAPREIT to Unitholders that are non-residents and these taxes and any reduction thereof under a tax treaty between Canada and a foreign jurisdiction may change from time to time. There is also a risk that the tax laws and treaties of the foreign jurisdictions where CAPREIT operates may change in the future. Any such changes could adversely affect the taxes payable, including withholding taxes, the effective tax rate in those jurisdictions and the portion of distributions which would be income for Canadian income tax purposes. Any such changes may have a material adverse effect on Unitholders’ returns.

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

CAPREIT has foreign subsidiaries that are subject to the tax laws of foreign jurisdictions. Distributions from those foreign subsidiaries may be subject to withholding tax, which may increase the overall taxes payable by CAPREIT and its subsidiaries, and reduce the amount of cash available for distribution to Unitholders. For Canadian income tax purposes, any such foreign withholding tax incurred by CAPREIT will generally be allocated to CAPREIT Unitholders and such Unitholders may be entitled to claim a foreign tax credit in respect of such taxes.

In addition, there is a risk that the tax laws and treaties of the foreign jurisdictions may change in the future. Any such changes could adversely affect the taxes payable, including withholding taxes, the effective tax rate in the jurisdictions in which the foreign subsidiaries operate and the portion of distributions which would be income for Canadian income tax purposes. Any such changes may have a material adverse effect on Unitholders' returns.

Controls over Financial Reporting

CAPREIT maintains information systems, procedures and controls over financial reporting. As a result of the inherent limitations in all control systems, there cannot be complete assurance that the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include, without limitation, the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances, and the impact of isolated errors.

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

Other Legal and Regulatory Risks

CAPREIT is subject to a wide variety of laws and regulations across all jurisdictions, and faces risks associated with legal and regulatory changes and litigation. If CAPREIT or its advisors fail to monitor and become aware of changes in applicable laws and regulations or if CAPREIT fails to comply with these changes in an appropriate and timely manner, it could result in fines and penalties, litigation or other significant costs, as well as significant time and effort to remediate any violations. Additionally, such violations could result in reputational damage to CAPREIT both from an operating and an investment perspective.

Related to CAPREIT's Securities, Organization and Structure

Nature of CAPREIT Trust Units

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

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

Unitholder Liability

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

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

Liquidity and Price Fluctuation of Trust Units

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

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

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

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

Dilution

Subject to applicable laws, CAPREIT is authorized to issue an unlimited number of Trust Units and 25,840,600 Preferred Units for the consideration, and on the terms and conditions, that the Board of Trustees determines, without Unitholders' approval. Unitholders have no pre-emptive right in connection with any further issuance. The Board of Trustees has the discretion to issue additional units in other circumstances pursuant to CAPREIT's various incentive plans, subject to limits imposed by the TSX. Any issuance of additional units may have a dilutive effect on the holders of units. Furthermore, timing differences may occur between the issuance of additional units and the time such proceeds may be used to invest in new properties. Depending on the duration of such timing difference, this may be dilutive.

Distributions

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

Distribution Reinvestment Plan (“DRIP”) Participation

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

Risk Related to CAPREIT's Investment in ERES

CAPREIT currently beneficially owns, controls or exercises direction over 142 million ERES Class B LP Units and 10.2 million ERES units, which upon the exchange of the ERES Class B LP Units into ERES units, represents approximately 66% of the issued and outstanding units of ERES, on a fully diluted basis. For further details, please see the Related Party section in Section VI of the MD&A. The trading price of ERES units may be volatile, and subject to fluctuations due to market conditions and other factors, which are often unrelated to operating results and beyond CAPREIT's control. Fluctuations in the market price and valuations of CAPREIT's holdings in ERES may affect the price of the Trust Units.

Potential Conflicts of Interest

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

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

Certain trustees of CAPREIT are also trustees of ERES, and certain CAPREIT employees are officers of ERES, which may give rise to conflicts of interest with their roles at CAPREIT and ERES. The ERES declaration of trust provides that certain matters which have the potential to give rise to a conflict of interest between ERES and CAPREIT or with any related party of CAPREIT, must be approved by a majority of the non-restricted ERES trustees, in addition to a majority of the ERES trustees generally.

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

Dependence on Key Personnel

The success of CAPREIT depends to a significant extent on the efforts and abilities of its executive officers and other members of management, as well as its ability to attract and retain qualified personnel to manage existing operations and future growth.

The loss of an executive officer or other key employee could lead to material disruption to the business.

Human Resources Shortages

CAPREIT relies on qualified staff to manage its buildings, service tenants, and provide back-office support. A shortage of available, qualified employees may impact CAPREIT's service delivery and the overall tenant experience. Additionally, a shortage of available, and qualified staff may lead to upward pressure on wages.

Related to the Real Estate Industry**General Economic Conditions**

All real property investments are subject to elements of risk. The real value of real property and any improvements thereto depend on the credit and financial stability of residents and the vacancy rates of such properties. The properties generate revenue through rental payments made by residents. CAPREIT is affected by changes in general economic conditions (such as the availability and cost of mortgage funds and the impact of the COVID-19 pandemic), local real estate markets (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available rental premises, including new developments, and various other factors. If a significant number of residents are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be leased on economically favourable lease terms, cash available for distribution may be adversely affected.

The global economy may face increasing uncertainty due to trade protectionism, disputes and political events around the world, which could potentially impact Canadian trade and lead to impact on the Canadian economy at large. This could have an impact on employment in the markets in which CAPREIT operates and in turn have an adverse effect on CAPREIT.

Competition for Residents

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

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

Competition for Real Property Investments

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

Acquisitions

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

Foreign Operation and Currency Risks

In connection with CAPREIT's investment in IRES and its investment and management of ERES and its investment in IRES, the Irish, Dutch, Belgian and German real estate markets differ from the Canadian environment and CAPREIT's experience and expertise in managing Canadian properties may not apply perfectly to a foreign operation. Additionally, these foreign markets may differ from Canadian markets with respect to laws and regulations, economic conditions, and market norms. Operating success in these foreign markets will depend on CAPREIT's ability to recognize these differences and adapt its business model accordingly. CAPREIT's growth in foreign jurisdictions also requires management oversight and resources that may have been otherwise focused on its Canadian properties. Additionally, it is possible that CAPREIT's subsidiaries and involvement in foreign operations will expose CAPREIT to foreign currency risk, as CAPREIT's functional and presentation currency is the Canadian dollar, while the functional currency of CAPREIT's foreign operations and its investment in ERES and IRES is the euro.

Related Party Transactions

A summary of related party transactions can be found in note 29 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2021.

Commitments and Contingencies

A summary of commitments and contingencies can be found in notes 30 and 31 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2021.

Subsequent Events

A summary of subsequent events can be found in note 33 to CAPREIT's consolidated annual financial statements for the year ended December 31, 2021.

Future Outlook

CAPREIT believes the multi-unit residential rental business will continue to strengthen in the majority of the markets in which it operates over the long term. With strong market fundamentals, and through its proven property and asset management programs, CAPREIT expects to generate modest annual increases in same-property Net AMR while stabilizing average occupancies in the range of 97% to 99% on an annual basis, which may be temporarily impacted by the COVID-19 pandemic. CAPREIT also anticipates operating revenues will benefit from programs that enhance ancillary revenues, including fees for parking, commercial leases, laundry, cable, telecommunications and other income sources. In addition, numerous successful cost management initiatives are proving effective, leading to stable and growing same property NOI over the long term.

CAPREIT believes the strong defensive characteristics of its property portfolio, due to diversification by geography in Canada and the Netherlands, and by property type, including its strong presence in the Canadian MHC business, will serve to mitigate the negative impact of any future unfavourable economic conditions that certain regions may experience (please refer to "COVID-19 and Other Public Health Crises" above).

CAPREIT continues to evaluate opportunities to expand and diversify its property portfolio through accretive acquisitions at below replacement cost where management believes it can enhance returns on investment by increasing and stabilizing occupancy, growing Net AMRs, reducing operating costs, improving environment performance and/or enhancing property values through capital investment and property improvement programs. CAPREIT is also targeting modernizing and reducing the average age of its property portfolio by acquiring newer, recently constructed properties where management believes it can enhance returns on investment through its established property management platform. Newer properties require less repair and maintenance or capital improvement costs. While CAPREIT's strategy is to remain principally focused on its core Canadian markets, CAPREIT continues to consider select opportunities in other geographic 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:

- CAPREIT maintains a focus on maximizing occupancy and Net AMR in accordance with local conditions in each of its markets. Since its inception in May 1997, CAPREIT's hands-on management style has focused on ensuring it maintains strong relations with its residents while its capital investment and property improvement programs are aimed at enhancing the lives of its residents and ensuring properties and amenities meet their needs.
- CAPREIT continues to invest in and adopt the latest technologies and solutions to enhance CAPREIT's risk management, market research and operating efficiency, while reducing costs and strengthening relationships with its residents.
- CAPREIT's building infrastructure improvement programs are designed to upgrade and reposition properties through 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 the portfolio's useful life over the long term and may also enhance the environment performance of the assets.

From time to time, CAPREIT may identify certain non-core assets for sale that do not conform to its current portfolio composition or operating strategies, or where CAPREIT believes their value has been maximized. CAPREIT believes the realization and reinvestment of capital from such non-core property dispositions are fundamental components of its growth strategy and demonstrate the success of its investment programs.

CAPREIT will prudently investigate the opportunity to develop new multi-residential properties on land it owns, as well as add new rental suites in certain properties where the opportunity exists. Such investments are accretive as no land costs are incurred and serve to further modernize and reduce the average age of its portfolio. CAPREIT believes its current portfolio provides the opportunity to add new rental suites over time through its development and intensification initiatives, primarily in major markets where demand remains strong and monthly rents support profitable investment.

CAPREIT continues to manage interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce borrowing costs on its Credit Facilities while appropriately staggering the maturity dates and lengthening mortgage terms within its mortgage portfolio to reduce exposure to refinancing risk. CAPREIT believes that, with the continuing availability of lower cost CMHC-insured financing, CAPREIT is well positioned to meet its financing and refinancing objectives at reasonable costs.

CAPREIT maintains a conservative approach to its capital structure, leverage and coverage ratios to further improve its distribution payout ratio. CAPREIT 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.

In April 2021, the federal government unveiled the proposed 2021 budget which included a wide variety of changes including spending measures and income tax changes. Upon initial examination, these tax changes are expected to have minimal to no impact on CAPREIT.

As discussed in context in various sections of this MD&A, management continues to monitor the potential impact to CAPREIT of the COVID-19 pandemic and assess and implement, as applicable, various measures designed to help ensure the health and safety of our communities and to mitigate the potential areas of risk to our business. The COVID-19 pandemic may also have an impact on certain aspects of the economy such as supply chains and inflation. Various costs including trust expenses, wages, and repairs and maintenance costs are expected to further increase in 2022 due to inflationary cost pressures.

SECTION VII: SUPPLEMENTAL INFORMATION

Property Portfolio

Types of Property Interests

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

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

Operating Leasehold Interests – CAPREIT owns leasehold interests in two properties located in the Greater Toronto Area as at December 31, 2021, compared to three properties as at December 31, 2020. The leases mature in 2034 and 2037. While separate lease arrangements exist for each property, the general structure is common across all leases: each lease is for a 35-year term and the rent for the entire lease term was fully paid at the time the leasehold interest was acquired. Each lease also provides CAPREIT with a purchase option exercisable between the 26th and 35th year of the lease term.

Land Leasehold Interests – CAPREIT owns ground leasehold interests in three land parcels in Alberta and one land parcel in British Columbia, as well as an air leasehold interest in the space occupied by an apartment in the Greater Toronto Area. CAPREIT acquired a residential building on each of the four land parcels and pays ground rent on an annual basis for its use of the land. One lease matures in 2045, two mature in 2068, one matures in 2070 and another matures in 2072. CAPREIT does not have the unilateral right to acquire the land or extend the lease term at the maturity of the respective leases (see Portfolio of Land Leasehold Interests for additional information).

Fee Simple Interests – MHC Land Lease Sites – CAPREIT has fee simple interests in 76 MHCs, whereby CAPREIT owns the sites, which it rents to residents.

Portfolio by Type of Property Interest

As at December 31,	2021	%	2020	%
Fee simple interests – apartments and townhomes	52,314	79.1	50,219	78.7
Operating leasehold interests	274	0.4	339	0.5
Land leasehold interests	1,376	2.1	1,376	2.2
Total residential suites	53,964	81.6	51,934	81.4
Fee simple interests – MHC land lease sites	12,201	18.4	11,856	18.6
Total suites and sites	66,165	100.0	63,790	100.0

Portfolio Diversification

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

Portfolio by Geography

As at December 31,	2021	%	2020	%
Residential Suites				
Ontario				
Greater Toronto Area ⁽¹⁾	17,897	27.0	17,862	27.9
London / Kitchener / Waterloo	3,808	5.7	3,261	5.1
Ottawa	2,750	4.2	2,750	4.3
	24,455	36.9	23,873	37.3
Québec				
Greater Montréal Region	7,933	12.0	7,771	12.2
Québec City	2,777	4.2	2,517	3.9
	10,710	16.2	10,288	16.1
British Columbia				
Greater Vancouver Region	3,743	5.7	3,551	5.6
Victoria and Other British Columbia	2,034	3.1	1,697	2.7
	5,777	8.8	5,248	8.3
Nova Scotia				
Halifax	3,288	5.0	3,288	5.1
Alberta				
Calgary	1,775	2.7	1,775	2.8
Edmonton	543	0.8	544	0.9
	2,318	3.5	2,319	3.7
Prince Edward Island				
Charlottetown	637	1.0	637	1.0
Saskatchewan				
Regina	234	0.3	234	0.4
Total Canadian residential suites	47,419	71.7	45,887	71.9
Europe				
The Netherlands	6,545	9.9	6,047	9.5
Total residential suites	53,964	81.6	51,934	81.4
MHC Sites				
Total MHC sites	12,201	18.4	11,856	18.6
Total suites and sites	66,165	100.0	63,790	100.0

⁽¹⁾ Other Ontario has been reclassified into Greater Toronto Area. Prior year comparative figures have been adjusted to conform with current period presentation.

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

Portfolio of Operating Leasehold Interests

CAPREIT has the option to acquire fee simple interests in two of the properties, which are exercisable between the 26th and 35th years of the respective leases. In 2021, CAPREIT completed the early buyout of one operating lease and converted the property into a fee simple interest. Please see Section V – Investment Properties for further details.

The purchase options are independently exercisable, enabling CAPREIT to acquire additional interests in any or all of the properties. The option prices vary by property and by the year in which the option is to be exercised. The aggregate range of option prices would be approximately \$42 million to \$50 million if each of the options were exercised in the 26th and 35th years, respectively, of the lease terms. If CAPREIT elected to exercise any option prior to the maturity of the lease term, CAPREIT would be entitled to receive a pro rata amount of the prepaid lease amount based on the remaining lease term. In addition, under certain circumstances, the option price may be reduced by the unamortized portion of capital expenditures incurred during the final 10 years of the lease term.

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

Operating Leasehold Interests Portfolio by Lease Maturity

(\$ Thousands)

As at December 31, 2021

Year of Lease Maturity	Properties	Suites	%	Option Exercise Prices		Prepaid Lease Amount ⁽ⁱ⁾
				26th Year	35th Year	
2034	1	75	27.4	11,400	13,650	7,775
2037	1	199	72.6	30,600	36,000	21,000
Total Operating Leasehold Interests portfolio	2	274	100.0	\$ 42,000	\$ 49,650	\$ 28,775

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

Portfolio of Land Leasehold Interests

In the absence of any new arrangements negotiated between CAPREIT and the landowners of the five investment properties on which CAPREIT has Land Leasehold Interests, CAPREIT's interests in one property matures in 2045, in two properties in 2068, one property in 2070 and another property in 2072. Generally, each lease provides for annual ground rent or air rights rent and additional rent calculated from the properties' operating results. All variable rental payments associated with Land Leasehold Interests are included in other operating expenses (see Results of Operations) with the fixed portion capitalized as per IFRS 16 and amortized.

Land Leasehold Interests Portfolio by Lease Maturity

(\$ Thousands)

Year Ended December 31,

Year of Lease Maturity	Suites	%	Annual Rent	
			2021	2020
2045	471	34.2	\$ 3,450	\$ 2,947
2068	306	22.2	1,405	1,370
2070	272	19.8	1,477	1,157
2072	327	23.8	572	648
Total Land Leasehold Interests portfolio	1,376	100.0	\$ 6,904	\$ 6,122

Management's Responsibility for Financial Statements

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

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

As at December 31, 2021, CAPREIT's President and Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision, of the design and operating effectiveness of CAPREIT's internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and, based on that evaluation, determined that CAPREIT's internal controls over financial reporting were appropriately designed and operating effectively.

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

The consolidated financial statements have been further reviewed and approved by the Board of Trustees on the recommendation of the Audit Committee. This committee meets regularly with management and the auditor, who have full and free access to the Audit Committee.

February 23, 2022



Mark Kenney
President and Chief
Executive Officer



Scott Cryer
Chief Financial Officer



Independent auditor's report

To the Unitholders of Canadian Apartment Properties Real Estate Investment Trust

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Canadian Apartment Properties Real Estate Investment Trust and its subsidiaries (together, the Trust) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Trust's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2021 and 2020;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were

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addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties: Canadian Fee Simple Interests - Apartments and Townhomes, Manufactured Home Communities Land Lease Sites and certain European residential interests.</p> <p><i>Refer to note 2 – Summary of Significant Accounting Policies, note 3 – Critical Accounting Estimates, Assumptions and Judgments and note 6 – Investment Properties to the consolidated financial statements.</i></p> <p>The Trust’s investment properties are measured at fair value as at the consolidated balance sheet dates. Total investment properties as at December 31, 2021 have a fair value of \$17,102 million and include Canadian Fee Simple Interests - Apartments and Townhomes, Manufactured Home Communities ("MHC") Land Lease Sites and certain of the Trust’s European residential interests through their 66% ownership interest in European Residential Real Estate Investment Trust (the European residential interests) with a combined fair value of \$16,720 million. Fair value is determined in accordance with recognized valuation techniques. The techniques used comprise both the Direct Income Capitalization ("DC") and the Discounted Cash Flow ("DCF") methods. Management is responsible for determining the fair value of the Trust’s investment properties, using either qualified internal or external independent appraisers, depending on the size and geography of each property. Critical judgments are made by management in respect of the fair values of investment properties.</p> <p>For the Canadian Fee Simple Interests and MHC Land Lease Sites, the Trust utilizes the DC method. Under the DC method, capitalization rates are applied to a stabilized net operating income ("NOI")</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <p>For a sample of Canadian Fee Simple Interests and MHC Land Lease Sites, tested how management determined the fair value, which included the following:</p> <ul style="list-style-type: none"> • Evaluated the appropriateness of the DC method used. • Tested the underlying data used in the DC method. • Evaluated the reasonableness of the following critical assumptions: <ul style="list-style-type: none"> – Capitalization rates, by comparing to current industry data or comparable market transactions, as applicable; and – Stabilized NOI, by: <ul style="list-style-type: none"> ○ Comparing stabilized property revenue to budgets and actual performance. ○ Comparing stabilized property expenses to actual performance, market data and budgets, where applicable. <p>Professionals with specialized skill and knowledge in the field of real estate valuations further assisted us in evaluating the reasonableness of the capitalization rates and stabilized NOI.</p> <p>For the European residential interests, valued using the DC Method, tested how management determined the fair value, which included the following:</p> <ul style="list-style-type: none"> • Evaluated the appropriateness of the valuation method used.



Key audit matter

reflecting market-based NOI assumptions. For the European residential interests, the Trust utilizes a DCF method and a DC method (the valuation methods). The most critical assumptions used in the DCF method include the stabilized cash flows, the discount rate applied over the term of the cash flows and the terminal capitalization rate. The most critical assumptions used in the DC method include the stabilized NOI and the capitalization rates. Stabilized cash flows and stabilized NOI incorporate various assumptions including property revenue and property operating expenses.

We considered this a key audit matter due to: i) significant audit effort required to test the fair value of the Canadian Fee Simple Interests - Apartments and Townhomes, MHC Land Lease Sites and the European residential interests determined by management, ii) critical judgments made by management through their use of qualified internal or external independent appraisers when determining the fair value including the development of the critical assumptions, and iii) a high degree of complexity in assessing audit evidence to support the critical assumptions made by management. In addition, the audit effort involved the use of professionals with specialized skill and knowledge in the field of real estate valuations.

How our audit addressed the key audit matter

- For a sample of properties, tested the underlying data, and evaluated critical assumptions, such as property revenue and property operating expenses, used in the valuation method.
- Professionals with specialized skill and knowledge in the field of real estate valuations assisted us in evaluating the valuation methods of the European residential interests by:
- Evaluating the reasonableness of the fair value of the European residential interests by developing an independent point estimate of the fair value using a DC method. This involved the use of available market data to independently develop assumptions related to capitalization rates and stabilized NOI, which incorporated various assumptions including property revenue and property operating expenses.
 - Comparing the independent point estimate to management's estimate to evaluate the reasonableness of management's estimate.

Other information

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

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

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



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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Trust's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Trust to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Trust to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 23, 2022

Consolidated Balance Sheets

(CA\$ thousands)			
As at	Note	December 31, 2021	December 31, 2020
Non-current assets			
Investment properties	6	\$ 17,101,919	\$ 15,000,591
Investment in associate	7	246,505	257,210
Mortgages receivable	8	114,990	–
Derivative asset	21	22,420	778
Other non-current assets	9	89,957	73,810
Total non-current assets		17,575,791	15,332,389
Current assets			
Derivative asset	21	8,506	55
Other current assets	9	55,265	44,965
Cash and cash equivalents		73,411	121,722
Total current assets		137,182	166,742
Total assets		\$ 17,712,973	\$ 15,499,131
Non-current liabilities			
Mortgages payable	13	\$ 5,456,605	\$ 4,811,131
Bank indebtedness	14	310,866	104,810
Unit-based compensation financial liabilities	15, 16	14,272	14,123
ERES units held by non-controlling unitholders	12	356,695	328,535
Derivative liability	21	1,157	8,023
Deferred income tax liability	23	133,974	59,964
Lease liabilities		48,316	36,565
Total non-current liabilities		6,321,885	5,363,151
Current liabilities			
Mortgages payable	13	643,460	590,071
Bank indebtedness	14	–	13,743
Unit-based compensation financial liabilities	15, 16	22,623	19,624
Derivative liability	21	2,816	15,366
Accounts payable and accrued liabilities	11	141,499	131,888
Other current liabilities	10	15,492	13,985
Security deposits		43,675	41,218
Exchangeable LP Units	17	100,684	16,632
Distributions payable		20,953	19,751
Total current liabilities		991,202	862,278
Total liabilities		\$ 7,313,087	\$ 6,225,429
Unitholders' equity			
Unit capital		\$ 4,194,093	\$ 4,103,912
Accumulated other comprehensive (loss) income	24	(43,397)	70,047
Retained earnings		6,249,190	5,099,743
Total unitholders' equity		\$ 10,399,886	\$ 9,273,702
Total liabilities and unitholders' equity		\$ 17,712,973	\$ 15,499,131

See accompanying notes to the consolidated annual financial statements.

Consolidated Statements of Income and Comprehensive Income

(CA\$ thousands)

For the Year Ended December 31,	Note	2021	2020
Operating revenues			
Revenue from investment properties	28	\$ 933,137	\$ 882,643
Operating expenses			
Realty taxes		(87,698)	(81,596)
Property operating costs		(235,446)	(222,876)
Total operating expenses		(323,144)	(304,472)
Net rental income			
		609,993	578,171
Trust expenses		(51,366)	(43,268)
Unit-based compensation expense	16	(15,111)	(5,160)
Fair value adjustments of investment properties	6	1,048,742	595,859
Fair value adjustments of Exchangeable LP Units	17	(665)	(1,230)
Fair value adjustments of investments		14,088	(3,979)
Realized loss on disposition of investment properties	5	(241)	(1,387)
Amortization of property, plant and equipment		(8,250)	(7,668)
(Loss) gain on non-controlling interest	12	(38,651)	24,478
Gain (loss) on derivative financial instruments	21	50,282	(52,672)
Interest and other financing costs	25	(160,463)	(164,625)
(Loss) gain on foreign currency translation		(6,095)	5,982
Other income	28	31,713	29,990
Net income before income taxes			
		1,473,976	954,491
Current and deferred income tax expense	23	(81,181)	(28,563)
Net income			
		\$ 1,392,795	\$ 925,928
Other comprehensive (loss) income, including items that may be reclassified subsequently to net income			
Amortization of losses from (AOCL) AOCI to interest and other financing costs	24	\$ 2,440	\$ 2,570
(Loss) gain on foreign currency translation	24	(115,884)	86,987
Other comprehensive (loss) income			
		\$ (113,444)	\$ 89,557
Comprehensive income			
		\$ 1,279,351	\$ 1,015,485

See accompanying notes to the consolidated annual financial statements.

Consolidated Statements of Unitholders' Equity

(CA\$ thousands)

	Note	Unit capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Unitholders' equity, January 1, 2021		\$ 4,103,912	\$ 5,099,743	\$ 70,047	\$ 9,273,702
Unit capital					
Distribution Reinvestment Plan	18	75,739	—	—	75,739
RUR Plan	16, 18	11,463	—	—	11,463
Employee Unit Purchase Plan	16, 18	2,979	—	—	2,979
Total unit capital		90,181	—	—	90,181
Net income and other comprehensive loss					
Net income		—	1,392,795	—	1,392,795
Other comprehensive loss		—	—	(113,444)	(113,444)
Total net income and other comprehensive loss		—	1,392,795	(113,444)	1,279,351
Distributions on Trust Units					
Distributions declared and paid	19	—	(222,395)	—	(222,395)
Distributions payable	19	—	(20,953)	—	(20,953)
Total distributions on Trust Units		—	(243,348)	—	(243,348)
Unitholders' equity, December 31, 2021		\$ 4,194,093	\$ 6,249,190	\$ (43,397)	\$ 10,399,886
				Accumulated other comprehensive income (loss)	Total
Unitholders' equity, January 1, 2020		\$ 4,013,941	\$ 4,409,464	\$ (19,510)	\$ 8,403,895
Unit capital					
Distribution Reinvestment Plan	18	68,108	—	—	68,108
Settlement of Exchangeable Units LP Units	17	15,321	—	—	15,321
RUR Plan	16, 18	3,882	—	—	3,882
Employee Unit Purchase Plan	16, 18	2,660	—	—	2,660
Total unit capital		89,971	—	—	89,971
Net income and other comprehensive income					
Net income		—	925,928	—	925,928
Other comprehensive income		—	—	89,557	89,557
Total net income and other comprehensive income		—	925,928	89,557	1,015,485
Distributions on Trust Units					
Distributions declared and paid	19	—	(215,898)	—	(215,898)
Distributions payable	19	—	(19,751)	—	(19,751)
Total distributions on Trust Units		—	(235,649)	—	(235,649)
Unitholders' equity, December 31, 2020		\$ 4,103,912	\$ 5,099,743	\$ 70,047	\$ 9,273,702

See accompanying notes to the consolidated annual financial statements.

Consolidated Statements of Cash Flows

(CA\$ thousands)

For the Year Ended December 31,	Note	2021	2020
Cash provided by (used in):			
Operating activities			
Net income		\$ 1,392,795	\$ 925,928
Items related to operating activities not affecting cash:			
Fair value adjustments – investment properties		(1,048,742)	(595,859)
Fair value adjustments – Exchangeable LP Units		665	1,230
Fair value adjustments – investments		(14,088)	3,979
Mark-to-market loss (gain) on ERES units	12	25,895	(37,020)
Loss on disposition of investment properties	5	241	1,387
(Gain) loss on derivative financial instruments	21	(50,282)	52,672
Amortization	9, 24, 25	25,242	33,963
Unit-based compensation expense	16	15,111	5,160
Straight-line rent adjustment		(188)	(180)
Deferred income tax expense	23	76,642	25,213
Net profit from investment in associate	28	(18,455)	(17,173)
Unrealized foreign currency loss (gain)		6,095	(5,982)
Net income items related to financing and investing activities	27	151,848	143,078
Changes in non-cash operating assets and liabilities	27	(11,346)	(55,040)
Cash provided by operating activities		551,433	481,356
Investing activities			
Acquisition of investment properties	27	(839,975)	(685,398)
Capital investments	27	(299,419)	(244,857)
Operating lease buyout	6, 27	(4,457)	(127,819)
Acquisition of investment in associate	29	–	(8,020)
Disposition of investment properties	27	29,194	33,312
Change in restricted cash		(1,798)	(258)
Investment income received		8,469	11,670
Cash used in investing activities		(1,107,986)	(1,021,370)
Financing activities			
Mortgage financings	27	1,340,965	1,529,964
Mortgage principal repayments	27	(149,996)	(136,087)
Mortgages repaid on maturity	27	(521,375)	(353,966)
Lease payments		(6,107)	(5,664)
Financing costs		(8,547)	(7,025)
CMHC premiums on mortgages payable		(23,447)	(34,994)
Interest paid on mortgages and bank indebtedness	27	(133,665)	(130,398)
Bank indebtedness	27	189,305	(498,783)
Proceeds on issuance of Trust Units, net of issuance costs	27	3,138	2,476
Net cash distributions	27	(177,774)	(180,071)
Cash provided by financing activities		512,497	185,452
Changes in cash and cash equivalents during the year		(44,056)	(354,562)
Effect of exchange rate changes on cash		(4,255)	(1,044)
Cash and cash equivalents, beginning of the year		121,722	477,328
Cash and cash equivalents, end of the year		\$ 73,411	\$ 121,722

See accompanying notes to the consolidated annual financial statements.

Notes to Consolidated Financial Statements

December 31, 2021

(CA \$ thousands, except unit and per unit amounts)

1. Organization of the Trust

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

CAPREIT converted from a closed-ended mutual fund 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 April 1, 2020. CAPREIT commenced active operations on February 4, 1997 when it acquired an initial portfolio of properties. CAPREIT became a reporting issuer on May 21, 1997 pursuant to an initial public offering prospectus of its units (“Trust Units”) dated May 12, 1997.

CAPREIT Limited Partnership (“CAPLP”), a subsidiary of CAPREIT established under the laws of the Province of Manitoba pursuant to a limited partnership agreement dated June 26, 2007, and as most recently amended and restated on June 22, 2020, owns directly or indirectly the beneficial interest of all its properties along with the related mortgages and all the debt obligations of CAPREIT.

As at December 31, 2021, CAPREIT directly and indirectly holds a 66% (December 31, 2020 – 66%) ownership of publicly traded European Residential Real Estate Investment Trust (“ERES”), which operates primarily in the Netherlands, with the remaining 34% (December 31, 2020 – 34%) held by non-controlling unitholders. CAPREIT owns units of ERES (“ERES units”) and Class B Limited Partnership units (“ERES Class B LP Units”) of ERES Limited Partnership (“ERES LP”). ERES Class B LP Units are exchangeable, on a one-for-one basis, for ERES units at the option of the holder, and have economic and voting rights through special voting units of ERES that are equivalent, in all material respects, to ERES units.

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

2. Summary of Significant Accounting Policies

a) Statement of Compliance

CAPREIT has prepared these consolidated annual financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of consolidated annual financial statements. These policies have been consistently applied to all years presented, unless stated otherwise.

These consolidated annual financial statements were approved by CAPREIT’s Board of Trustees on February 23, 2022.

b) Basis of Presentation

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

- i) investment properties and certain financial instruments, which are stated at fair value;
- ii) certain unit-based compensation accounts, which are stated at fair value;
- iii) ERES units held by non-controlling unitholders, which are stated at fair value; and
- iv) Class B limited partnership units of CAPLP (“Exchangeable LP Units”), which are stated at fair value.

In these consolidated annual financial statements, all values are rounded to the nearest thousand (\$000), except unit or per unit amounts or when otherwise noted.

Certain prior year figures have been restated to conform with current year presentation.

c) Principles of Consolidation

i) Subsidiaries

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

Subsidiaries are fully consolidated from the date control commences and deconsolidated from the date control ceases. Where CAPREIT consolidates a subsidiary in which it does not have 100% ownership and where the non-controlling interest contains an option or a redemption feature, the non-controlling interest is classified as a financial liability.

On consolidation of subsidiaries, CAPREIT eliminates in full intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the group. International Accounting Standard (“IAS”) 12, Income Taxes (“IAS 12”), applies to temporary differences that arise from the elimination of profits and losses resulting in intragroup transactions.

ii) Joint Arrangements

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

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

iii) Investment in Associates

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

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

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

d) Investment Properties

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

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

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

The fair value of CAPREIT’s investment properties is determined at each balance sheet date by either qualified internal or external independent appraisers, depending on the size and geography of each property. Where increases or decreases are warranted, the carrying values of CAPREIT’s investment properties are adjusted. See notes 3 and 6 for a detailed discussion of the significant assumptions, estimates and valuation methods used.

Investment properties are derecognized either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

e) Property Acquisitions

At the time of acquisition of a property or a portfolio of investment properties, CAPREIT evaluates whether the acquisition is a business combination or an asset acquisition. IFRS 3, Business Combinations (“IFRS 3”), is only applicable if it is considered that a business has been acquired. A business, according to IFRS 3, is defined as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, CAPREIT applies judgment when determining whether an integrated set of activities is acquired in addition to the property or portfolio of properties. Activities can include whether employees were assumed in the acquisition or an operating platform was acquired. Under IFRS 3, CAPREIT has the option to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. The optional concentration test will be applied on a case-by-case basis.

The acquisition method of accounting is used for acquisitions meeting the definition of a business combination. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred to the acquirer and the liabilities incurred by the acquirer. For each business combination, CAPREIT measures the non-controlling interest in the acquiree at fair value if the acquiree is a real estate investment trust (“REIT”) or at the proportionate share of the acquiree’s identifiable net assets if the acquiree is a corporation. Any transaction costs incurred with respect to the business combination are expensed in the period incurred.

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

f) Presentation of Non-current Assets Classified as Held-for-Sale

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

g) Property, Plant and Equipment

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

h) Tenant Inducements

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

i) Financial Instruments

Financial assets and financial liabilities

Under IFRS 9, Financial Instruments (“IFRS 9”), financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on the purpose for which the financial instruments were acquired or issued, their characteristics and CAPREIT’s designation of such instruments. The standards require that all financial assets and financial liabilities be classified as *fair value through profit or loss (“FVTPL”)*, *amortized cost* or *fair value through other comprehensive income (“FVOCI”)*. Amortized cost is determined using the effective interest method.

At each reporting date, financial assets measured at amortized cost are assessed for impairment under an expected credit loss (“ECL”) approach. CAPREIT applies the simplified approach, which uses lifetime ECLs, for other receivables, which consist primarily of tenant receivables. CAPREIT monitors its collection rate on a monthly basis and ensures that all past due amounts are provided for. CAPREIT measures the ECL allowance of its mortgage receivables at an amount equal to the 12-month ECL at initial recognition or if there has been no significant increase in credit risk of the mortgage receivables since initial recognition. CAPREIT will increase the loss allowance of the mortgage receivables to an amount equal to the lifetime ECL if there has been a significant increase in credit risk of the mortgage receivables since initial recognition.

Classification of financial instruments

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

Type	Measurement base
Financial assets	
Cash and cash equivalents	Amortized cost
Restricted cash	Amortized cost
Other receivables	Amortized cost
Mortgages receivable	Amortized cost
Investments	Fair value through profit or loss
Derivative financial assets	Fair value through profit or loss ^(f)
Financial liabilities	
Mortgages payable	Amortized cost
Bank indebtedness	Amortized cost
Accounts payable and accrued liabilities, and other liabilities	Amortized cost
Security deposits	Amortized cost
Exchangeable LP Units	Fair value through profit or loss
ERES units held by non-controlling unitholders	Fair value through profit or loss
Derivative financial liabilities	Fair value through profit or loss ^(f)

^(f) CAPREIT has previously designated some of its interest rate swap agreements and forward interest rate contracts as cash flow hedges. Derivatives not designated as a hedging relationship are measured at fair value with changes recognized directly through the consolidated statements of income and comprehensive income within net income.

Cash and cash equivalents and restricted cash

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

Other receivables

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

Mortgages receivable

Mortgages receivable arise when CAPREIT disposes of investment properties and provides the purchaser with a vendor takeback mortgages ("VTB"). The VTB is a financial asset under IFRS 9 and is measured initially at fair value and subsequently at amortized cost. Mortgages receivable are included in non-current assets, except for those with maturities within 12 months after the consolidated balance sheet date, which are classified as current assets.

Investments

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

Financial liabilities

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

Transaction costs

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

Derivatives

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

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

Hedging Relationships

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

j) Leases

IFRS 16, Leases ("IFRS 16") sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. From a lessee point of view, leases impacted by IFRS 16 encompass CAPREIT's four land lease parcels in Alberta and British Columbia, an air rights lease and leased office space. These leases are recorded as right-of-use assets with corresponding lease liabilities derived by discounting the future payments of each lease by the rate implicit in the lease, where determinable, or the incremental borrowing rate specific to the lease. These right-of-use assets related to land and air rights leases meet the definition of investment property under IAS 40; therefore, the fair value model is applied to those assets. Interest expense on the lease liabilities and fair value gain (loss) on the right-of-use assets is recorded through CAPREIT's consolidated statements of income and comprehensive income.

These land and air rights lease payments are calculated based upon a specified minimum payment, and at several intervals throughout the lease term, are recalculated based upon land values on a specified date. CAPREIT measures lease liabilities at the present value of lease payments to be made over the lease term. These lease liabilities are determined based on future fixed and in-substance fixed payments, and excludes any variable payments. Variable payments are calculated as a percentage of revenues, net operating income, etc. and are recognized as an expense in the period in which the event or condition that triggers the payment occurs.

Right-of-use assets, not meeting the definition of investment property, are measured at cost less any accumulated amortization and are included within other assets. Such right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

For other leases of low-value assets or short-term leases that end within 12 months of the commencement date and which have no renewal or purchase option, CAPREIT has elected to apply the recognition exemptions specified in IFRS 16, allowing CAPREIT to continue to expense the lease payments in the period in which they are incurred.

k) MHC Home Inventory

MHC home inventory consists of homes which CAPREIT intends to sell in the ordinary course of business. These homes are sold to tenants on CAPREIT's MHC sites. In accordance with IAS 2, Inventories ("IAS 2"), MHC home inventory is recorded at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less selling costs and any costs of completion, if applicable. MHC home inventory is reviewed for impairment at each reporting date. An impairment loss is recognized in the consolidated statements of income and comprehensive income if the carrying value of the inventory exceeds its net realizable value. When the circumstances that previously caused inventory to be impaired no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the impairment loss previously recorded is reversed.

MHC home inventory is included within other current assets unless CAPREIT does not expect to sell these assets in the ordinary course of business within the next 12 months after the reporting date.

Transfers between MHC home inventory and investment property occur if there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property based on CAPREIT's intentions and when there is observable evidence of a change in use.

l) Mortgages Payable and Bank Indebtedness

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

Fees and insurance premiums paid to Canada Mortgage and Housing Corporation ("CMHC") are netted against mortgages payable. They are amortized over the amortization period of the underlying mortgage loans when incurred (initial amortization period is typically 25 to 35 years) and amortization expenses are included in interest and other financing costs in the consolidated statements of income and comprehensive income. If CAPREIT fully refinances an existing mortgage, any unamortized prepaid CMHC premiums and fees associated with the existing mortgages on that property will be written off through interest and other financing costs in the period in which full refinancing occurs. CAPREIT accelerates the amortization for prepaid CMHC premiums for mortgages that management intends to fully refinance within the next year, from the date the decision is made to refinance to the date the mortgage is due to be refinanced. Any premium credits received upon refinancing will be capitalized and amortized over the new amortization period. Similarly, if CAPREIT discharges an existing mortgage, any unamortized prepaid CMHC premiums and fees associated with that mortgage will be written off through interest and other financing costs in the period in which the discharge occurs. If CAPREIT renews a mortgage, CAPREIT will continue to amortize the existing prepaid CMHC premiums and fees associated with the existing mortgage over the remaining amortization period.

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

m) Exchangeable LP Units

Issued and outstanding Exchangeable LP Units are exchangeable on demand for Trust Units. As the Trust Units are redeemable at the holder's option, the Exchangeable LP Units are classified as current liabilities. The distributions on the Exchangeable LP Units are recognized in the consolidated statements of income and comprehensive income as interest expense under IFRS and the interest payable at the reporting date is reported under accounts payable and accrued liabilities on the consolidated balance sheets. These Exchangeable LP Units are remeasured at each reporting date at fair value, as they are considered to be puttable instruments under IAS 32, Financial Instruments: Presentation ("IAS 32"), with changes in the fair value recognized as fair value adjustments of Exchangeable LP Units within net income in the consolidated statements of income and comprehensive income.

n) Captive Insurance

Effective as of March 5, 2021, CAPREIT is self-insured for the first \$10,000 per claim under CAPREIT's property insurance program and the first \$2,000 per claim under CAPREIT's general liability insurance program, through a reinsurance agreement between CAPREIT's wholly-owned captive insurance company and a licensed Canadian insurance company. Pursuant to the reinsurance agreement, CAPREIT's aggregate liability for claims made on an annual basis is limited to \$25,000. Claims and expenses are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

o) Comprehensive Income and Accumulated Other Comprehensive (Loss) Income

Comprehensive income includes net income and other comprehensive (loss) income. Other comprehensive (loss) income includes (loss) gain on foreign currency translation relating to foreign operations and the effective portion of cash flow hedges, less any amounts reclassified to interest and other financing costs and associated income taxes.

(AOCL) AOCI is included on the consolidated balance sheets as Unitholders' equity and includes gains and losses from foreign currency translation relating to foreign operations and the unrealized gains and losses of changes in the fair value of cash flow hedges and derivatives. The components of (AOCL) AOCI are disclosed in note 24.

p) Revenue Recognition

Under IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), revenue is recognized using a uniform, five-step model. The five steps are as follows:

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

External asset and property management fees are considered non-lease components and are within the scope of IFRS 15. They are recognized when services under the agreement are performed, and spread over the course of the year, as management services represent a series of services that are substantially the same and have the same pattern of transfer.

Common area maintenance recoveries, except insurance and utility recoveries, and service charges are considered non-lease components and are within the scope of IFRS 15. They are recognized over time, as they represent a series of services that are substantially the same and have the same pattern of transfer to commercial tenants.

Revenue from the sale of MHC home inventory is within the scope of IFRS 15 and is recognized at the point in time when CAPREIT transfers control of the asset to the purchaser, which happens on the closing date. Upon closing of the transaction, the purchaser has the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Revenue from the sale of MHC home inventory is included in other income in the statements of income and comprehensive income.

Revenue from investment properties, including property tax, insurance and utility recoveries, is within the scope of IFRS 16 and is recognized using the straight-line method, whereby the total amount of revenue from investment properties to be received from all leases is accounted for on a straight-line basis over the term of the related leases. The difference between the revenue from investment properties recognized and the amounts contractually due under the lease agreements is accrued as rent receivable, which is included as a component of other current assets on the consolidated balance sheets.

q) Unit-based Compensation and Incentive Plans

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

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

Incentive Plan ⁽¹⁾	Type	Vesting Period	Type of Amortization	Distributions Applied To	Mark-to-Market Until
DUP	Rights	Grant date	Immediate	Additional units	Settled
RUR Plan	Rights	3 years ⁽²⁾	Straight-line	Additional units	Settled
ERES UOP	Options	3 years ⁽³⁾	Graded	N/A	Exercised

⁽¹⁾ For definitions of these plans refer to notes 15 and 16.

⁽²⁾ Vesting fully on the third grant anniversary date.

⁽³⁾ Vesting one-third on each grant anniversary date.

r) Consolidated Statements of Cash Flows

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

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 judgment and concluded that debt financing, which is used to provide leveraged returns to holders of Trust Units (“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.

s) Income Taxes

CAPREIT is taxed as a Mutual Fund Trust for income tax purposes and intends, at the discretion of the Board of Trustees, to distribute its income for income tax purposes each year to Unitholders to such an extent that it would not be liable for income tax under Part I of the Income Tax Act (Canada) (“Tax Act”). Accordingly, no provision for current income taxes payable is required, with the exception of income earned by subsidiaries that reside in foreign jurisdictions, as discussed below. For a comprehensive discussion of CAPREIT’s liability for tax purposes, see note 23.

CAPREIT and its subsidiaries satisfied certain conditions available to REITs (the “REIT Exception”) under amendments to the Tax Act intended to permit a corporate income tax rate of nil as long as the specified conditions continue to be met.

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

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

t) Earnings per Unit

As a result of the redemption feature of CAPREIT's Trust Units, these Trust Units are considered financial liabilities under IAS 33, Earnings per Share ("IAS 33"), and are not considered equity for the purposes of calculating net income on a per unit basis. Consequently, CAPREIT does not report an Earnings per Unit calculation, as permitted under IFRS.

u) Foreign Currency Translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated into the functional currency using the prevailing rate of exchange at the consolidated balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of income and comprehensive income. Non-monetary items that are measured at their historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gains and losses are presented in the consolidated statements of income and comprehensive income.

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

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

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

v) ERES Units Held by Non-Controlling Unitholders

ERES units are redeemable at the option of the holder and therefore are considered puttable instruments that meet the definition of a financial liability under IAS 32. Although IAS 32 allows ERES to classify these units as equity on its own balance sheet, this exception is not available to CAPREIT, and therefore the non-controlling interest that these ERES units represent is classified as a liability on the consolidated balance sheet and is measured at fair value, with changes in the fair value recorded as fair value adjustment on non-controlling interest in the consolidated statements of income and comprehensive income.

w) Goodwill

Goodwill is not amortized but tested for impairment annually, or more frequently if there are indicators of impairment. Goodwill is allocated to the group of cash-generating units (“CGU”) that are expected to benefit from the synergies of the combination, at the lowest level at which goodwill is monitored for internal management purposes, and not larger than an operating segment (a goodwill CGU). CAPREIT evaluates whether goodwill may be impaired by determining whether the recoverable amount is less than the carrying amount for the goodwill CGU. Impairment losses relating to goodwill cannot be reversed in future periods.

x) Reportable Operating Segments

Reportable operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. CAPREIT has determined that its chief operating decision-maker is the President and Chief Executive Officer (“CEO”).

y) Impact of Accounting Standards Effective January 1, 2021 on CAPREIT’s Current Year Consolidated Financial Statements**Interest Rate Benchmark Reform (Phase 2)**

The IASB published “Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)” in relation to the modification of financial assets, financial liabilities and lease liabilities, specific hedge accounting requirements, and disclosure requirements applying IFRS 7 to accompany the amendments regarding modifications and hedge accounting. The IASB introduced a practical expedient for modifications required as a direct consequence of the IBOR reform and made on an economically equivalent basis, which are accounted for by updating the effective interest rate. All other modifications are accounted for using the current IFRS requirements. A similar practical expedient is proposed for lessee accounting applying IFRS 16. Under the amendments, hedge accounting is not discontinued solely because of the IBOR reform, but hedging relationships must be amended to reflect modifications to the hedged item, hedging instrument and hedged risk. Amended hedging relationships should meet all qualifying criteria to apply hedge accounting, including effectiveness requirements. The amendments are effective for annual periods beginning on or after January 1, 2021, and are applied retrospectively, with earlier application permitted.

CAPREIT adopted the amendments on January 1, 2021 and assessed that there is no impact on transition in the current reporting period based on current transactions in place. The credit facilities that CAPREIT and ERES entered into in 2021 upon expiry of the previous ones contain benchmark replacement clauses relating to the IBOR reform. As such, CAPREIT does not expect that there will be a material impact in future reporting periods in relation to changes due to the interest rate benchmark reform. Refer to note 14 for further information on credit facilities.

z) Future Accounting Changes**IAS 1, Presentation of Financial Statements (“IAS 1”)**

The IASB issued “Classification of Liabilities as Current or Non-Current (Amendments to IAS 1)” in January 2020, affecting the presentation of liabilities in the statement of financial position. The narrow-scope amendments to IAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date. The amendments also clarify what IAS 1 means when it refers to the “settlement” of a liability. The amendments must be applied retrospectively in accordance with the normal requirements of IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”). The amendments are effective for annual periods beginning on or after January 1, 2023 (in accordance with “Classification of Liabilities as Current or Non-Current – Deferral of Effective Date (Amendment to IAS 1)” issued by the IASB in July 2020), with earlier application permitted. In November 2021, the IASB issued an exposure draft proposing amendments to the January 2020 amendments to IAS 1. The proposed amendments would modify the requirements introduced by the January 2020 amendments on how an entity classifies debt and other financial liabilities as current or non-current, particularly in circumstances when an entity’s right to defer settlement of a liability is subject to compliance with conditions. The exposure draft also proposes to defer the effective date of the 2020 amendments to no earlier than January 1, 2024. The IASB has tentatively decided that the proposed amendments would be applied retrospectively. The amendments have not been early adopted by CAPREIT. CAPREIT is currently assessing any potential impact of this amendment.

3. Critical Accounting Estimates, Assumptions and Judgments

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

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

i) Valuation of Investment Properties

Investment properties are measured at fair value as at the consolidated balance sheet dates. Any changes in fair value are included within net income in the consolidated statements of income and comprehensive income. Fair value is determined in accordance with recognized valuation techniques. The techniques used comprise both the Direct Income Capitalization (“DC”) and the Discounted Cash Flow (“DCF”) methods, and include estimating, among other things (all considered Level 3 inputs), future stabilized net operating income, capitalization rates, reversionary capitalization rates, discount rates and other future cash flows applicable to investment properties. Fair values for investment properties are classified as Level 3 in the fair value hierarchy, as disclosed in note 20.

The valuation of investment properties is subject to significant judgments, estimates and assumptions about market conditions in effect as at the consolidated balance sheet date. See note 6 for a detailed discussion of valuation methods and the significant assumptions and estimates used.

ii) Valuation of Financial Instruments

The fair value of derivative assets and liabilities is based on assumptions that involve significant estimates. The basis of valuation for CAPREIT’s derivatives is set out in note 20. The fair values of derivatives reported may differ significantly from the amounts they are ultimately settled for if there is volatility between the valuation date and settlement date.

iii) Investment in IRES

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

iv) Business Combination

Accounting for business combinations under IFRS 3 applies when it is determined that a business has been acquired. IFRS 3 defines a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. CAPREIT applies judgment in determining whether property acquisitions qualify as a business combination in accordance with IFRS 3 or as an asset acquisition.

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, CAPREIT applies judgment when considering the following:

1. whether the investment property or properties are capable of producing outputs;
2. whether the market participant could produce outputs if missing elements exist;
3. whether employees were assumed in the acquisition; and
4. whether an operating platform has been acquired.

As outlined in note 2, CAPREIT has the option to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets under IFRS 3. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. The optional concentration test will be applied on a case-by-case basis.

When CAPREIT acquires properties or a portfolio of properties and does not take on or assume employees or does not acquire an operating platform, it classifies the acquisition as an asset acquisition.

When CAPREIT determines the acquisition is a business combination, CAPREIT considers the following when determining the acquirer for accounting purposes:

1. whether the former owners of the entity being acquired own the majority of the units, and control the majority of votes, in the combined entity; and
2. whether management of the combined entity is drawn predominantly from the entity whose units are acquired.

v) Valuation of Goodwill

The acquisition method of accounting is used for acquisitions meeting the definition of a business combination. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred to the acquirer and the liabilities incurred by the acquirer. Goodwill arising on acquisition is recognized as an asset and is initially measured at cost as the excess of the total consideration transferred over the net fair value of the identifiable assets acquired and liabilities assumed. Goodwill is initially recognized at cost and is subsequently measured at cost less any accumulated impairment losses. Refer to note 2(w) for details on the goodwill impairment test.

In addition to the discussion of these critical accounting estimates and judgments as set out above, the significant global uncertainty resulting from the novel coronavirus ("COVID-19") pandemic has the following impact:

i) Valuation of Investment Properties

The availability of reliable market metrics to inform opinions of value is reduced, and therefore a higher degree of judgment must be applied. Consequently, fair values are subject to significant change. Refer to note 6 for further information.

ii) Valuation of Financial Instruments

The fair value of CAPREIT's derivatives as reported may differ significantly from the amounts they are ultimately settled for due to volatility between the valuation date and settlement date. In response to the developing COVID-19 pandemic, there is increased volatility in the financial markets. CAPREIT is subject to these market fluctuations, impacting interest rates upon which the fair values of CAPREIT's interest rate swaps are derived, and expects to continue to experience significant volatility in interest rates as the situation evolves. As a result, there is uncertainty in the future expected interest rates (forward curves) upon which are based the expected variable cash receipts, thereby impacting the fair values of CAPREIT's interest rate swaps.

iii) Investment in IRES

In response to the developing COVID-19 pandemic, there is increased volatility in the financial markets. IRES is subject to these market fluctuations, impacting its share price, which may continue to experience significant volatility as the situation evolves. CAPREIT has determined that the deficiency of the market capitalization of IRES over the carrying amount of the investment as at December 31, 2021 is an indicator of impairment. As such, an impairment assessment was performed. The recoverable amount was determined using a value in use approach using inputs classified as Level 3 in the fair value hierarchy. Based on this analysis, an impairment of \$nil was recorded for the year ended December 31, 2021. Refer to note 7 for further information.

iv) Valuation of Goodwill

CAPREIT recognized goodwill pursuant to the reverse acquisition of European Commercial Real Estate Investment Trust ("ECREIT") on March 29, 2019. Due to the COVID-19 pandemic, there is an increased risk that goodwill may be impaired as a result of the economic uncertainty and the financial market response. CAPREIT has determined that the decline in the market capitalization of ERES as at December 31, 2021 is an indicator of impairment and as such, an impairment assessment was performed. An impairment of \$nil has been recorded for the year ended December 31, 2021. Refer to note 9 for further information.

4. Recent Investment Property Acquisitions

CAPREIT completed the following investment property acquisitions since January 1, 2020, which have contributed to the operating results effective from their respective acquisition dates. The below tables do not include \$4,457 relating to CAPREIT's operating lease buyout in the year ended December 31, 2021 (December 31, 2020 – \$158,565).

Acquisitions Completed During the Year Ended December 31, 2021

Acquisition Date	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate (%) ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
May 5, 2021	485	Oshawa, ON	\$ 105,904	\$ — ⁽³⁾	\$ 54,673 ⁽³⁾	1.88 ⁽³⁾	3.00 ⁽³⁾
May 31, 2021	154	Montréal, QC	31,727	18,037	—	1.78	4.58
June 2, 2021	228	Victoria, BC	78,306	33,702	—	3.08	1.67
June 9, 2021	77	Victoria, BC	20,263	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 24, 2021	30	Victoria, BC	9,906	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 25, 2021	548	London, ON	110,461	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
June 30, 2021	104	The Netherlands	45,879	—	21,593 ⁽⁶⁾	1.16 ⁽⁶⁾	6.00 ⁽⁶⁾
June 30, 2021	33	The Netherlands	27,202	—	13,995 ⁽⁶⁾	1.16 ⁽⁶⁾	6.00 ⁽⁶⁾
July 5, 2021	342	Lakeshore, ON	21,703	8,573	—	4.08	4.17
August 31, 2021 ⁽⁴⁾	787	Toronto, ON	165,626	37,225	—	3.16	7.68
September 7, 2021	193	West Kelowna, BC	63,385	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
September 22, 2021 ⁽⁵⁾	141	Toronto, ON	123,111	34,077	—	1.93	0.17
October 1, 2021	260	Québec City, QC	74,159	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
November 30, 2021	63	The Netherlands	29,966	—	13,949 ⁽⁶⁾	1.16 ⁽⁶⁾	5.75 ⁽⁶⁾
November 30, 2021	162	The Netherlands	88,732	—	41,921 ⁽⁶⁾	1.16 ⁽⁶⁾	5.75 ⁽⁶⁾
December 22, 2021	137	The Netherlands	57,167	—	24,839 ⁽⁶⁾	1.16 ⁽⁶⁾	5.75 ⁽⁶⁾
Total	3,744		\$ 1,053,497	\$ 131,614	\$ 170,970		

⁽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 cash and cash equivalents and CAPREIT's Acquisition and Operating Facility.

⁽⁴⁾ CAPREIT purchased the remaining 50% interest in a portfolio of 787 apartment suites and townhouse units. CAPREIT acquired its initial 50% interest on July 31, 2008.

⁽⁵⁾ Total acquisition cost was increased by \$7,985, relating to the difference between the agreed upon issuance price of \$56.00 per Exchangeable LP Unit and the fair value of the Exchangeable LP Units on the acquisition date. Refer to note 17 for further information.

⁽⁶⁾ Subsequent acquisition financing obtained is collateralized by a pool of investment properties. The amount of subsequent acquisition financing shown above has been allocated based on fair value of these properties as determined by the lender. The interest rates shown include the corresponding interest rate swaps.

Acquisitions Completed During the Year Ended December 31, 2020

Acquisition Date	Suite or Site Count	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate (%) ⁽¹⁾	Term to Maturity (Years) ⁽²⁾
February 10, 2020	1,503	Halifax, NS	\$ 394,734	\$ 108,744	\$ 76,174	1.84	4.66
March 4, 2020	112	Montreal, QC	44,331	—	33,427	2.06	10.00
March 16, 2020	109	Edmonton, AB	28,392	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
August 13, 2020	88	Halifax, NS	23,033	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
September 1, 2020	120	The Netherlands	32,233	—	17,526	0.97	4.00
September 21, 2020	301	London & Sarnia, ON	51,097	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
October 1, 2020	169	Espanola, Wingham & Midland, ON	9,909	3,911	—	4.77	7.94
October 1, 2020	113	The Netherlands	42,353	—	22,831	0.97	4.00
November 26, 2020	147	Maple Ridge, BC	29,272	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
November 30, 2020	380	Ottawa, ON	97,482	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 1, 2020	84	The Netherlands	35,667	—	19,375	0.97	4.00
December 2, 2020	38	Halifax, NS	12,149	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾	— ⁽³⁾
December 29, 2020	98	The Netherlands	19,840	—	10,792	0.97	4.00
Total	3,262		\$ 820,492	\$ 112,655	\$ 180,125		

⁽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.

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

5. Dispositions

The table below summarizes the dispositions completed since January 1, 2020.

Disposition Completed During the Year Ended December 31, 2021

Disposition Date	Suite Count	Region(s)	Sale Price	Cash Proceeds ⁽⁴⁾	VTB Issued ⁽²⁾
September 2, 2021 ⁽¹⁾	1	The Netherlands	\$ 461	\$ 461	\$ —
September 29, 2021	86	Toronto, ON	52,000	5,200	46,800
October 1, 2021 ⁽³⁾	506	Toronto, ON	90,920	22,730	68,190
Total	593		\$ 143,381	\$ 28,391	\$ 114,990

⁽¹⁾ Represents disposition of one individual single family home.

⁽²⁾ Refer to note 8 for further information.

⁽³⁾ CAPREIT disposed of its 33.3% interest in 506 apartment suites.

⁽⁴⁾ Prior to working capital adjustments.

Dispositions Completed During the Year Ended December 31, 2020

Disposition Date	Suite Count	Region(s)	Sale Price	Cash Proceeds	Mortgage Discharged
January 31, 2020 ⁽¹⁾	—	Germany	\$ 25,585	\$ 15,419	\$ 10,166
March 30, 2020	6	Charlottetown, PEI	675	675	—
July 15, 2020	188	Calgary, AB	30,500	19,335	11,165
Total	194		\$ 56,760	\$ 35,429	\$ 21,331

⁽¹⁾ This is a commercial property held by ERES consisting of 58,513 square feet.

For the years ended December 31, 2021 and 2020, a loss of \$241 and \$1,387, respectively, was recognized in connection with property dispositions. The loss represents the difference between the net proceeds after transaction costs from the dispositions and the fair value of the respective properties at the date of disposition.

6. Investment Properties

Reconciliation of Carrying Amounts of Investment Properties by Type

	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
For the Year Ended December 31, 2021				
Balance of investment properties, beginning of the year	\$ 14,624,762	\$ 114,775	\$ 261,054	\$ 15,000,591
Additions:				
Acquisitions	1,053,497	–	–	1,053,497
Property capital investments	303,850	2,580	7,955	314,385
Capitalized leasing costs ⁽¹⁾	1,386	2	(75)	1,313
Right-of-use asset ⁽²⁾	–	–	10,067	10,067
Operating lease buyout ⁽³⁾	–	4,457	–	4,457
Dispositions	(143,381)	–	–	(143,381)
Transfer between investment property types ⁽³⁾	23,810	(23,810)	–	–
Fair value adjustments	1,043,649	16,146	(11,053)	1,048,742
Loss on foreign currency translation	(187,752)	–	–	(187,752)
Balance of investment properties, end of the year	\$ 16,719,821	\$ 114,150	\$ 267,948	\$ 17,101,919

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

⁽²⁾ On April 1, 2021, the basic annual rent of an existing land lease was increased in accordance with the lease agreement, which stipulates that the basic annual rent be renegotiated every 20 years to reflect the land market value.

⁽³⁾ During the year ended December 31, 2021, CAPREIT purchased the freehold interest on one of its operating leasehold properties and converted the ownership into fee simple.

	Fee Simple and MHC Land Lease Sites	Operating Leasehold Interests	Land Leasehold Interests	Total
For the Year Ended December 31, 2020				
Balance of investment properties, beginning of the year	\$ 11,934,504	\$ 965,869	\$ 196,053	\$ 13,096,426
Additions:				
Acquisitions	825,681	–	–	825,681
Property capital investments	231,822	5,304	4,937	242,063
Capitalized leasing costs ⁽¹⁾	1,248	(4)	(585)	659
Operating lease buyout ⁽²⁾	–	158,565	–	158,565
Dispositions	(56,760)	–	–	(56,760)
Transfer between investment property types ⁽²⁾	945,507	(1,023,879)	78,372	–
Fair value adjustments	604,662	8,920	(17,723)	595,859
Gain on foreign currency translation	138,098	–	–	138,098
Balance of investment properties, end of the year	\$ 14,624,762	\$ 114,775	\$ 261,054	\$ 15,000,591

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

⁽²⁾ During the year ended December 31, 2020, CAPREIT purchased the freehold interest on 10 of its operating leasehold properties and converted the ownership into nine fee simple and one land leasehold interest.

Valuation Basis

Beginning in the year ended December 31, 2021, CAPREIT appraises some of its Canadian investment properties using valuations prepared by its internal valuation team. This team consists of individuals who are knowledgeable and have specialized industry experience in real estate valuations and report directly to a senior member of CAPREIT's management. The internal valuation team's processes and results are reviewed and approved by senior management of CAPREIT, including the President and Chief Executive Officer and Chief Financial Officer.

As at December 31, 2021, CAPREIT had approximately 94% by value or 68% by number of properties of its Canadian investment properties appraised by a qualified external appraiser (December 31, 2020 – 100% and 100%, respectively). External valuations for the Canadian portfolio, where obtained, are performed at year-end with quarterly updates provided on capitalization rates. CAPREIT obtains external valuations for a cross-section of investment properties that represent different geographical locations across the Canadian portfolio. For internal valuations, the appraisal methodologies used are consistent with the practices employed by the external appraiser. The fair values of all of CAPREIT's European residential portfolio are determined by qualified external appraisers quarterly. The qualified external appraisers hold recognized relevant professional qualifications and have recent experience in the location and category of the respective property.

Due to the COVID-19 pandemic and its ongoing impact on the economy, and specifically its unknown future impact on the real estate market, there is heightened uncertainty surrounding the valuation of the investment properties. Consequently, there is a need to apply a higher degree of judgment as it pertains to the forward-looking assumptions that underlie CAPREIT's valuation methodologies.

Fair values for investment properties are classified as Level 3 in the fair value hierarchy, as disclosed in note 20. Discussion of the valuation process, the valuation methodology (as mentioned below), key inputs and results is held between CAPREIT and the qualified external appraisers at least once every quarter, in line with CAPREIT's quarterly reporting dates.

To determine fair value, CAPREIT first considers whether it can use current prices in an active market for a similar property in the same location and condition. CAPREIT has concluded there is insufficient market evidence on which to base investment property valuation using this approach, and has therefore determined to use either the DC or the DCF methods to arrive at the fair value of the investment properties. Capitalization rates and discount rates used are based on recently closed transactions for similar properties and other current market indicators for similar properties. Investment properties have been valued using the following methods and key assumptions:

a) Fee Simple and MHC Land Lease Sites

For its Canadian portfolio, CAPREIT utilizes the DC method. Under this method, capitalization rates are applied to a stabilized net operating income ("NOI") representing market-based NOI assumptions (property revenue less property operating expenses adjusted for market-based assumptions such as long-term vacancy rates, management fees, repairs and maintenance costs, and general and administration costs). The most significant assumption is the capitalization rate for each specific property. The capitalization rate is based on the actual location, size and quality of the property, taking into account any available market data at the valuation date. Generally, an increase in stabilized NOI will result in an increase to the fair value of an investment property. An increase in the capitalization rate will result in a decrease to the fair value of an investment property. The capitalization rate magnifies the effect of a change in stabilized NOI, with a lower capitalization rate causing more change in fair value than would a higher capitalization rate.

For its European portfolio, CAPREIT utilizes the DC method, described above, and the DCF method. Under the DCF method, discount rates are applied to the forecasted cash flows reflecting market-based NOI assumptions as described above. The most significant assumptions are the stabilized cash flows, the discount rate applied over the term of the cash flows and the capitalization rate used to determine the terminal value of the investment properties. Generally, an increase in forecasted cash flows will result in an increase to the fair value of an investment property. The discount rate is generally the weighted average cost of capital that is appropriate to the cash flow risk for the investment property. An increase in the discount rate will result in a decrease to the fair value of an investment property. The terminal capitalization rate is generally determined with reference to recent transactions for similar investment properties. An increase in the terminal capitalization rate will result in a decrease to the fair value of an investment property.

b) Operating Leasehold Interests

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

c) Options to Purchase the Related Operating Leasehold Interests

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

d) Land Leasehold Interests

CAPREIT's land leasehold interests consist of four investment properties with ground leases and one investment property with an air rights lease with various expiry dates (subject to revisions at periodic intervals) between 2045 and 2072. One lease matures in 2045, two mature in 2068, one matures in 2070 and another matures in 2072. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. CAPREIT utilizes the DCF method for properties that are subject to land or air rights leases. Under this method, discount rates are applied to the forecasted cash flows reflecting market-based leasing assumptions for that specific property as well as assumptions about renewal and new leasing activity. The most significant assumption is the discount rate applied over the term of the lease. Forecasted cash flows are reduced for contractual land lease payments and the discount rates reflect uncertainty regarding the renegotiation of land lease payments during and at the end of the term of the leases.

A summary of the market assumptions and ranges for each type of property interest, along with their fair values, is presented below as at December 31, 2021 and December 31, 2020:

As at December 31, 2021						
Type of Interest	Fair Value	WA NOI / Cash Flow ⁽⁵⁾	Rate Type	Max	Min	Weighted Average
Fee simple interests ⁽¹⁾	\$ 16,011,231	\$ 3,591	Capitalization rate	9.53%	2.05%	3.57%
MHC sites	708,590	1,913	Capitalization rate	8.14%	4.85%	5.67%
Operating leasehold interests ^{(2),(3)}	114,150	2,854	Discount rate ⁽⁶⁾	5.25%	5.00%	5.08%
Land leasehold interests ⁽⁴⁾	221,842	3,316	Discount rate ⁽⁶⁾	7.50%	5.50%	6.43%
Total Investment Properties excluding right-of-use assets	\$ 17,055,813					
Add: Right-of-use assets, net of fair value change	46,106					
Total Investment Properties	\$ 17,101,919					

As at December 31, 2020						
Type of Interest	Fair Value	WA NOI / Cash Flow ⁽⁵⁾	Rate Type	Max	Min	Weighted Average
Fee simple interests ⁽¹⁾	\$ 13,986,832	\$ 3,768	Capitalization rate	8.61%	2.25%	3.82%
MHC sites	637,930	1,881	Capitalization rate	8.14%	4.68%	5.96%
Operating leasehold interests ^{(2),(3)}	114,775	2,487	Discount rate ⁽⁶⁾	5.50%	5.25%	5.32%
Land leasehold interests ⁽⁴⁾	224,440	3,122	Discount rate ⁽⁶⁾	7.50%	5.50%	6.47%
Total Investment Properties excluding right-of-use assets	\$ 14,963,977					
Add: Right-of-use assets, net of fair value change	36,614					
Total Investment Properties	\$ 15,000,591					

⁽¹⁾ The fee simple interests include \$2,676,150 (December 31, 2020 – \$2,299,435) of CAPREIT's European portfolio with an implied capitalization rate of 3.55% (December 31, 2020 – 3.87%), which were valued using the DCF method at a weighted average discount rate of 5.64% and a terminal capitalization rate of 4.46% (December 31, 2020 – 5.75% and 4.92%, respectively).

⁽²⁾ The fair values of operating leasehold interests include the fair values of the options to purchase the related freehold interests of \$50,010 as at December 31, 2021 (December 31, 2020 – \$42,235).

⁽³⁾ For the two operating leasehold interests remaining as at December 31, 2021 (December 31, 2020 – three), the contractual weighted average remaining lease term on operating leasehold interests is 14.4 years (December 31, 2020 – 14.9 years) based on the assumption that the early purchase option is not exercised. If the purchase option is exercised at the earliest allowable date, the weighted average remaining lease term on the two operating leasehold interests is 4.4 years as at December 31, 2021 (December 31, 2020 – 4.9 years).

⁽⁴⁾ The fair values of leasehold interests subject to land leases reflect the estimated air rights or land lease payments over the term of the leases.

⁽⁵⁾ Weighted average ("WA") net operating income ("NOI") or cash flow by property fair value.

⁽⁶⁾ Represents the discount rate used to determine the fair value of operating leasehold and land leasehold interests using the DCF method. A weighted average stabilized net operating income growth for operating leasehold interests of 3.0% has been assumed as at December 31, 2021 and December 31, 2020, respectively.

The table below summarizes the impact of changes in both the capitalization rate and stabilized NOI on the fair value of CAPREIT's investment properties:

As at December 31, 2021	Change in NOI					
		(2.00)%	(1.00)%	–%	+1.00%	+2.00%
Change in Capitalization Rate ⁽¹⁾	(0.50)%	\$ 2,387,826	\$ 2,585,721	\$ 2,783,615	\$ 2,981,509	\$ 3,179,403
	(0.25)%	917,510	1,100,401	1,283,292	1,466,183	1,649,074
	–%	(340,046)	(169,987)	–	170,131	340,190
	+0.25%	(1,428,749)	(1,269,799)	(1,110,849)	(951,900)	(792,950)
	+0.50%	(2,381,028)	(2,231,795)	(2,082,563)	(1,933,330)	(1,784,098)

⁽¹⁾ For operating leasehold interests, land leasehold interests and European properties, 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, land leasehold interests and European properties to determine the impact on fair value of the total portfolio.

7. Investment in Associate

As at December 31, 2021, CAPREIT has an 18.7% (December 31, 2020 – 18.8%) share ownership in IRES, an Irish residential REIT listed on the Euronext Dublin exchange. CAPREIT's subsidiary, IRES Fund Management Limited, entered into an external investment management agreement to perform property and asset management services for 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 judgment 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 and influence exerted over IRES by its independent board of directors and CEO. As at December 31, 2021, CAPREIT concluded that it continues to exert significant influence over IRES. CAPREIT will continue to reassess this conclusion should its ownership interest or the terms of the asset management agreement change. Refer to note 29 for further details.

The table below discloses further details about CAPREIT's investment in IRES:

As at	December 31, 2021	December 31, 2020
Carrying value of investment in associate	\$ 246,505	\$ 257,210
Share ownership (%)	18.7%	18.8%
Number of IRES shares	98,910,000	98,910,000
IRES share price (€)	1.68	1.50
Fair value of investment in associate based on quoted market price ⁽¹⁾	\$ 238,564	\$ 231,568

⁽¹⁾ CAPREIT has determined that the deficiency of the market capitalization of IRES over the carrying amount of the investment as at December 31, 2021 is an indicator of impairment. An impairment analysis was performed and no impairment was identified for the year ended December 31, 2021 (year ended December 31, 2020 – no impairment).

8. Mortgages Receivable

As disclosed in note 5, CAPREIT issued VTBs in connection with the disposal of two investment properties. Interest is payable monthly or quarterly, with the principal due at maturity. The borrowers can prepay the principal, in whole or in part, at any time or times during the term of the mortgage without notice or penalty. The table below presents the mortgages receivable:

Issuance date	Maturity year	Interest rate	December 31, 2021	December 31, 2020
September 29, 2021 ⁽¹⁾	2023	2.33%	\$ 46,800	\$ –
October 1, 2021	2024	3.00%	68,190	–
Total			\$ 114,990	\$ –

⁽¹⁾ The borrower has the option to extend the VTB for an additional year at an interest rate of 4.00% per annum.

9. Other Assets

As at	Note	December 31, 2021	December 31, 2020
Other non-current assets			
Property, plant and equipment ⁽¹⁾		\$ 47,430	\$ 59,850
Accumulated amortization of property, plant and equipment		(33,606)	(43,330)
Net property, plant and equipment		13,824	16,520
Right-of-use asset, net of amortization ⁽²⁾		3,365	1,141
Deferred loan costs, net ⁽³⁾		1,339	451
Fair value through profit or loss investment		51,286	37,198
Deferred tax asset	23	5,010	2,032
Goodwill ⁽⁴⁾		15,133	16,468
Total		\$ 89,957	\$ 73,810
Other current assets			
Prepaid expenses		\$ 10,732	\$ 9,969
Other receivables		17,866	15,411
Restricted cash		10,986	9,355
Deposits		7,543	10,230
MHC home inventory		8,138	–
Total		\$ 55,265	\$ 44,965

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

⁽²⁾ On October 25, 2021, CAPREIT issued a lease extension notice to extend one of its existing leases by five years. As a result, CAPREIT reassessed the lease term and increased the right-of-use asset and the lease liability by \$2,833. Amortization during the year ended December 31, 2021 is \$609 (year ended December 31, 2020 – \$636).

⁽³⁾ Represents deferred loan costs related to the revolving credit facilities net of accumulated amortization of \$1,673 (December 31, 2020 – \$12,994).

⁽⁴⁾ CAPREIT has determined that the decline in the market capitalization of ERES as at December 31, 2021 is an indicator of impairment and as such, an impairment assessment was performed. No impairment has been recorded for the year ended December 31, 2021 (December 31, 2020 – \$nil).

10. Other Current Liabilities

As at	Note	December 31, 2021	December 31, 2020
Current tax liability	23	\$ 2,808	\$ 2,362
Mortgage interest payable		11,565	10,446
Current lease liabilities		1,119	1,177
Total		\$ 15,492	\$ 13,985

11. Accounts Payable and Accrued Liabilities

As at	December 31, 2021	December 31, 2020
Accounts payable	\$ 56,835	\$ 58,378
Accrued liabilities	63,659	51,843
Deferred revenue	15,708	14,399
Distributions payable to ERES non-controlling unitholders	745	920
Other	4,552	6,348
Total	\$ 141,499	\$ 131,888

12. ERES Units Held by Non-Controlling Unitholders

The ERES units held by non-controlling unitholders are classified as equity on ERES's balance sheets but are classified as a liability on CAPREIT's consolidated balance sheets. ERES units are redeemable at any time, in whole or in part, by the unitholder.

As at December 31, 2021, CAPREIT valued the ERES units held by non-controlling unitholders at \$356,695 (December 31, 2020 – \$328,535) based on the closing price on the TSX and classified the units as a liability on the consolidated balance sheets. The mark-to-market loss (gain) arises from the (increase) decrease in ERES's unit price.

For the Year Ended December 31,	2021	2020
Mark-to-market loss (gain) on ERES units	\$ 25,895	\$ (37,020)
Distributions to ERES non-controlling unitholders	12,756	12,542
Loss (gain) on non-controlling interest	\$ 38,651	\$ (24,478)

13. Mortgages Payable

As at December 31, 2021, mortgages payable bear interest at a weighted average effective rate of 2.52% (December 31, 2020 – 2.61%) and mature between 2022 and 2036. The effective interest rate as at December 31, 2021 includes 0.05% (December 31, 2020 – 0.05%) for the amortization of the realized component of the loss on settlement of derivative financial instruments of \$32,494 included in accumulated other comprehensive (loss) income (December 31, 2020 – \$32,494). As at December 31, 2021, 99.1% of CAPREIT's mortgages payable are financed at fixed interest rates (December 31, 2020 – 99.3%). Investment properties at fair value of \$15,919,474 have been pledged as security as at December 31, 2021 (December 31, 2020 – \$14,023,910). CAPREIT has investment properties with a fair value of \$1,182,445 as at December 31, 2021 that are not encumbered by mortgages (December 31, 2020 – \$976,681). Of these, \$893,320 of the investment properties are located in Canada (December 31, 2020 – \$974,480) and secure only CAPREIT's acquisition and operating facility ("Acquisition and Operating Facility"). \$274,240 of these Canadian investment properties also carry a negative pledge relating to the ERES revolving credit facility ("ERES Credit Facility"). Refer to note 14 for further information. As at December 31, 2021, unamortized deferred financing costs of \$17,989, unamortized fair value loss of \$1,992 and unamortized prepaid CMHC premiums of \$109,660 are netted against mortgages payable (December 31, 2020 – \$15,453, \$1,330 and \$96,255, respectively).

Future principal repayments as at December 31, 2021 for the years indicated are as follows:

As at December 31, 2021	Principal Amount	% of Total Principal
2022	\$ 643,460 ⁽¹⁾	10.3
2023	547,374 ⁽¹⁾	8.8
2024	606,244 ⁽¹⁾	9.7
2025	922,025 ⁽¹⁾	14.8
2026	874,195 ⁽¹⁾	14.0
2027 – 2036	2,632,424 ⁽¹⁾	42.4
	6,225,722	100.0
Deferred financing costs, fair value adjustments and prepaid CMHC premiums	(125,657)	
Total portfolio	\$ 6,100,065	

As at	December 31, 2021	December 31, 2020
Represented by:		
Mortgages payable – non-current ⁽¹⁾	\$ 5,456,605	\$ 4,811,131
Mortgages payable – current ⁽¹⁾	643,460	590,071
	\$ 6,100,065	\$ 5,401,202

⁽¹⁾ Included in mortgages payable as at December 31, 2021 are non-amortizing mortgages from ERES.

14. Bank Indebtedness

Effective June 18, 2021, CAPREIT entered into a new credit facility agreement upon expiry of the previous one. CAPREIT made the following changes to its credit facility agreement, among other things: (i) decreased its Acquisition and Operating Facility from \$740,000 to \$600,000, (ii) lower margin and fees, (iii) replaced the conversion feature with a three-year term from June 18, 2021 including the possibility to request a renewal or extension at any time, subject to the lenders' consent, and (iv) changed certain financial covenants, which are further discussed in note 22.

Effective June 30, 2020, CAPREIT amended its credit facility agreement to change the "conversion date" from June 30, 2020 to June 30, 2021 for when the revolving Acquisition and Operating Facility converts to a one-year non-revolving term facility. Prior to the conversion date, CAPREIT can request a one-year extension. The lenders have discretion on whether to grant the extension. The bridge facility on the Acquisition and Operating Facility expired on March 15, 2020.

CAPREIT's credit facilities include the \$600,000 Acquisition and Operating Facility, which can be borrowed in US dollars ("USD"), euros or Canadian dollars (collectively, the "Credit Facilities"). The \$65,000 five-year non-revolving term credit facility (included in mortgages payable) that was included in the previous Credit Facilities was repaid on January 15, 2021. It bore interest at the bankers' acceptance rate plus 1.4% per annum. The Acquisition and Operating Facility matures on June 18, 2024. The interest rate on the Acquisition and Operating Facility is determined by interest rates on prime advances, bankers' acceptances, and USD and euro LIBOR utilized during the year. The Credit Facilities are subject to compliance with the various provisions of the Credit Facilities. The Credit Facilities are used to fund operations, acquisitions, capital improvements, letters of credit and working capital deficiencies.

The ERES revolving credit facility ("ERES Credit Facility") and the ERES one-year revolving bridge credit facility ("ERES Bridge Facility"), each originally maturing on July 8, 2021, were extended to October 29, 2021, under the same terms and conditions. On October 29, 2021, ERES amended and renewed its existing ERES Credit Facility with the same two Canadian chartered banks, providing up to €100,000 for a three-year period ending on October 29, 2024, which resulted in (i) combining the ERES Credit Facility and the ERES Bridge Facility; (ii) lower interest rates and fees, (iii) certain modifications to CAPREIT's financial covenants; and (iv) a negative pledge of an unencumbered property pool provided by CAPREIT, such that it represents 1.50x the facility amount of €100,000.

As at December 31, 2021	Acquisition and Operating Facility	ERES Credit Facility	Consolidated Total
Facility	\$ 600,000	\$ 143,910	\$ 743,910
Less: USD LIBOR borrowings	(104,329) ⁽¹⁾	(102,049) ⁽⁴⁾	(206,378)
Canadian borrowings	(104,488) ⁽²⁾	–	(104,488)
Letters of credit	(6,673)	–	(6,673)
Available borrowing capacity	\$ 384,510	\$ 41,861	\$ 426,371
Weighted average interest rate including interest rate swaps	1.44% ⁽³⁾	0.57% ⁽⁵⁾	1.15%

As at December 31, 2020	Acquisition and Operating Facility	ERES Credit Facility	Consolidated Total
Facility	\$ 740,000	\$ 156,080	\$ 896,080
Less: USD LIBOR borrowings	(104,810) ⁽¹⁾	(13,743) ⁽⁴⁾	(118,553)
Letters of credit	(7,193)	–	(7,193)
Available borrowing capacity	\$ 627,997	\$ 142,337	\$ 770,334
Weighted average interest rate including interest rate swaps	1.10% ⁽³⁾	0.65% ⁽⁵⁾	1.05%

⁽¹⁾ CAPREIT has net USD LIBOR borrowings of USD \$82,292 (December 31, 2020 – USD \$82,320) that bear interest at the USD LIBOR rate plus a margin of 1.35% per annum as at December 31, 2021 (December 31, 2020 – 1.65%).

⁽²⁾ Canadian borrowings bear interest at the bankers' acceptance rate plus a margin of 1.35% per annum as at December 31, 2021 (December 31, 2020 – 1.65%).

⁽³⁾ Excluding the impact of cross-currency interest rate swaps, the weighted average interest rate on the Acquisition and Operating Facility is 1.76% (December 31, 2020 – 1.78%). For details of the swaps, refer to note 21.

⁽⁴⁾ ERES has USD LIBOR borrowings of USD \$80,300 (December 2020 – USD \$10,800) that bear interest at the USD LIBOR rate plus a margin of 1.35% per annum as at December 31, 2021 (December 31, 2020 – 1.65%).

⁽⁵⁾ Excluding the impact of cross-currency interest rate swaps, the weighted average interest rate on the ERES Credit Facility is 1.45% (December 31, 2020 – 1.79% on the ERES Credit Facility and ERES Bridge Facility). For details of the swaps, refer to note 21.

15. Unit-based Compensation Financial Liabilities

Units are issuable pursuant to CAPREIT's unit-based compensation plans, namely the Employee Unit Purchase Plan ("EUPP"), the Deferred Unit Plan ("DUP") and the Restricted Unit Rights Plan ("RUR Plan"). As at December 31, 2021, the maximum number of units issuable under CAPREIT's unit-based incentive plans (excluding ERES) is 9,500,000 units (December 31, 2020 – 9,500,000 units). The maximum number of units available for future issuance under these unit-based incentive plan agreements as at December 31, 2021 is 355,228 units (December 31, 2020 – 550,279 units).

ERES units are issuable pursuant to ERES's unit options plan ("ERES UOP"). The maximum number of unit options that may be reserved under the ERES UOP is 10% of the outstanding ERES units (including ERES Class B LP Units). As at December 31, 2021, the maximum number of unit options issuable under the ERES UOP is 18,419,405 unit options (December 31, 2020 – 18,861,857 unit options).

The unit rights and unit options issued or outstanding under CAPREIT's incentive plans and the ERES UOP as at December 31, 2021 and 2020 are as follows:

Year Ended December 31, 2021 (Number of units)	ERES UOP	DUP	RUR	Total CAPREIT ⁽¹⁾
Unit rights and unit options outstanding as at January 1, 2021	4,199,694	174,805	563,387	738,192
Issued, cancelled or granted during the year				
Issued or granted	530,000	17,103	113,511	130,614
Exercised or settled in Trust Units	–	–	(204,683)	(204,683)
Cancelled or forfeited	(30,000)	–	(5,831)	(5,831)
Distributions reinvested	–	4,515	13,316	17,831
Unit rights and unit options outstanding as at December 31, 2021	4,699,694	196,423	479,700	676,123
Year Ended December 31, 2020 (Number of units)	ERES UOP	DUP	RUR	Total CAPREIT ⁽¹⁾
Unit rights and unit options outstanding as at January 1, 2020	4,256,014	150,996	542,087	693,083
Issued, cancelled or granted during the year				
Issued or granted	–	19,263	87,985	107,248
Exercised or settled in Trust Units	–	–	(80,408)	(80,408)
Cancelled or forfeited	(56,320)	–	(2,393)	(2,393)
Distributions reinvested	–	4,546	16,116	20,662
Unit rights and unit options outstanding as at December 31, 2020	4,199,694	174,805	563,387	738,192

⁽¹⁾ Total CAPREIT excluding ERES UOP.

The table below summarizes the change in the total unit-based compensation financial liabilities for the years ended December 31, 2021 and 2020, including the settlement of such liabilities through the issuance of Trust Units and ERES units.

For the Year Ended	December 31, 2021	December 31, 2020
Total unit-based compensation financial liabilities, beginning of the year	\$ 33,747	\$ 33,049
Unit-based compensation expense	14,615	4,705
Settlement of unit-based compensation awards for Trust Units and ERES units	(11,306)	(4,043)
(Gain) loss on foreign currency translation	(161)	36
Total unit-based compensation financial liabilities, end of the year	\$ 36,895	\$ 33,747

Unit-based compensation financial liabilities are as follows:

As at	December 31, 2021	December 31, 2020
Non-current		
RUR	\$ 14,179	\$ 13,887
ERES UOP	93	236
	\$ 14,272	\$ 14,123
Current		
DUP	\$ 11,777	\$ 8,738
RUR	8,038	9,345
ERES UOP	2,808	1,541
	\$ 22,623	\$ 19,624
Total unit-based compensation financial liabilities	\$ 36,895	\$ 33,747

Units or Unit-based Compensation Financial Liabilities Held by Trustees, Officers and Other Senior Management

As at December 31, 2021, 0.7% (December 31, 2020 – 0.7%) of all Trust Units outstanding and unit-based compensation financial liabilities were held by trustees, officers and other senior management of CAPREIT.

16. Unit-based Compensation Expense

These costs represent unit-based compensation expense, which include fair value remeasurements at each reporting date recognized over the respective vesting periods for each plan for the years ended December 31, 2021 and 2020, as follows:

For the Year Ended December 31,	2021	2020
DUP	\$ 3,048	\$ 733
RUR Plan	10,453	3,331
EUPP	496	455
ERES UOP	1,114	641
Unit-based compensation expense	\$ 15,111	\$ 5,160

a) DUP

The DUP gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred units (“Deferred Units”). Each trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the “Elected Percentage”) of their annual retainer payable in respect of a calendar year (the “Elected Amount”), subject to an annual maximum Elected Percentage established by the Human Resources and Compensation Committee, in the form of Deferred Units, in lieu of cash. CAPREIT will match the Elected Amount in the form of Deferred Units having a value equal to the volume-weighted average price of all Trust Units traded on the TSX for the five trading days immediately preceding the date on which Board compensation is payable. The maximum Elected Percentage in respect of 2021 is 100.0% (2020 – 100.0%) of a trustee’s annual Board compensation of \$85 for 2021 and 2020.

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

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

For the Year Ended	December 31, 2021			December 31, 2020		
	Weighted Average Issue Price	Fair Value per Unit	Number of Units	Weighted Average Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the year	\$ 32.42	\$ 49.99	174,805	\$ 30.09	\$ 53.01	150,996
Granted during the year	57.83	–	17,103	46.69	–	19,263
Additional unit distributions	57.13	–	4,515	49.38	–	4,546
Outstanding, end of the year	\$ 35.20	\$ 59.96	196,423	\$ 32.42	\$ 49.99	174,805

The fair value of DUPs represents the closing price of the Trust Units on the TSX on the last trading day on which the Trust Units traded as of the reporting date.

b) RUR Plan

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

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

For the Year Ended	December 31, 2021			December 31, 2020		
	Weighted Average Issue Price	Fair Value per Unit	Number of Units	Weighted Average Issue Price	Fair Value per Unit	Number of Units
Outstanding, beginning of the year	\$ 38.71	\$ 49.99	563,387	\$ 32.69	\$ 53.01	542,087
Granted during the year	50.29	–	113,511	59.00	–	87,985
Additional unit distributions	56.59	–	13,316	48.96	–	16,116
Settled or cancelled during the year	32.96	–	(210,514)	24.73	–	(82,801)
Outstanding, end of the year	\$ 44.47	\$ 59.96	479,700	\$ 38.71	\$ 49.99	563,387

The fair value of RURs represents the closing price of the Trust Units on the TSX on the last trading day on which the Trust Units traded as of the reporting date.

c) EUPP

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

17. Exchangeable LP Units

On September 22, 2021, Exchangeable LP units were issued in connection with the acquisition of an investment property as described in notes 4 and 27. On June 30, 2020, Exchangeable LP Units were issued in connection with the operating lease buyouts as described in notes 6 and 27.

Exchangeable LP 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. Exchangeable LP Units are not eligible for the Distribution Reinvestment Plan (“DRIP”). An equivalent number of special voting units (“Special Voting Units”) were issued at the same time as the Exchangeable LP Units. The holders of these Special Voting 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 LP 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 LP Units held. The carrying value of the Exchangeable LP Units is measured at their fair value of \$100,684 as at December 31, 2021 (December 31, 2020 – \$16,632), which is based on the closing price of the Trust Units on the TSX. The number of issued and outstanding Exchangeable LP Units is as follows:

For the Year Ended December 31,	2021	2020
Exchangeable LP Units outstanding, beginning of the year	332,703	–
Issued or granted	1,346,487	632,761
Exchanged for Trust Units	–	(300,058)
Exchangeable LP Units outstanding, end of the year	1,679,190	332,703

18. Unitholders' Equity

All Trust Units outstanding are fully paid, have no par value and are voting Trust Units. The authorized capital of CAPREIT consists of an unlimited number of Trust Units, an unlimited number of Special Voting Units and 25,840,600 preferred units (“Preferred Units”). As at December 31, 2021, no Preferred Units were issued and outstanding. Trust Units represent a Unitholder’s proportionate undivided beneficial interest in CAPREIT. No Trust Unit has any preference or priority over another. No Unitholder has or is deemed to have any right of ownership in any of the assets of CAPREIT. Each Trust 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. 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, and accordingly earnings per unit has not been presented.

The number of issued and outstanding Trust Units (excluding unit rights issued or outstanding under CAPREIT’s incentive plans) is as follows:

For the Year Ended December 31,	2021	2020
Trust Units outstanding, beginning of the year	171,751,839	169,869,197
Issued or granted during the year in connection with the following:		
Exchangeable LP Units	–	300,058
DRIP	1,397,445	1,448,190
EUPP	52,439	53,986
RUR Plan	204,683	80,408
Trust Units outstanding, end of the year	173,406,406	171,751,839

a) New Trust Units Issued**Year Ended December 31, 2021**

There were no new Trust Units issued during the years ended December 31, 2021 and 2020.

b) Exchangeable LP Units

During the year ended December 31, 2021, no Exchangeable LP Units were exchanged for Trust Units.

During the year ended December 31, 2020, pursuant to the terms of the Exchangeable LP Units agreement, 300,058 Exchangeable LP Units were exchanged for 300,058 Trust Units. The same number of Special Voting Units was cancelled.

c) Distribution Reinvestment Plan

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

d) Employee Unit Purchase Plan

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

e) Deferred Unit Plan

During the years ended December 31, 2021 and 2020, no DUP units were settled.

f) Restricted Unit Rights Plan

During the year ended December 31, 2021, 210,514 RUR units were settled or cancelled, out of which 204,683 RUR units were settled for an equivalent number of Trust Units and the remaining RUR units were forfeited. During the year ended December 31, 2020, 82,801 RUR units were settled or cancelled, out of which 80,408 RUR units were settled for an equivalent number of Trust Units and the remaining RUR units were forfeited.

19. 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 August 2021, monthly cash distributions declared to Unitholders increased to \$0.1208 (\$1.45 annually) from \$0.1150 (\$1.38 annually).

For the Year Ended December 31,	2021	2020
Distributions declared on Trust Units	\$ 243,348	\$ 235,649
Distributions per unit	\$ 1.409	\$ 1.380

20. Financial Instruments, Investment Properties and Risk Management**a) Fair Value of Financial Instruments**

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

As at December 31, 2021, the fair value of CAPREIT's mortgages payable is estimated to be \$6,294,000 (December 31, 2020 – \$5,854,000) due to changes in interest rates and foreign exchange rates since the dates the individual mortgages were financed and the impact of the passage of time on the primarily fixed rate nature of CAPREIT's mortgages. The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions, which are considered Level 2 inputs (as described below).

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

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

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

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

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

The following table presents CAPREIT’s estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as at December 31, 2021, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts CAPREIT could ultimately realize.

	Level 1 Quoted prices in active markets for identical assets and liabilities	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Total
Recurring Measurements				
Assets				
Investment properties				
Fee simple and MHC land lease sites	\$ –	\$ –	\$ 16,719,821 ⁽¹⁾	\$ 16,719,821
Operating leasehold interests	–	–	114,150 ⁽¹⁾	114,150
Land leasehold interests	–	–	267,948 ⁽¹⁾	267,948
Investments	51,286 ⁽²⁾	–	–	51,286
Derivative financial assets	–	30,926 ⁽³⁾	–	30,926
Liabilities				
Derivative financial liabilities	–	(3,973) ⁽³⁾	–	(3,973)
ERES units held by non-controlling unitholders	(356,695)	–	–	(356,695)
Unit-based compensation financial liabilities	–	(36,895)	–	(36,895)
Exchangeable LP Units	–	(100,684)	–	(100,684)
Total	\$ (305,409)	\$ (110,626)	\$ 17,101,919	\$ 16,685,884

⁽¹⁾ Fair values for investment properties are calculated using either the DC or the DCF methods, which result in these measurements being classified as Level 3 in the fair value hierarchy. See note 6 for detailed information on the valuation methodologies and fair value reconciliation.

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

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

Although CAPREIT has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by CAPREIT. As at December 31, 2021, 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. For assets and liabilities measured at fair value as at December 31, 2021, there were no transfers between Level 1, Level 2 and Level 3 during the period.

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 at least as favourable as those of the existing indebtedness. In addition, interest on CAPREIT's bank indebtedness is subject to floating interest rates. CAPREIT is also subject to the risks associated with changes in interest rates or different financing terms from the hedging derivative assumptions, which may cause volatility in earnings.

For the years ended December 31, 2021 and 2020, a 100 basis point change in interest rates would have the following effect:

	Change in interest rates (basis points)	Increase (decrease) in net income	
		December 31, 2021	December 31, 2020
Floating rate debt	+100	\$ 1,204	\$ 1
Floating rate debt	-100	\$ (1,204)	\$ (1)
Cross-currency and/or interest rate swaps ⁽ⁱ⁾	+100	\$ 13,881	\$ 3,977
Cross-currency and/or interest rate swaps ⁽ⁱ⁾	-100	\$ (13,884)	\$ (4,058)

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

CAPREIT's objective in managing interest rate risk is to minimize the volatility of interest expenses due to fluctuations in market interest rates. As at December 31, 2021, interest rate risk has been minimized, as 99.1% (December 31, 2020 – 99.3%) of the mortgages payable are financed at fixed interest rates, with maturities staggered over a number of years. Taking into consideration interest rate swaps where hedge accounting has not been applied, 100.0% of the mortgages payable are financed at fixed interest rates (December 31, 2020 – 100.0%).

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 98.5% of CAPREIT's mortgages are CMHC-insured (excluding \$1,205,252 of mortgages on the MHC sites and the ERES properties), 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 40 years. To mitigate the risk associated with the refinancing of maturing debt, CAPREIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAPREIT manages its overall liquidity risk by maintaining sufficient available credit facilities and unencumbered assets to fund its ongoing operational and capital commitments, distributions to Unitholders and to provide future growth in its business. As at December 31, 2021, CAPREIT had undrawn lines of credit in the amount of \$384,510 (December 31, 2020 – \$627,997), excluding borrowing capacity under the ERES Credit Facility and the ERES Bridge Facility, while available.

CAPREIT has available borrowing capacity in its Credit Facilities, as described in note 14, in addition to cash on hand. As a result, management has determined that CAPREIT is in a strong financial position despite the changes in the market and the heightened risk environment resulting from the COVID-19 pandemic.

The contractual maturities and repayment obligations of CAPREIT's financial liabilities as at December 31, 2021 are as follows:

	2022 ⁽²⁾	2023 – 2024	2025 – 2026	2027 onward
Mortgages payable	\$ 643,460	\$ 1,153,618	\$ 1,796,220	\$ 2,632,424
Bank indebtedness	–	310,866	–	–
Mortgage interest	134,458	219,539	159,462	198,496
Bank indebtedness interest ⁽¹⁾	1,890	2,770	–	–
Other liabilities ⁽³⁾	155,872	–	–	–
Derivative financial liabilities	2,816	–	1,157	–
ERES units held by non-controlling unitholders	–	–	–	356,695
Lease liabilities	1,119	2,451	2,639	43,226
Security deposits	43,675	–	–	–
Distributions payable	20,953	–	–	–
	\$ 1,004,243	\$ 1,689,244	\$ 1,959,478	\$ 3,230,841

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

⁽²⁾ Estimates of the amounts as at December 31, 2021.

⁽³⁾ Related to accounts payable and accrued liabilities, current tax liability and mortgage interest payable.

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. The maximum exposure to credit risk at the reporting date is the carrying value of the tenant receivables.

CAPREIT mitigates the risk of credit loss with respect to the borrower of VTBs by ensuring that adequate collateral has been obtained for the VTBs. The VTBs are secured by the property that was purchased by the borrower.

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 Ireland, investment in IRES and CAPREIT's subsidiaries in the Netherlands, including ERES, is the euro.

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

21. Derivative Financial Instruments

a) Contracts for Which Hedge Accounting is Being Applied

In June 2011, CAPREIT entered into a hedging program, which effectively hedged interest rates on approximately \$312,000 of mortgages refinanced between September 2011 and June 2013. These mortgages have been refinanced for 10-year terms maturing between 2021 and 2023, 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 other comprehensive (loss) income (see note 24). The hedging program matured in June 2013, for which hedge accounting was applied. The ineffective portion and the difference between the settled amount and the mark-to-market have been recognized in net income. All contracts have been settled.

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

As at	December 31, 2021	December 31, 2020
Derivative liability in (AOCL) AOCI, beginning of the year	\$ (3,762)	\$ (6,005)
Amortization from (AOCL) AOCI to interest and other financing costs	2,170	2,243
Derivative liability in (AOCL) AOCI, end of the year	\$ (1,592)	\$ (3,762)

b) Contracts for Which Hedge Accounting is No Longer Effective

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

CAPREIT settled these Interest Rate Forward Contracts in 2009. The associated cumulative unamortized loss of \$9,908 included in AOCL at September 30, 2008 is being amortized to mortgage interest expense over the original terms of the hedged contracts. For the year ended December 31, 2021, \$270 (December 31, 2020 – \$271) was amortized from (AOCL) AOCI to mortgage interest expense.

c) Contracts for Which Hedge Accounting is Not Being Applied

CAPREIT has certain derivative financial instruments in place, namely interest rate swaps and cross-currency interest rate ("CCIR") swaps. These derivative contracts, for which hedge accounting is not being applied, consist of the following:

As at December 31, 2021					
Type of instrument	Notional amount	Maturity year	Weighted average receiving leg rate	Weighted average paying leg rate	Derivative asset (liability)
CCIR Swap ⁽¹⁾	US\$ 82,525	2022	US LIBOR + 1.65%	1.05%	\$ (2,115)
CCIR Swaps ⁽²⁾	\$ 570,694	2022 – 2025	1.07%	0.08%	29,550
ERES Interest Rate Swap ⁽³⁾	€ 25,500	2025	EURIBOR + 1.38%	0.49%	(769)
ERES Interest Rate Swaps	€ 156,550	2027	EURIBOR	(0.06)%	987
ERES CCIR Swaps ⁽⁴⁾	US\$ 80,300	2022	US LIBOR + 1.35%	EURIBOR + 1.15%	(701)
Consolidated Total					\$ 26,952

As at December 31, 2020					
Type of instrument	Notional amount	Maturity year	Weighted average receiving leg rate	Weighted average paying leg rate	Derivative asset (liability)
CCIR Swap ⁽⁵⁾	\$ 65,000	2021	BA + 1.40%	0.97%	\$ (5,048)
CCIR Swap ⁽⁶⁾	US\$ 82,525	2021	USD LIBOR + 1.65%	1.05%	(10,318)
CCIR Swaps ⁽²⁾	\$ 500,986	2022 – 2025	1.11%	0.10%	(5,844)
ERES Interest Rate Swap ⁽³⁾	€ 25,500	2025	EURIBOR + 1.38%	0.49%	(1,401)
ERES CCIR Swaps ⁽⁴⁾	US\$ 10,800	2021	USD LIBOR + 1.65%	EURIBOR + 1.20%	55
Consolidated Total					\$ (22,556)

⁽¹⁾ Euro equivalent of €74,000.

⁽²⁾ Euro equivalent of €368,358 (December 31, 2020 – €323,540). This CCIR swap consists of a current derivative asset of \$8,506 (December 31, 2020 – \$nil) and a non-current derivative asset of \$21,044 (December 31, 2020 – \$(5,844)).

⁽³⁾ As at December 31, 2021, the interest rate swap consists of a non-current derivative asset of \$389 (December 31, 2020 – \$778) and a non-current derivative liability of \$1,157 (December 31, 2020 – \$2,179).

⁽⁴⁾ Euro equivalent of €71,050 (December 31, 2020 – €8,800).

⁽⁵⁾ Euro equivalent of €44,818. The CCIR swap was terminated in January 2021 prior to its maturity date of June 2021. The gain on settlement was \$966.

22. Capital Management

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

CAPREIT's Credit Facilities (see note 14) require compliance with certain financial covenants. In addition, borrowings must not exceed the borrowing base, calculated at a predefined percentage of the market value of the properties.

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

During 2021, CAPREIT's Large Borrower Agreement ("LBA") with CMHC expired. The expiry of the LBA has not affected the manner in which CAPREIT conducts its business or its approach to mortgage financing, including the use of CMHC financing. CAPREIT continues to obtain CMHC financing under substantively similar provisions.

The total capital managed by CAPREIT is as follows:

As at	December 31, 2021	December 31, 2020
Mortgages payable	\$ 6,100,065	\$ 5,401,202
Bank indebtedness	310,866	118,553
Unitholders' equity	10,399,886	9,273,702
Exchangeable LP Units	100,684	16,632
Total capital	\$ 16,911,501	\$ 14,810,089

As described in note 14, CAPREIT entered into a new credit facility agreement on June 18, 2021. The new Credit Facilities introduced the following covenants: (i) total debt to gross book value of CAPREIT's total assets shall be less than 62.50%, and (ii) the funds from operations ("FFO") payout ratio shall not exceed 100% based on the trailing four quarters. FFO shall be calculated in accordance with the recommendations of the Real Property Association of Canada ("REALpac") and will be subject to the adjustments disclosed in the most recent annual report and such other adjustments as may be agreed with the lender. Furthermore, the following changes were made to the financial covenants under the new Credit Facilities: (i) the minimum tangible net worth increased from \$2,400,000 to the sum of \$5,000,000 and 75% of the net cash proceeds received in connection with any issuance or sale of equity by CAPREIT after the closing date of the new Credit Facilities, (ii) the minimum debt service coverage ratio increased from 1.20 to 1.40, and (iii) the minimum interest coverage ratio increased from 1.50 to 1.65.

The results of CAPREIT's compliance with the key covenants are summarized below⁽¹⁾:

	Threshold	December 31, 2021	December 31, 2020
Total debt to gross book value ⁽²⁾	Maximum 62.50%	36.12%	35.54%
Tangible net worth ⁽³⁾	Minimum of \$5,000,000	\$ 10,522,332	\$ 9,307,613
Debt service coverage ratio (times) ^{(4),(5)}	Minimum 1.40	1.97	2.01
Interest coverage ratio (times) ^{(4),(6)}	Minimum 1.65	4.02	3.95

⁽¹⁾ CAPREIT's FFO payout ratio did not exceed 100% for the trailing four quarters ended December 31, 2021. As at December 31, 2021, CAPREIT is in compliance with its debt covenant on the FFO payout ratio.

⁽²⁾ CAPREIT's new Credit Facilities limit the maximum amount of total debt to 62.5% 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 consolidated 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.

⁽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 LP Units added back, and excluding goodwill. Per the Credit Facilities that CAPREIT entered into on June 18, 2021, tangible net worth should be at a minimum of \$5,000,000 plus 75% of proceeds of future equity raises subsequent to June 18, 2021. There have been no equity raises subsequent to June 18, 2021 to date.

⁽⁴⁾ Based on the trailing four quarters.

⁽⁵⁾ As per the Credit Facilities agreement, 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 repayments and interest expense.

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

CAPREIT's subsidiary, ERES, is subject to various debt covenants contained in ERES's credit facilities. ERES must have a maximum debt to gross book value of 65%, a maximum debt to market value of portfolio of 60%, a minimum tangible net worth of €375,000, a minimum debt service coverage ratio of 1.35 and a minimum interest coverage ratio of 1.50. As at December 31, 2021, ERES is in compliance with its debt covenants.

Due to the emergence of the COVID-19 pandemic, CAPREIT has been closely monitoring its investment and debt restrictions along with the financial covenants contained in CAPREIT's Credit Facilities and DOT. Management has performed stress-testing on CAPREIT's covenants prescribed above to ensure that CAPREIT continues to meet its covenant obligations in the long term.

23. Income Taxes

CAPREIT is taxed as a "mutual fund trust" as defined under the Income Tax Act (Canada) and continues to meet the prescribed conditions relating to the nature of its assets and revenues in order to qualify as a real estate investment trust ("REIT") eligible for the REIT exception to the specified investment flow-through ("SIFT") rules. CAPREIT expects to distribute all of its taxable income to its Unitholders; accordingly, no provision for Canadian income tax has been made. Income tax obligations relating to the distributions from CAPREIT are with the individual Unitholders, with the exception of Canadian withholding taxes for distributions to non-resident Unitholders.

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

For the Year Ended December 31,	2021	2020
Income before income taxes	\$ 1,473,976	\$ 954,491
Income not subject to taxation ⁽¹⁾	(1,162,021)	(863,181)
Income before income taxes in foreign subsidiary entities	311,955	91,310
Tax calculated at the Dutch corporate tax rate of 25%	77,989	22,828
Increase (decrease) resulting from:		
Expenses not deductible for tax	–	1,209
Effect of different tax rates in countries in which CAPREIT operates	252	(95)
Adjustments to deferred taxes for the change in tax rates	4,036	4,547
Adjustment for income taxed at a lower rate	(1,098)	(1,893)
Unrecognized deferred tax assets	709	592
Other adjustments	(707)	1,375
Current and deferred income tax expense	\$ 81,181	\$ 28,563

⁽¹⁾ Consists primarily of Canadian income including fair value adjustment of Canadian investment properties, interest on and fair value adjustments of Exchangeable LP Units, and other adjustments.

A breakdown of current and deferred income tax expense is as follows:

For the Year Ended December 31,	2021	2020
Current income tax expense	\$ 4,539	\$ 3,350
Deferred income tax expense	76,642	25,213
Current and deferred income tax expense	\$ 81,181	\$ 28,563

The deferred income tax liability of \$133,974 (December 31, 2020 – \$59,964) is primarily related to the difference in tax and book basis of investment properties. The deferred income tax asset of \$5,010 (December 31, 2020 – \$2,032) also relates to the difference in the tax and book basis of investment properties, as well as loss carry-forwards.

As at December 31, 2021, CAPREIT has total non-capital loss carry-forwards of \$18,040 (December 31, 2020 – \$16,501). Of these losses, \$13,449 (December 31, 2020 – \$11,948) are in respect of the Dutch subsidiaries which, starting on January 1, 2022, will have no expiry period but the utilization will be subject to annual limits. The remaining losses of \$4,591 (December 31, 2020 – \$4,553) are in respect of German subsidiaries and have no expiry period. CAPREIT has not recognized a deferred tax asset for a deductible temporary difference of \$4,824 as it does not expect this difference to reverse in the foreseeable future.

24. Accumulated Other Comprehensive (Loss) Income

For the Year Ended December 31,	2021	2020
(AOCL) AOCI balance, beginning of the year	\$ 70,047	\$ (19,510)
Other comprehensive (loss) income:		
Amortization from (AOCL) AOCI to interest and other financing costs ⁽¹⁾	2,440	2,570
(Loss) gain on foreign currency translation	(115,884)	86,987
Other comprehensive (loss) income	(113,444)	89,557
(AOCL) AOCI balance, end of the year	\$ (43,397)	\$ 70,047

As at	December 31, 2021	December 31, 2020
(AOCL) AOCI comprises:		
Net cumulative loss on derivative financial instruments	\$ (110)	\$ (380)
Net cumulative loss on forward interest rate hedge ⁽¹⁾	(1,592)	(3,762)
Cumulative (loss) gain on foreign currency translation	(44,822)	71,062
Reversal of cumulative foreign currency translation relating to IRES ownership dilution	3,127	3,127
(AOCL) AOCI balance, end of the year	\$ (43,397)	\$ 70,047

⁽¹⁾ The estimated amount of the amortization expected to be reclassified to net income from (AOCL) AOCI in the next 12 months is \$1,278.

25. Interest and Other Financing Costs

For the Year Ended December 31,	2021	2020
Interest on mortgages payable ⁽¹⁾	\$ 138,293	\$ 133,217
Amortization of CMHC premiums and fees ⁽²⁾	10,041	18,505
Interest on bank indebtedness and other deferred costs ⁽³⁾	6,110	7,955
Interest on Exchangeable LP Units	1,119	441
Interest on land and air rights lease liability	4,900	4,507
Total	\$ 160,463	\$ 164,625

⁽¹⁾ Includes amortization of deferred financing costs, fair value adjustments and OCI hedge interest for the year ended December 31, 2021 of \$6,263 (December 31, 2020 – \$6,471).

⁽²⁾ During the year ended December 31, 2020, CAPREIT expensed \$14,348 of prepaid CMHC premiums related to mortgages which were refinanced in 2020 and previous years as these premiums no longer had future economic benefits.

⁽³⁾ Includes amortization of deferred loan costs of \$710 (December 31, 2020 – \$1,304).

26. Joint Arrangements

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

For the Year Ended December 31,	2021	2020
Assets	\$ 242,624	\$ 338,317
Liabilities	50,035	86,394
Revenues	18,321	21,397
Expenses and other adjustments	(14,134)	8,388
Net income	32,455	13,009
Cash provided by (used in):		
Operating activities	\$ 9,046	\$ 12,754
Investing activities	(19,788)	(4,116)
Financing activities	13,801	(9,498)

On August 31, 2021, CAPREIT purchased the remaining 50% interest in a joint arrangement located in Toronto, ON. Refer to note 4 for further information.

On October 1, 2021, CAPREIT disposed of its 33.3% interest in a joint arrangement located in Toronto, ON. Refer to note 5 for further information.

The results of the above two joint arrangements for the period during which they were in place are included in the table above.

27. Supplemental Cash Flow Information

a) Net Income Items Related to Investing and Financing Activities

For the Year Ended December 31,	2021	2020
Dividend and interest income	\$ (1,672)	\$ (3,200)
Distributions to holders of Exchangeable LP Units	1,119	441
Distributions to ERES non-controlling unitholders	12,756	12,542
Interest expense on mortgages	129,345	122,138
Interest expense on bank indebtedness	5,400	6,650
Interest expense on leases	4,900	4,507
Net disbursements	\$ 151,848	\$ 143,078

b) Changes in Non-cash Operating Assets and Liabilities

For the Year Ended December 31,	2021	2020
Prepaid expenses	\$ (1,279)	\$ (1,748)
Tenant inducements, direct leasing costs and other adjustments	(1,125)	(479)
Other receivables	(864)	(614)
Deposits	(4,219)	(4,677)
MHC home inventory	(8,138)	–
Accounts payable and other liabilities	5,961	2,237
Derivative liability	(979)	(34,426)
Security deposits	2,995	1,369
Current tax liability	(3,698)	(16,702)
Net decrease in non-cash operating assets and liabilities	\$ (11,346)	\$ (55,040)

Derivative liability, previously included in accounts payable and other liabilities, is now presented separately. The comparative period has been reclassified to conform with current year presentation.

c) Net Cash Distributions

For the Year Ended December 31,	2021	2020
Distributions declared to Unitholders, ERES non-controlling unitholders and holders of Exchangeable LP Units	\$ (257,223)	\$ (248,632)
Add: Distributions payable to Unitholders at beginning of the year	(19,751)	(19,533)
Less: Distributions payable to Unitholders at end of the year	20,953	19,751
Less: Distributions to participants in the CAPREIT DRIP	75,739	68,108
Add: Distributions payable to ERES non-controlling unitholders at beginning of the year	(920)	(832)
Less: Distributions payable to ERES non-controlling unitholders at end of the year	745	920
Less: Distributions to non-controlling participants in the ERES DRIP	2,265	–
Add: Distributions payable to holders of Exchangeable LP Units at beginning of the year	(38)	–
Less: Distributions payable to holders of Exchangeable LP Units at end of the year	406	38
Gain on foreign currency translation	50	109
Net disbursements	\$ (177,774)	\$ (180,071)

d) Capital Investments

For the Year Ended December 31,	2021	2020
Capital investments	\$ (309,744)	\$ (250,607)
Change in capital investments included in accounts payable and other liabilities	10,325	5,750
Net disbursements	\$ (299,419)	\$ (244,857)

e) Acquisition of Investment Properties

For the Year Ended December 31,	2021	2020
Acquired properties	\$ (1,053,497)	\$ (825,681)
Fair value adjustment of assumed debt	1,246	187
Assumed debt	131,614	112,655
Deposit on purchases	(2,723)	22,252
Issuance of Exchangeable LP Units	83,385	–
Change in investment properties included in accounts payable and other liabilities	–	5,189
Net disbursements	\$ (839,975)	\$ (685,398)

f) Operating Lease Buyout

For the Year Ended December 31,	2021	2020
Operating lease buyout	\$ (4,457)	\$ (158,565)
Issuance of Exchangeable LP Units	–	30,746
Net disbursements	\$ (4,457)	\$ (127,819)

g) Disposition of Investment Properties

For the Year Ended December 31,	2021	2020
Proceeds	\$ 143,381	\$ 56,760
Closing costs	(241)	(1,387)
Working capital adjustments	1,044	(730)
Issuance of VTB	(114,990)	–
Mortgages discharged	–	(21,331)
Net proceeds	\$ 29,194	\$ 33,312

h) Issuance of Trust Units

For the Year Ended December 31,	2021	2020
Issuance of Trust Units	\$ 14,444	\$ 21,863
Conversion of Exchangeable LP Units to Trust Units	–	(15,344)
Settlement of unit-based compensation awards for Trust Units	(11,306)	(4,043)
Net proceeds	\$ 3,138	\$ 2,476

i) Mortgage Portfolio

For the Year Ended December 31,	2021	2020
Balance, beginning of the year	\$ 5,401,202	\$ 4,228,805
Add:		
New borrowings on acquisitions	317,614	381,412
Refinanced	1,023,351	1,148,552
Less:		
Mortgage principal amortization	(149,996)	(136,087)
Mortgages matured	(521,375)	(353,966)
Mortgages repaid on dispositions of investment properties	–	(21,331)
Non-cash Adjustments:		
Mortgages assumed	131,614	112,654
(Gain) loss on foreign currency translation	(87,069)	60,176
Net change in deferred financings costs, fair value adjustment and prepaid CMHC premiums	(15,276)	(19,013)
Balance, end of the year	\$ 6,100,065	\$ 5,401,202

j) Bank Indebtedness

For the Year Ended December 31,	2021	2020
Balance, beginning of the year	\$ 118,553	\$ 623,893
Net borrowings (repayments) before foreign currency translation	189,305	(498,783)
Loss (gain) on foreign currency translation	3,008	(6,557)
Balance, end of the year	\$ 310,866	\$ 118,553

28. Revenue and Other Income

Other income

For the Year Ended December 31,	2021	2020
Investment income	\$ 1,493	\$ 1,226
Net profit from investment in associate ⁽¹⁾	18,455	17,173
Asset and property management fees ⁽²⁾	9,863	9,592
Interest income from mortgages receivable	778	–
Profit from sale of MHC home inventory ⁽³⁾	945	–
Other	179	1,999
Total	\$ 31,713	\$ 29,990

⁽¹⁾ CAPREIT's share of IRES's investment property fair value change, earnings and foreign exchange effects thereon. For the years ended December 31, 2021 and 2020, CAPREIT's share of IRES's investment property fair value gain is \$9,271 and \$6,141, respectively.

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

⁽³⁾ Consists of income from sale of MHC home inventory of \$3,459 offset by cost of sales of \$2,514.

In accordance with IFRS 15, management has evaluated the lease and non-lease components of its revenue and income. Revenues under IFRS 15 consist of asset and property management fees listed above and miscellaneous revenues. For the year ended December 31, 2021, miscellaneous revenues of \$25,873 were included in revenue from investment properties (year ended December 31, 2020 – \$18,794). Miscellaneous revenues consist of cable income, certain common area maintenance recoveries, service charges, premium service components and sale of MHC home inventory.

29. Related Party Transactions

a) IRES Transactions

As at December 31, 2021, CAPREIT has an 18.7% share ownership in IRES and has determined that it has significant influence over IRES. Pursuant to the exercise of options assigned to CAPREIT in November 2020, CAPREIT purchased 3,400,000 shares of IRES for \$8,020, increasing CAPREIT's share ownership from 18.3% to 18.8%. The share ownership is held through a subsidiary of CAPREIT, Irish Residential Properties Fund. See note 7 for a more detailed description.

Included in other income for the year ended December 31, 2021 are asset management and property management fees of \$9,863 (year ended December 31, 2020 – \$9,592). Expenses related to the asset and property management services are included in trust expenses. The amount receivable from IRES as at December 31, 2021 is \$3,237 (December 31, 2020 – \$1,831).

On March 31, 2021, CAPREIT provided 12 months' notice of termination of its IMA with IRES, which will become effective March 31, 2022. The services agreement will terminate automatically upon termination of the IMA. The initial five-year term IMA between CAPREIT and IRES expired on November 1, 2020. The IMA subsequently rolled into a second five-year term under the original terms. Under the second five-year term, both parties have termination rights under the IMA. IRES has the right to terminate the IMA if it determines that internalization of the management of IRES, subject to relevant regulatory approval, is in IRES's best interests.

On August 6, 2021, IRES served a notice of termination of the IMA and exercised its obligation to acquire IRES Fund Management Limited for €1, effective January 31, 2022 and subject to approval from the Central Bank of Ireland. In the interim, CAPREIT will continue to provide all the services pursuant to the current IMA and services agreement on their existing terms.

b) Transactions with Key Management Personnel

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 provide for payments of up to 36 months of benefits (based on base salary, bonus and other benefits), depending on cause.

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

For the Year Ended December 31,	2021		2020
Short-term benefits	\$ 3,546	\$	3,862
Unit-based compensation – grant date amortization	2,982		2,618
	6,528		6,480
Unit-based compensation – fair value remeasurement	4,393		(778)
Total	\$ 10,921	\$	5,702

c) ERES Transactions

Asset Management Agreement

CAPREIT entered into a management agreement with ERES pursuant to which CAPREIT acts as the asset manager to ERES, except for the commercial properties (the "Asset Management Agreement"). CAPREIT provides, among other things, strategic, advisory, asset management, project management, construction management and administrative services necessary for ERES.

The Asset Management Agreement provides for a broad range of asset management services for the following fees:

- a) An annual asset management fee in the amount of 0.35% of the historical purchase price of ERES's properties excluding the commercial properties plus HST/VAT;
- b) An acquisition fee in the amount of (i) 1.0% of the purchase price paid by ERES or one or more of its subsidiaries for the purchase of a residential or commercial real property of ERES located in Europe, on the first €100,000 of such properties acquired in each fiscal year, (ii) 0.75% of the purchase price paid by ERES or one or more of its subsidiaries for the purchase of such a property, on the next €100,000 of such properties acquired in each fiscal year, and (iii) 0.50% of the purchase price paid by ERES or one or more of its subsidiaries for the purchase of such a property, on properties in excess of €200,000 acquired in each fiscal year, plus VAT;
- c) A capital expenditure fee equal to 5.0% of all hard construction costs incurred on each capital project (other than in respect of the commercial properties) with costs in excess of €1,000, excluding work done on behalf of tenants or any maintenance expenditures, plus VAT; and
- d) A financing fee equal to 0.25% of the debt and equity of all financing or refinancing transactions completed for ERES or any of its subsidiaries, which is intended to cover the actual expenses incurred by CAPREIT in supplying services to ERES relating to financing transactions. To the extent that the financing fees paid by ERES exceed the actual amount of such expenses, CAPREIT will reimburse ERES for the difference. To the extent that the financing fees charged by CAPREIT are less than the actual amount of such expenses, ERES will pay the difference as an additional financing fee amount.

Property Management Agreement

CAPREIT entered into a property management agreement with ERES pursuant to which CAPREIT acts as the property manager to ERES for residential properties and receives 3.5% of EGI for its services.

Services Agreement

CAPREIT has entered into a services agreement with ERES pursuant to which CAPREIT provides ERES with certain administrative services, including financial, information technology, internal audit and other support services as may be reasonably required from time to time. CAPREIT provides these services to ERES on a cost recovery basis.

Pipeline Agreement

CAPREIT entered into a pipeline agreement with ERES (the "Pipeline Agreement") pursuant to which CAPREIT, for a period ending on March 29, 2021, makes up to \$237 million (€165 million) (the "Total Commitment") available to acquire properties that comply with ERES's investment policy and do not contravene the investment policy of CAPREIT for which ERES wishes to purchase but is unable to do so (a "Suitable Property Investment"). On March 20, 2021, the Pipeline Agreement was extended under the same terms and conditions for a subsequent two-year period, ending on March 29, 2023. Once any part of the Total Commitment has been repaid by cash or units, that part of the Total Commitment will be available for reuse under the terms of the Pipeline Agreement. CAPREIT will receive an underwriting fee in the amount of 1.0% of the purchase price on any acquisitions under the Pipeline Agreement.

There were no acquisitions made pursuant to the Pipeline Agreement during the years ended December 31, 2021 and 2020.

Promissory Note

On December 20, 2021, ERES issued a \$57,409 (€39,300) promissory note to CAPREIT, with a maturity date of June 20, 2022 and an interest rate of 1.30% per annum. ERES repaid the promissory note in full on December 30, 2021, without penalty. ERES's promissory note to CAPREIT represented contingency financing for ERES's December 22, 2021 acquisition portfolio, that was ultimately funded directly with long-term mortgage financing.

The table below summarizes fees charged to ERES:

For the Year Ended December 31,	2021	2020
Asset management fees	\$ 7,405	\$ 6,896
Acquisition fees	2,140	1,266
Property management fees	4,033	3,722
Service fees	798	592
Interest from promissory note	21	-
Total	\$ 14,397	\$ 12,476

Any fees charged by CAPREIT to ERES are eliminated upon consolidation in these consolidated annual financial statements.

30. Commitments

Natural Gas

Through the combination of fixed and variable price contracts, CAPREIT is committed as at December 31, 2021 in the aggregate amount of \$14,048 for its natural gas and transport requirements. These commitments, which range from one to four years, fix the price of natural gas and transport for a portion of CAPREIT's requirements as summarized below.

	2022	2023	2024	2025
Gas Commodity				
Fixed weighted average cost per GJ ⁽¹⁾	\$ 2.28	\$ 2.31	\$ 2.31	\$ 2.26
Total of CAPREIT's estimated requirements	82.2%	68.1%	54.6%	32.0%
Transport				
Fixed weighted average cost per GJ ⁽¹⁾	\$ 1.11	\$ 0.81	\$ 0.75	\$ 0.79
Total of CAPREIT's estimated requirements	69.7%	68.1%	54.6%	32.0%

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

Property capital investments

Commitments primarily related to capital investments in investment properties of \$37,153 were outstanding as at December 31, 2021 (December 31, 2020 – \$21,618).

31. Contingencies

CAPREIT is contingently liable under guarantees provided to certain of CAPREIT's and CAPREIT's subsidiaries' 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 where appropriate.

32. Segmented Information

CAPREIT owns and operates investment properties located in Canada, the Netherlands, Germany and Belgium. In measuring performance, CAPREIT distinguishes its operations on a geographic basis and, accordingly, has identified two reportable segments for disclosure purposes after aggregation. Segments include (i) Canada and (ii) the Netherlands and other European markets. CAPREIT's chief operating decision-maker reviews operating results of the Canadian and European properties to make decisions about resources to be allocated to the segments and assess their performance.

Selected income statement items	For the Year Ended December 31, 2021		
	Canada	Europe	Consolidated financial statements
Revenue from investment properties	\$ 819,219	\$ 113,918	\$ 933,137
Operating expenses	(297,433)	(25,711)	(323,144)
Net rental income	\$ 521,786	\$ 88,207	\$ 609,993
Fair value adjustments of investment properties	\$ 760,988	\$ 287,754	\$ 1,048,742

Selected income statement items	For the Year Ended December 31, 2020		
	Canada	Europe	Consolidated financial statements
Revenue from investment properties	\$ 775,675	\$ 106,968	\$ 882,643
Operating expenses	(278,975)	(25,497)	(304,472)
Net rental income	\$ 496,700	\$ 81,471	\$ 578,171
Fair value adjustments of investment properties	\$ 523,144	\$ 72,715	\$ 595,859

Selected balance sheet items	As at December 31, 2021		
	Canada	Europe	Consolidated financial statements
Investment properties	\$ 14,425,769	\$ 2,676,150	\$ 17,101,919
Mortgages payable	4,928,030	1,172,035	6,100,065

Selected balance sheet items	As at December 31, 2020		
	Canada	Europe	Consolidated financial statements
Investment properties	\$ 12,701,156	\$ 2,299,435	\$ 15,000,591
Mortgages payable	4,306,405	1,094,797	5,401,202

33. Subsequent Events

On January 25, 2022, CAPREIT completed the acquisition of a six-storey 59-suite apartment and townhouse property located in downtown Kelowna, British Columbia. CAPREIT paid \$29,500, funded by the Acquisition and Operating Facility and the assumption of a \$17,135 mortgage maturing on December 1, 2026.

On January 31, 2022, CAPREIT's IMA with IRES was terminated. As a result, CAPREIT ceased to have significant influence over IRES, and its investment in IRES will now be recognized as an investment measured at FVTPL. CAPREIT will continue to provide transition services for a period of three months for total fees of approximately \$1,500.

On January 31, 2022, ERES acquired a multi-residential property comprised of 45 suites located in Rijswijk, the Netherlands, for a purchase price of \$27,807 (€19,500). On January 26, 2022, ERES issued a \$27,014 (€19,000) promissory note to CAPREIT, with a maturity date of July 26, 2022 and an interest rate of 1.30% per annum. The proceeds of the promissory note were used to fund the acquisition.

Unitholder Information

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Mark Kenney
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Corinne Pruzanski
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Investor Information

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

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Legal Counsel

Stikeman Elliott LLP

Stock Exchange Listing

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