

LETTER FROM THE PRESIDENT

2014 was a year in which we made a modest number of property acquisitions but executed on our operational plans to continue the stabilization of the existing portfolio and to set the REIT up for future growth.



ACQUISITION & INVESTMENT ACTIVITY

Property purchase activity was moderate in 2014 with purchases of 921 rental units for an aggregate amount of \$127.5 million increasing the property portfolio to 5,082 rental units on an undiluted basis. Much of the investment team's efforts were focused on building the mortgage investment and development portfolio which Management sees as a strategic source of future accretive acquisition opportunities. This mortgage investment portfolio grew from \$39 million in 2013 to \$95.7 million in 2014 at year end, a growth of \$56.7 million or 145%. The REIT diversified into Nova Scotia and in early 2015, the REIT purchased properties in Alberta and also increased its investment in Quebec. With Centurion Real Estate Opportunities Trust's investments in British Columbia and Saskatchewan, the REIT now has investment interests (directly and indirectly through Centurion Real Estate Opportunities Trust) in Ontario, Quebec, Nova Scotia, Alberta, British Columbia and Saskatchewan. The REIT continues to focus on the diversification of the portfolio across Canada and believes that it will have further opportunities in 2015, particularly in western Canada.

PORTFOLIO STABILIZATION

The REIT continued to stabilize its portfolio in 2014. On a same store basis, for properties owned since December 31, 2012, the REIT was able to increase Total Operating Revenues by 3.95%, NOI by 9.69% and the NOI Ratio by 2.80% to 53.39% from 50.59%. The REIT was able to reduce expenses relative to Total Operating Revenues in every major expense category. The proportion of the portfolio that is stabilized rose from 36.4% to 50.6% and occupancy at year end increased from 95.2% to 96.6%. Management is ultimately targeting Occupancy to be in the range of 97.5%. Management believes that there is room to continue this progress in 2015 and continues to focus on its revenue and expense opportunities. The REIT made capital investments into the portfolio of \$27.3 million in 2014 and believes that these investments, and the investments made in prior years, have yet to fully show their worth. As the portfolio occupancies continue to stabilize, Management anticipates that it will be able to drive rents higher, reduce vacancy and stabilization drag, and cut costs over time with the increased value proposition presented by the properties in the market.

INTERNALIZATION OF THE ASSET AND PROPERTY MANAGEMENT TEAMS

As at January 1, 2015 the asset and property management teams of the Centurion Asset Management Inc., were internalized in the REIT. No fee or premium was paid to Centurion Asset Management Inc., the Asset Manager, for the internalization. Management anticipates that net savings to the REIT in 2015 will amount to approximately \$2.7 million and that this savings will increase as the REIT continues to grow. It is also anticipated that the internalization will also result in closer alignment of the operational teams with the REIT and its investors.

LAUNCH OF CENTURION REAL ESTATE OPPORTUNITIES TRUST

After incubating the REIT's mortgage strategy for almost two years, the majority of the REIT's mortgage portfolio was rolled into the Centurion Real Estate Opportunities Trust ("CREOT") in exchange for equity in CREOT, which was launched as a separate fund open to outside investors as of September 12, 2014. We see this as a key part of the REIT's strategy to expand the acquisition opportunities available to the REIT as these properties complete; it also presents as an attractive risk/return investment. Management is focused on sourcing opportunities and relationships and raising external capital to build CREOT and its strategic value to the REIT. Given that standard property acquisition opportunities are extremely competitive and limited in availability, Management believes that its strategy with CREOT is critical to building the REIT's future acquisition pipeline.

LAUNCH OF "THE MARQ" STUDENT HOUSING BRAND AND THIRD-PARTY MANAGEMENT BUSINESS

After significant research and preparation, the REIT launched its own dedicated student housing brand, "The **MARQ**". A separate website for student properties was launched <http://www.themarq.ca> with its own unique brand message and identity. Management believes that there is a lack of institutional-grade managers of student housing properties in Canada and has thus also launched a third-party student property and asset management business. We have started to engage clients in 2015 and have created an entirely new revenue stream for the REIT. Management believes that increased scale will help to continue to build the student brand, drive economies of scale and may become a source of acquisition opportunities down the line.



REDUCING NET INTEREST COSTS

The REIT in 2014 saw its interest earnings increase from \$1.65 million in 2013 to \$6.58 million in 2014, a growth rate of 298% as the mortgage investment portfolio grew. Interest expenses increased from \$8 million in 2013 to \$9.32 million in 2014. This means that the REIT's net interest expense (Interest earnings less interest expense) declined from \$6.36 million in 2013 to \$2.74 million in 2014 a reduction of 56.9%. Based on interest rates currently available in the market and the REIT's in-place cost of debt, Management has estimated that there is the potential to reduce interest costs by \$4.77 million on the REIT's existing debt over time if interest rates remain at their current level. Management believes that there is the potential that in 2015, the REIT will become a net interest earner, not a payer of interest. Being a net interest earner we believe would be an attribute unique to Centurion Apartment REIT in Canada. Further, Management believes that this strategy has the potential to significantly reduce the REIT's exposure to upward moves in its interest rate financing costs. While it is not Management's view that interest rates are going to rise at any time soon, it is still a risk management strategy Management likes and intends to continue to pursue.

LEVERAGE AND LIQUIDITY

As I have continued to reiterate, I expect interest rates to continue to stay low if not move even lower, with the potential for rates to mirror what is happening in European interest rates (i.e. to go negative). If interest rates stay at their current level, the REIT has the opportunity over time to potentially save approximately \$4.8 million/year in interest costs as its mortgage debt portfolio matures and is rolled over. Leverage in the year declined from 42.29% in 2013 to 40.41% in 2014 and as such it is very conservatively leveraged. Additionally, the REIT has expanded its acquisition and operating facilities to \$50.45 million and had undrawn credit facilities of \$37.7 million at year end 2014. Irrespective of my views on interest rates, our mortgage strategy remains in continuing to take long term mortgage capital when possible.

INVESTMENT RETURNS

The distributions per Unit in 2014 were stable at \$0.82/Class A Unit and \$0.93/ Class F Unit. Tax treatment of distributions in 2014 was 83.7 % Return of Capital (90.25% in 2013), 1.87% Capital Gains (9.75% in 2013) and 14.43% Other Income (0% in 2013). The increase in Other Income as a percentage of distributions came from the REIT's mortgage investments. Given the strategic importance of continuing to build a future acquisition pipeline for accretive growth, Management expects that this income will increase for the next while as the REIT continues to deploy into similar opportunities until these turn into actual property acquisitions upon project stabilization. Once these opportunities become property rather than mortgage investments, Management expects that the proportion of returns for tax purposes classified as Other Income will decline.

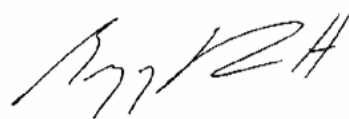
Total returns were 9.21% on a full year basis including distribution reinvestment for Class A units and 10.21% including distribution reinvestment for Class F units. Returns in the year were dragged down by continued stabilization costs, heavy capital investment in the portfolio, and an excess of capital in 2014 that forced the REIT to be capped to new investment for a number of months. Management believes that there are significant opportunities for future profitability growth as the portfolio continues to stabilize, as Management drives revenues and reduces expenses, and as it builds on economies of scale and puts the temporary 2014 dilutive effects of heavy capital expenditure investment, excess capital and stabilization costs into the rear view mirror. As of May 1st, 2015 the REIT changed the closing dates for new subscriptions to the 1st of the month, which will reduce some distribution dilution in favour of Unitholders in 2015 and beyond.

OTHER NOTABLE ACHIEVEMENTS

Centurion and its team also received considerable industry recognition. I was fortunate enough to be nominated for, and become a finalist in the Ernst & Young Entrepreneur of the Year Award in 2014 and to be named 2015 CEO of the Year by Canadian Apartment Magazine. Centurion's student housing business was featured in Rental Housing Business's special feature on student housing. The REIT also grew to be the 14th largest apartment landlord in Canada (according to Canadian Property Managements Who's Who in Canadian Real Estate) with approximately 3.83 million square feet under management.

SUMMARY AND PRIORITIES IN 2015 AND BEYOND

I'm pleased with where things went in 2014. We made significant progress on a number of strategic fronts and I believe that the REIT is set up for future portfolio growth and strong returns as the team continues to execute on the stabilization and repositioning of the portfolio, and mortgage and development investments turn into acquisition opportunities.



Greg Romundt
President and Trustee

