

OUR BUSINESS IS STRONG AND GETTING STRONGER



CAP REIT's portfolio consists of well-maintained, modern and attractive apartments, townhouses and land lease communities well-located in major Canadian markets from coast to coast.



1050 Markham Road, Toronto, Ontario

924-7th Avenue S.W., Calgary, Alberta

Operating Highlights

1

Average occupancies strengthen to 97.9% and average monthly rents up 3.0% compared to the prior year

2

Same property net operating income increases 3.9%, eight consecutive quarters of same property NOI growth

3

Strong accretive growth with both Distributable Income per Unit and Funds From Operations per Unit up 3.5%

4

Acquisitions in Western Canada and non-core property dispositions strengthen portfolio and enhance geo-graphic diversification

5

New land lease communities add new asset class and contribute to strong revenue and NOI growth.

Profile

Canadian Apartment Properties Real Estate Investment Trust ("CAP REIT") is a growth-oriented investment trust owning freehold interests in multi-unit residential complexes, including apartment buildings, townhouses and land lease communities, located in or near major urban centres across Canada.

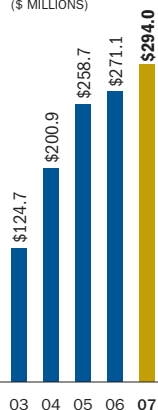
Objectives

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

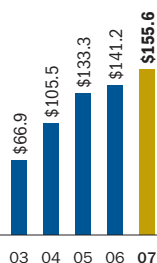
To grow Distributable Income, distributions and Unit value through active management of our properties, accretive acquisitions and strong financial management.

Operating Revenues

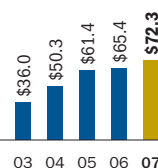
(\$ MILLIONS)

**Net Operating Income**

(\$ MILLIONS)

**Funds From Operations**

(\$ MILLIONS)

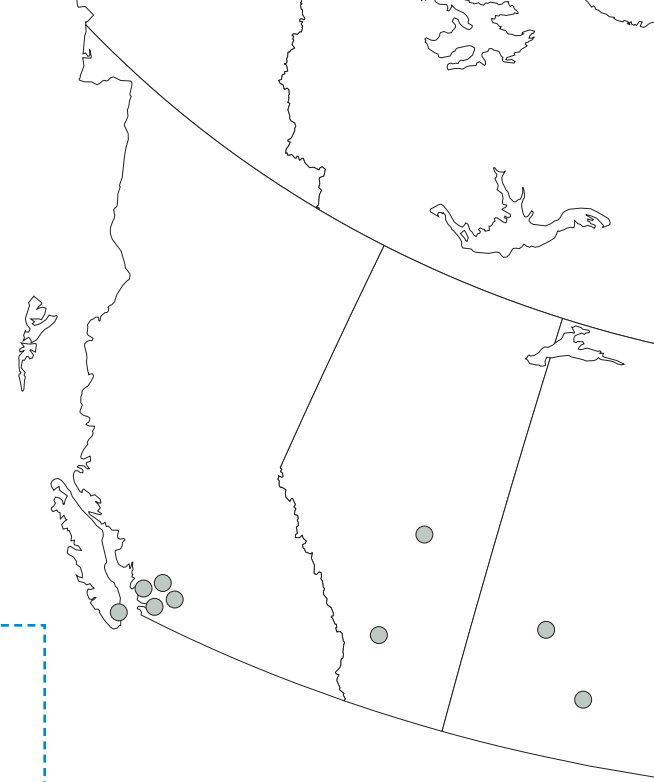


Financial Performance

2007 was another year of solid and accretive growth as we met our expansion and geographic diversification objectives.

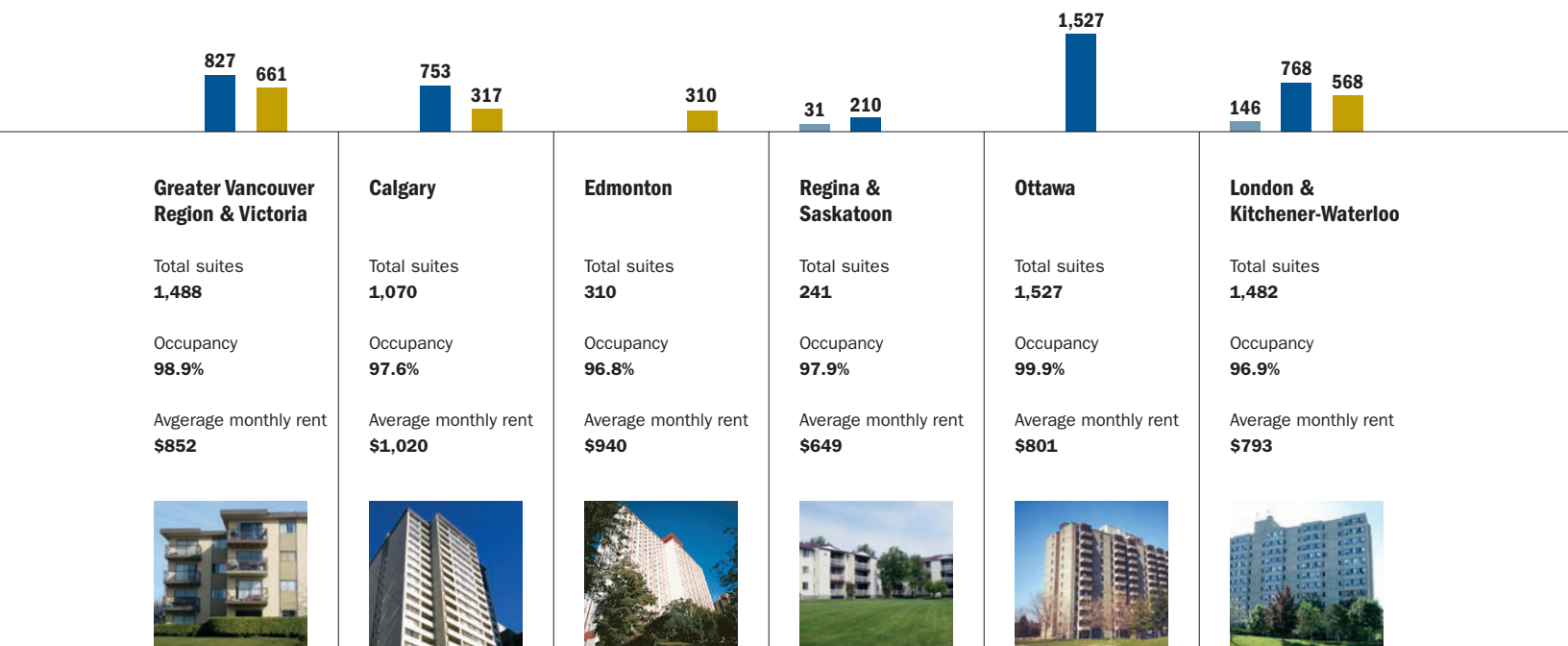
YEAR ENDED DECEMBER 31,	2007	2006 ⁽¹⁾
(\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS)		
Operating Revenues	\$ 293,978	\$ 271,096
Net Operating Income ("NOI")	\$ 155,575	\$ 141,160
NOI Margin	52.9%	52.1%
Discontinued Operations	\$ 1,062	\$ 143
Provision for Future Income Taxes	\$ (51,789)	\$ –
Net (Loss) Income	\$ (50,196)	\$ 722
Net (Loss) Income Per Unit – Basic	\$ (0.831)	\$ 0.013
Distributable Income	\$ 73,129	\$ 66,160
Distributable Income Per Unit – Basic	\$ 1.211	\$ 1.170
Distributions Declared Per Unit	\$ 1.080	\$ 1.080
Payout Ratio	91.3%	94.1%
Effective Payout Ratio	74.1%	81.4%
Funds From Operations ("FFO")	\$ 72,295	\$ 65,443
Funds From Operations Per Unit – Basic	\$ 1.197	\$ 1.157
Number of Suites	29,111	26,498
Income Properties	\$ 2,093,312	\$ 1,877,144
Weighted Average Number of Units – Basic	60,386,653	56,564,616

(1) 2006 has been restated to exclude discontinued operations.



By expanding our presence in key target markets, CAP REIT's high-quality portfolio is well-positioned in major centres from coast to coast.

quality buildings, superior locations



Greater Vancouver Region & Victoria

Total suites
1,488

Occupancy
98.9%

Average monthly rent
\$852

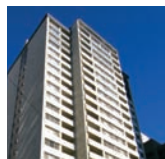


Calgary

Total suites
1,070

Occupancy
97.6%

Average monthly rent
\$1,020



Edmonton

Total suites
310

Occupancy
96.8%

Average monthly rent
\$940

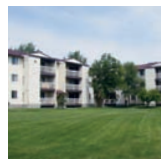


Regina & Saskatoon

Total suites
241

Occupancy
97.9%

Average monthly rent
\$649

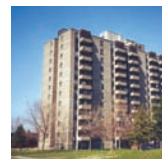


Ottawa

Total suites
1,527

Occupancy
99.9%

Average monthly rent
\$801



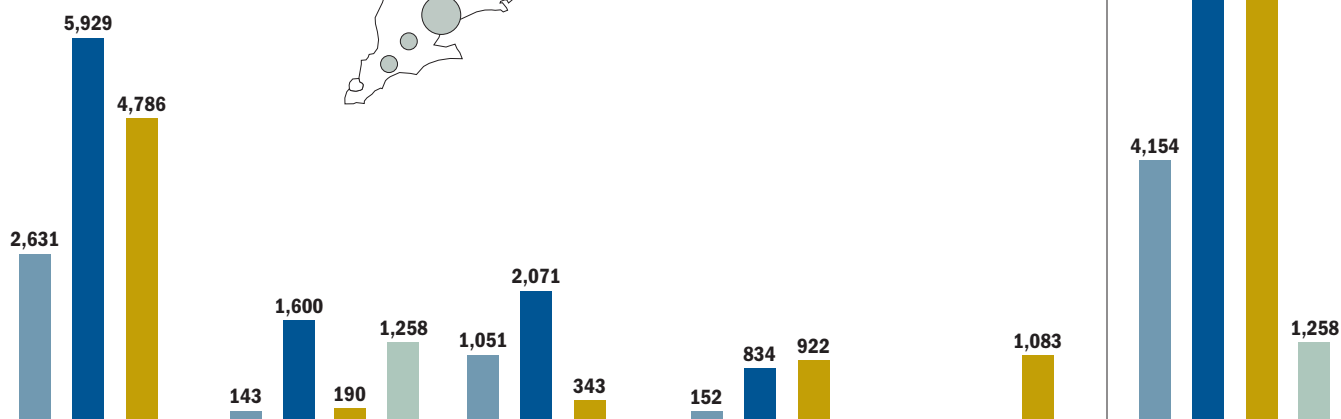
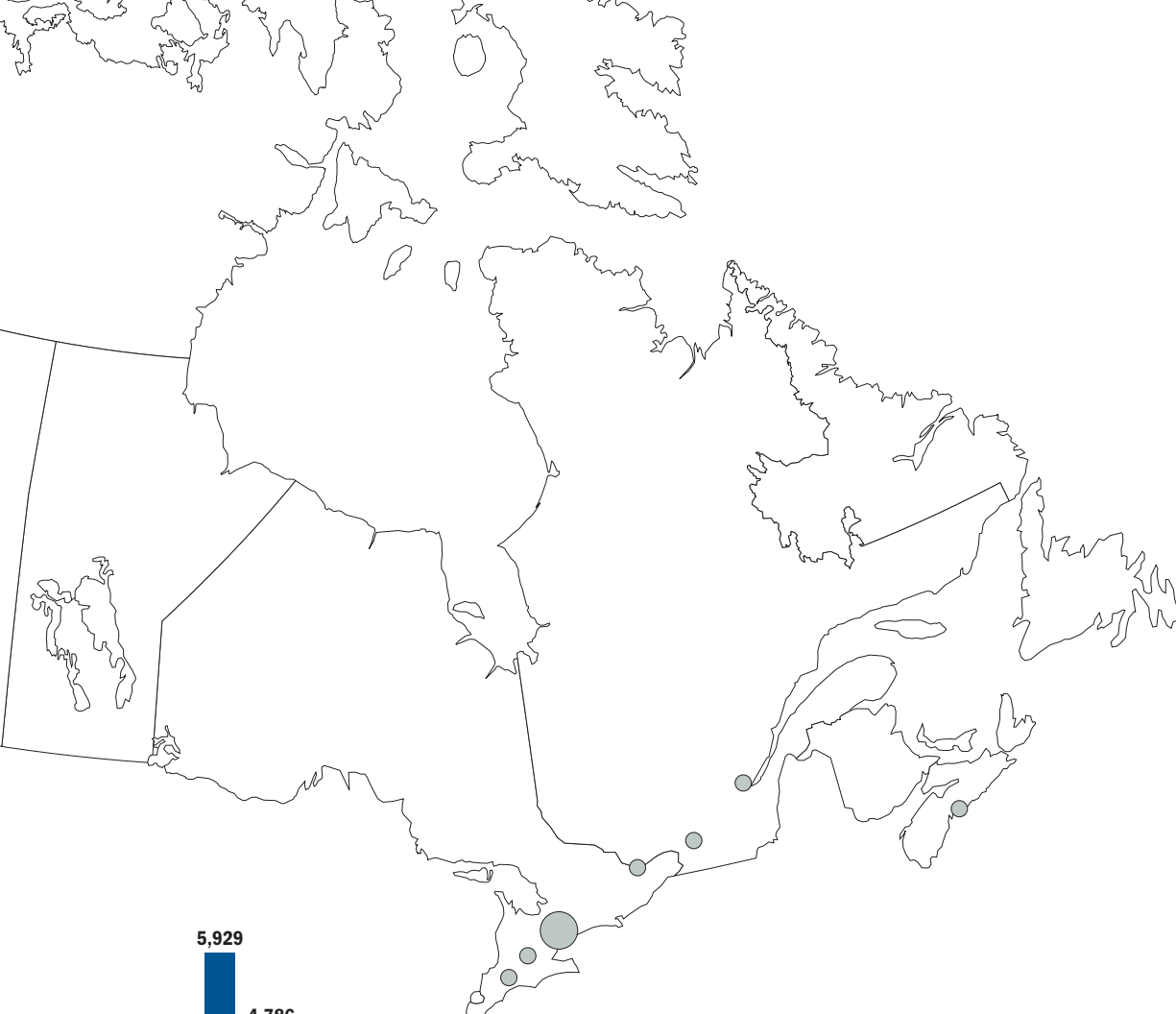
London & Kitchener-Waterloo

Total suites
1,482

Occupancy
96.9%

Average monthly rent
\$793



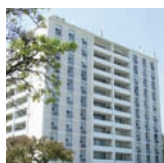


Greater Toronto Area (GTA)

Total suites
13,346

Occupancy
98.0%

Average monthly rent
\$1,036



Outside GTA

Total suites and sites
3,191

Occupancy
98.4%

Average monthly rent
\$758



Montreal

Total suites
3,465

Occupancy
96.3%

Average monthly rent
\$652

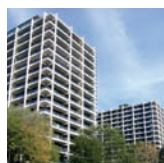


Quebec City

Total suites
1,908

Occupancy
98.5%

Average monthly rent
\$710



Halifax

Total suites
1,083

Occupancy
97.6%

Average monthly rent
\$939



TOTAL

Total suites and sites
29,111

Occupancy
97.9%

Average monthly rent
\$899

Through resident relations, improved communications and staff training, we are building one of the best-managed companies in the real estate business with

a proven track record

Left to right: **Mark Kenney**, Vice President, Operations; **Yazdi Bharucha**, CFO and Secretary; **Thomas Schwartz**, President and CEO; **Maria Amaral**, Vice President, Finance;



REPORT TO UNITHOLDERS Our strategies to grow, strengthen and diversify our portfolio have proven highly successful. Combined with improving industry fundamentals and growing demand for rental accommodation across Canada, we are strongly positioned to continue building value for our Unitholders over the long term.

Strong Performance

We were pleased with our operating and financial results in 2007. Acquisitions completed over the last two years, combined with our successful programs to increase occupancies and average monthly rents on both renewals and turnovers, resulted in a solid increase in revenues compared to last year. Our initiatives to manage our properties and control our costs generated a significant improvement in our Net Operating Income (“NOI”) and NOI margin. Importantly, we have now produced eight consecutive quarters of positive same property NOI growth, and expect this trend to continue going forward.

Our growth has also been accretive for our Unitholders as Funds From Operations (“FFO”) per Unit were up 3.5% in 2007, due primarily to our effective cost controls, improved operating results and enhanced revenues. In addition, we were pleased to enhance the after-tax returns for our Unitholders in 2007 with a tax deferral rate of 89.79% for our cash distributions, one of the highest tax deferral rates among Canadian REITs.

As we have grown, we have also focused on maintaining what we believe is one of the strongest balance sheets in our business. Our conservative debt leverage ratios, low weighted average interest rate, and balanced term to maturity for our mortgage portfolio provide us with the financial resources and flexibility to continue executing our value-enhancing strategies going forward.

We continue to invest in our properties and people—a key component to our success over the last eleven years and a necessary part of our business.

STRONG AND GETTING STRONGER



1114-1132 Howie Avenue, Coquitlam, B.C.



900 rue Laudance,
Quebec City, Quebec

A Proven Track Record

Our track record of over eleven years of accretive growth is due to the experience and skills of our team. At CAP REIT, we are real estate people in the real estate business. Our efforts to foster strong relationships with our residents is supported by our numerous communication programs, as well as our ever-evolving staff training programs that keep our people up-to-date on the latest industry trends and provide them with the right tools to do their jobs effectively and efficiently. CAP REIT is truly the Landlord of Choice in the Canadian apartment industry.

Growing and Diversifying Our Portfolio

Our focus over the past few years has been to expand our presence in key growth markets while ensuring we are not overly exposed to any single geographic region or demographic group. Our growth initiatives during 2007 have moved us closer to this objective, and created a balanced and well-maintained property portfolio situated in irreplaceable locations across all major markets in Canada.

The Province of Quebec has been a key target region for us over the last three years, and in 2007 we added three properties containing 607 suites in Quebec City. With this growth in

Quebec, during the year we also enhanced our dedicated operating and property management team in the region.

Western Canada has been an enviable market in the Canadian real estate world for the last few years, and we have made significant strides to enhance our presence in both Alberta and British Columbia. In 2007, we acquired seven properties containing 609 suites in British Columbia, including our first acquisitions in the strong Victoria market. In addition, we added to our growing Alberta portfolio with the purchase of a property containing 139 suites. Looking ahead, we will continue to seek out accretive acquisitions in these markets.

It is also important to note that we met our growth objective for the eleventh consecutive year in 2007, and we remain confident in our ability to acquire another 1,500 to 2,000 suites on an annual basis going forward.

Subsequent to the year-end, we further diversified and strengthened our portfolio with the sales of twelve non-core properties located in Niagara, the Greater Toronto Area, Montreal and Quebec City. One of our stated strategies is to continually monitor our portfolio to identify non-core properties, and to redeploy the capital from their disposal to acquire strategic assets better suited to our targeted portfolio composition and property management objectives. We had maximized the value we could achieve with

The sales of non-core properties in Ontario and Quebec generated a significant capital gain, demonstrating the success of our property management and capital improvement programs.

We successfully expanded our presence in a number of high-growth Quebec and Western Canadian markets through

creative portfolio diversification

612 Clarke Road, Coquitlam, B.C.





Grand Cove, Grand Bend, Ontario

Our purchase of two of Canada's premier land lease communities further diversifies our property portfolio, and provides a highly stable and growing revenue source.

Recognizing changing demographic trends, and looking to strengthen our portfolio, we entered a new asset class in 2007:

land lease communities



Wilmot Creek, Newcastle, Ontario

these non-core properties, and determined we could generate significant cash from their sales to help finance our purchases in the strong Western Canadian and other markets. Importantly, the significant estimated \$17.0 million in gain we generated on these sales clearly demonstrates the success we are achieving in enhancing the value of our property portfolio through our active property management and capital investment programs.

Entered an Exciting New Market

2007 marked our entry into a new and exciting market for CAP REIT—the Land Lease Communities business. Our acquisition of two of Canada’s premier properties helps to further diversify our portfolio and provides a highly stable source of revenue over the long term.

Wilmot Creek, situated near Bowmanville, Ontario approximately 50 kilometres east of Toronto, and Grand Cove, located on Lake Huron in Grand Bend, Ontario, in total comprise 1,258 well-located and beautiful land lease sites. Amenities and services at our communities include private golf courses, swimming pools, tennis courts, and even a major retail bank branch. Both properties have historically demonstrated at or near full occupancies. We have also entered into development

agreements to purchase additional sites on adjacent land as they become available. Subsequent to the original acquisition, we acquired another 25 sites in 2007 to further build our presence in this strong market.

Residents in a land lease community own their home and enter into lease agreements for terms of up to twenty years paying a monthly rental charge. They are responsible for all of their utility costs, and all sites are connected to full municipal services. The homes are constructed by a high-quality home builder in a variety of styles and floor plans, and can be customized to an owner’s specifications. Our new target market is composed primarily of “empty nesters” in their 50s and 60s seeking the lifestyle and amenities provided by these communities, along with the serenity, security, location and affordability they offer.

We are very excited about this new line of business. While owning and operating a land lease community is very similar to the apartment business, our Unitholders will benefit from the significantly lower capital and maintenance costs, minimal rent collection issues, reduced exposure to energy costs, high stable occupancies and generally longer lease terms with low resident turnover. Most importantly, the acquisition enhanced our overall profitability and was immediately accretive to our Distributable Income in 2007.

We will continue to prudently examine additional acquisitions in this new line of business. With more than 1,100 manufactured housing communities in Canada, and over 90% managed by single-property owners, there is ample opportunity to expand our presence in this highly accretive sector.

Key Accomplishments

Over the last three years, we embarked on a program to invest in our information systems and operating platform and in 2007, we achieved significant success in furthering these objectives.

Our new lease management system, which became fully operational across our portfolio in 2007, considerably enhances our operating efficiency while helping us capture increased revenues. This state-of-the-art technology tracks market rent in a specific area and allows us to capture the highest rent possible for any given suite in a specific property. It also helps us reduce turnover time and provides the most up-to-date, real time information on activity across our portfolio to ensure we are directing our resources to the right places.

During the year, we also completed the implementation of our new procurement software and related processes, the final stage in transforming our operating platform into the best and most efficient in our industry. This new procurement solution provides a number of benefits, including savings through nationwide sourcing contracts and more control over our purchases of services and materials. These new solutions are designed to enhance efficiency and allow our people to focus more of their time on our key objective—having the best buildings and the highest level of resident service in the industry.

Finally, late in the year we completed a bought-deal equity offering, raising net proceeds of approximately \$95.1 million. Combined with the almost \$63.4 million in net proceeds from the non-core property dispositions completed in January 2008, we have further strengthened our balance sheet and liquidity position.

Looking Ahead

The fundamentals of the rental market strengthened considerably in 2007, and we are confident this trend will continue through 2008 and going forward. Increased immigration and stable employment in Canada, combined with little new rental residential supply, will continue to drive demand for quality rental accommodation across the country. Also generating demand is the increasing cost of home ownership, which has resulted in the monthly cost gap between owning and renting a home rising to more than \$1,200, a fifteen-year high.

Going forward, we will continue to execute the same strategies that have generated our strong growth and operating performance for the past eleven years. We plan to acquire between 1,500 and 2,000 rental suites on an annual basis, further strengthening and diversifying our portfolio both geographically and by asset type. We will capitalize on the expertise and entrepreneurial spirit of our team to manage and reduce our costs to enhance cash flows, while constantly seeking out better and more efficient ways to manage our business. We will also maintain our presence as Canada's Landlord of Choice by providing our residents with the best properties and the best levels of service in our industry.

In closing, we would like to thank everyone on the CAP REIT team for their contribution and hard work over the last year. Looking ahead, we are well-positioned to capitalize on the continued strength of the Canadian apartment industry, and with our strong balance sheet and significant financial flexibility, we have the resources to carry out our value-enhancing strategies over the long term.



Thomas Schwartz
*President and
Chief Executive Officer*



Michael Stein
Chairman

Financial Performance

Management's Discussion and Analysis

SECTION 1

- 12 Forward-looking Disclaimer
- 13 Overview
- 14 Objectives
- 14 Business Strategy
- 15 Key Performance Measurements
- 16 Property Portfolio

SECTION 2

- 19 Results of Operations
- 21 Net (Loss) Income
- 22 Stabilized Portfolio Performance

SECTION 3

- 23 Distributable Income,
Distributions to Unitholders,
Payout Ratio and DRIP
- 25 Funds From Operations
- 25 Capital Investments
- 26 Productive Capacity
- 27 Liquidity and Financial Condition
- 30 Unitholder Taxation

SECTION 4

- 31 Quarterly Results

SECTION 5

- 32 Accounting Policies
- 33 Controls and Procedures

SECTION 6

- 34 Risks and Uncertainties
- 36 Related Party Transactions
- 36 Contingencies
- 36 Subsequent Events

SECTION 7

- 37 Future Outlook

Consolidated Financial Statements

- 38 Management's Responsibility

for Financial Statements

- 38 Auditors' Report

- 39 Consolidated Balance Sheets

- 40 Consolidated Statements of Operations
and Comprehensive Loss

- 41 Consolidated Statements of
Unitholders' Equity

- 42 Consolidated Statements of Cash Flows

- 43 Notes to Consolidated Financial
Statements

management's discussion and analysis

of Results of Operations and Financial Condition

YEAR ENDED DECEMBER 31, 2007

Section 1

FORWARD-LOOKING DISCLAIMER

The following management's discussion and analysis ("MD&A") of the results of operations and financial condition for the years ended December 31, 2007 and 2006 should be read in conjunction with Canadian Apartment Properties Real Estate Investment Trust's ("CAP REIT") audited consolidated financial statements. Certain statements in this MD&A could be considered as forward-looking information. This forward-looking information is subject to certain risks and uncertainties that could result in actual results differing materially from these forward-looking statements. These risks and uncertainties are more fully described in this document and in regulatory filings that can be obtained on SEDAR at www.sedar.com. The information in this MD&A is based on information available to management as at February 19, 2008.

OVERVIEW

CAP REIT converted to an open-end real estate investment trust on January 8, 2008. CAP REIT was created by a declaration of trust (the “Declaration of Trust”) dated February 3, 1997 under the laws of the Province of Ontario, as amended on January 8, 2008. CAP REIT owns interests in multi-unit residential rental properties, including apartments, townhouses and land lease adult lifestyle communities located in and near major urban centres across Canada. As at December 31, 2007, CAP REIT had ownership interests in a portfolio that included 27,853 residential suites (CAP REIT’s share – 27,090 suites), and two Ontario adult lifestyle land lease communities comprising 1,258 sites, well-diversified by geographic location and asset class. As at December 31, 2007, CAP REIT had 838 employees.

On February 1, 2007, CAP REIT completed the acquisition of 17 apartment buildings in Quebec City, Quebec totalling 607 suites. The total acquisition costs of \$61.3 million were satisfied by \$39.3 million in mortgage financing at an effective interest rate of 4.87% for a ten-year term and the balance from the Acquisition Facility.

On July 10, 2007, CAP REIT acquired two land lease adult lifestyle communities in Ontario located near Bowmanville and in Grand Bend. Combined, the two communities consist of 1,233 land lease sites on 371 acres of land. The total acquisition costs were \$76.6 million and included the acquisition of all community services and amenities. The purchase was financed by \$55.0 million in new mortgage financing at an effective interest rate of 5.71% for a term of five years, the issuance to the vendor of \$8.0 million in new CAPREIT Limited Partnership Units (“CAPLP Units”) and the balance from the Acquisition Facility. The CAPLP Units were issued at a weighted average price of \$19.45 per Unit and are exchangeable into 411,311 CAP REIT Trust Units on a one-for-one basis at the option of the holder. The CAPLP Units are entitled to distributions equivalent to distributions on CAP REIT Units. On November 1, 2007, an additional 25 land lease sites (18 sites in Bowmanville and 7 sites in Grand Bend) were acquired under the terms of the Development Agreement with the vendor for total acquisition costs of approximately \$1.2 million. Residents in a land lease community own their home and enter into a lease agreement for their lot for terms of up to twenty years for a monthly rental charge. In Ontario, residents are subject to annual provincial guideline rent increases. Residents are responsible for all of their utility costs, and all sites are connected to full municipal services. The homes are constructed by a high-quality home builder in a variety of styles and floor plans, and can be customized to an owner’s specifications. Residents are primarily “empty nesters” in their 50s and 60s seeking the lifestyle and amenities provided by these communities, along with the serenity, security, location and affordability they offer. CAP REIT believes owning and operating a land lease community is very similar to the apartment business. However, Unitholders will benefit from the significantly lower capital and maintenance costs, minimal rent collection issues, reduced exposure to energy costs, high stable occupancies and generally longer lease terms with low resident turnover.

On September 26, 2007, CAP REIT acquired eight apartment buildings from TransGlobe Property Management Services Ltd. (“TransGlobe”) containing an aggregate of 748 suites located in British Columbia and Alberta. The total acquisition costs were \$96.5 million and new CMHC-insured mortgages of \$61.2 million were arranged for a five-year term with a weighted average interest rate of 4.73%. The new properties will be managed by CAP REIT’s existing operating structure, which management believes will enhance the operating synergies and economies of scale within these regions. In conjunction with this acquisition transaction and to further enhance CAP REIT’s geographic diversification, CAP REIT agreed to sell to TransGlobe ten non-core Ontario and Quebec properties totalling 1,478 suites. The sale transactions closed in January 2008 (see Subsequent Events). Management believes the two transactions will serve to further diversify its property portfolio.

On November 7, 2007, CAP REIT issued 5,350,000 Units at \$18.65 per Unit on a bought-deal basis for aggregate gross proceeds of approximately \$99.8 million. The net proceeds of approximately \$95.1 million were used to repay borrowings on the Acquisition and Operating Facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table outlines the per Unit (basic) Net (Loss) Income, Distributable Income, Funds From Operations, cash distributions, the closing price, and market value of Equity on the Toronto Stock Exchange for the last trading day of the period. CAP REIT currently pays monthly cash distributions of \$0.09 per Unit to its Unitholders. Since its inception, CAP REIT has increased monthly cash distributions eight times, and by approximately 51%.

(PER UNIT INFORMATION, UNLESS NOTED)

YEAR ENDED DECEMBER 31,	2007	2006
Net (Loss) Income ⁽¹⁾	\$ (0.831)	\$ 0.013
Distributable Income (DI) ⁽²⁾	\$ 1.211	\$ 1.170
Funds From Operations (FFO) ⁽³⁾	\$ 1.197	\$ 1.157
Cash Distributions ⁽⁴⁾	\$ 1.080	\$ 1.080
Payout Ratio	91.3%	94.1%
Effective Payout Ratio ⁽⁵⁾	74.1%	81.4%
Closing Price	\$ 16.03	\$ 18.58
Market Value of Equity (\$ millions) ⁽⁶⁾	\$ 1,074	\$ 1,115

(1) Net Loss for 2007 includes a provision for future income taxes of \$51.8 million or equivalent to (\$0.858) per Unit.

(2) Non-GAAP measure (see page 23 for reconciliation of Cash from Operating Activities to DI).

(3) Non-GAAP measure (see page 25 for reconciliation of Net Income (Loss) to FFO).

(4) Includes distributions declared in December 2007 but paid in January 2008.

(5) Excludes from distributions cash reinvested by Unitholders through the Distribution Reinvestment Plan ("DRIP").

(6) Defined as the closing price of Units for the last trading day of the year times the number of Units outstanding on that date.

OBJECTIVES

CAP REIT's objectives are:

- To provide Unitholders with long-term, stable and predictable monthly cash distributions.
- To grow Distributable Income, distributions and Unit value through the active management of its properties, accretive acquisitions and strong financial management.
- To continue the realization and reinvestment of capital within the property portfolio in order to maximize earnings and cash flow potential.

BUSINESS STRATEGY

To meet its objectives, CAP REIT has defined the following strategies:

Customer Service | CAP REIT recognizes that it is in a "people business," and strives to be recognized as the Landlord of Choice in all its chosen markets by providing its residents with safe, secure and comfortable homes. It takes a "hands-on" approach to managing its properties, stressing open, frequent and consistent communications to ensure residents' needs are met efficiently and effectively. Numerous initiatives such as newsletters, special events, resident committees and others help to build a true sense of community in its properties. CAP REIT's strengthened sales and marketing team continues to execute innovative and highly effective strategies to help attract and retain residents. In addition, a new lease administration system has improved control of rent setting by suite, increasing resident service, and enhancing the overall profile of its resident base.

Cost Controls | While ensuring the needs of its residents are met, CAP REIT also carefully monitors operating costs to ensure it is delivering services to its residents both efficiently and cost-effectively. As the portfolio has grown, CAP REIT has also strived to capture available economies of scale and cost synergies.

Capital Investments | CAP REIT believes it acquires properties at prices significantly below their current replacement costs, and is committed to improving its operating performance by incurring appropriate capital expenditures in order to replace and maintain the productive capacity of its property portfolio so as to sustain its rental income generating potential over the portfolio's useful life.

Portfolio Growth | CAP REIT will grow its portfolio over the long term through accretive acquisitions while capturing economies of scale and cost synergies, thereby increasing Distributable Income per Unit. As a component of this growth strategy, CAP REIT will monitor its portfolio and, from time to time, identify certain non-core properties for disposal. The funds from these disposals will be used to acquire additional strategic assets better suited to CAP REIT's portfolio composition and property management objectives. Management believes the continued realization and reinvestment of capital is a fundamental component of CAP REIT's growth strategy. This is demonstrated by the success of CAP REIT's past investment programs and its ability to maximize and manage the earnings and cash flow potential of its property portfolio.

Financial Management | CAP REIT takes a long-term, 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, extend the average term to maturity and stagger maturity dates.

KEY PERFORMANCE MEASUREMENTS

To achieve its objectives, CAP REIT has defined a number of key operating and performance measurements to measure the success of its operating and financial strategies:

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

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

Net Operating Income | This is defined as operating revenues less operating expenses. As a measure of its operating performance, CAP REIT strives to achieve an annual net operating income margin that is approximately 52% of operating revenues.

Distributable Income and Funds From Operations | CAP REIT also strives to increase Distributable Income and Funds From Operations annually, on a per Unit basis.

Payout Ratio | To help ensure it retains sufficient cash to meet its capital investment objectives, CAP REIT targets an annual payout ratio of between 85% and 90%.

Portfolio Growth | Management's objective is to acquire between 1,500 and 2,000 suites on an annual basis.

Financing | CAP REIT takes a very proactive approach with its mortgage portfolio, ensuring it is properly positioned to manage interest expense volatility risk by achieving the lowest possible average interest rates while mitigating refinancing risk by extending the portfolio's average term to maturity and staggering the maturity dates.

PROPERTY PORTFOLIO

CAP REIT's property portfolio continues to be well diversified by geography and balanced among asset types and demographic segments. Management intends to further enhance the geographic diversification through future acquisitions of properties and portfolios in regions primarily outside the Greater Toronto Area ("GTA").

Portfolio by Asset Type

AS AT DECEMBER 31,	2007	%	2006	%
Affordable	4,154	14.3	4,154	15.7
Mid-tier	14,519	49.9	13,771	52.0
Luxury	9,180	31.5	8,573	32.3
Total Residential Suites	27,853	95.7	26,498	100.0
Land Lease Sites	1,258	4.3	–	–
Total Suites and Sites	29,111	100.0	26,498	100.0

Portfolio by Geography

AS AT DECEMBER 31,	2007	%	2006	%
Ontario				
Greater Toronto Area	13,346	45.9	13,346	50.4
Ottawa	1,527	5.2	1,527	5.7
London/Kitchener-Waterloo	1,482	5.1	1,482	5.6
Other Ontario	1,933	6.6	1,933	7.3
Ontario Residential Suites	18,288	62.8	18,288	69.0
Land Lease Sites	1,258	4.3	–	–
Ontario Residential Suites and Sites	19,546	67.1	18,288	69.0
Quebec				
Montreal	3,465	11.9	3,465	13.1
Quebec City	1,908	6.6	1,301	4.9
	5,373	18.5	4,766	18.0
Nova Scotia				
Halifax	1,083	3.7	1,083	4.1
Alberta				
Edmonton	310	1.1	310	1.2
Calgary	1,070	3.6	931	3.5
	1,380	4.7	1,241	4.7
Saskatchewan				
Saskatoon	133	0.5	133	0.5
Regina	108	0.4	108	0.4
	241	0.9	241	0.9
British Columbia				
Greater Vancouver Region	1,117	3.8	879	3.3
Victoria	371	1.3	–	–
	1,488	5.1	879	3.3
Total Residential Suites	27,853	95.7	26,498	100.0
Total Residential Suites and Sites	29,111	100.0	26,498	100.0

Through accretive acquisitions and non-core property dispositions, CAP REIT continues to enhance the geographic diversification of its property portfolio. In the past twelve months, CAP REIT acquired 2,613 residential suites and land lease sites (comprised of 1,355 residential suites and 1,258 land lease sites), for total acquisition costs of approximately \$235.6 million. Over the past three years CAP REIT has increased its presence in markets with higher growth potential such as Quebec, Alberta and British Columbia while reducing its exposure to the Ontario market. In addition, with the acquisition of the two land lease communities, it has diversified into a new residential asset class.

Portfolio Average Monthly Rents and Occupancy (By Asset Type)

	TOTAL PORTFOLIO				PROPERTIES OWNED PRIOR TO DEC. 31, 2006				PROPERTIES ACQUIRED SINCE DEC. 31, 2006	
	2007		2006		2007		2006		2007	
	AVERAGE MONTHLY RENTS	OCCUPANCY	AVERAGE MONTHLY RENTS	OCCUPANCY	AVERAGE MONTHLY RENTS	OCCUPANCY	AVERAGE MONTHLY RENTS	OCCUPANCY	AVERAGE MONTHLY RENTS	OCCUPANCY
Affordable	\$ 798	97.5%	\$ 778	96.8%	\$ 798	97.5%	\$ 778	96.8%	\$ –	–
Mid-tier	\$ 869	97.7%	\$ 845	97.5%	\$ 873	97.7%	\$ 845	97.5%	\$ 790	97.7%
Luxury	\$ 1,031	98.2%	\$ 1,000	96.9%	\$ 1,050	98.2%	\$ 1,000	96.9%	\$ 763	97.7%
Average Residential Suites	\$ 913	97.8%	\$ 886	97.2%	\$ 920	97.9%	\$ 886	97.2%	\$ 778	97.7%
Average Land Lease Sites	\$ 591	99.8%	\$ –	–	\$ –	–	\$ –	–	\$ 591	99.8%

Average monthly rents are defined as actual residential rents, net of vacancies, divided by the total number of suites in the property and do not include revenues from parking, laundry or other sources.

Average monthly rents increased across all sectors of the residential suite portfolio resulting in an increase in overall average monthly rents as at December 31, 2007 to \$913 as compared to \$886 last year. This increase was generated despite acquisitions made in Quebec City, Quebec and Victoria, Coquitlam and New Westminster, British Columbia where the rents are generally lower than the national averages. Average monthly rents for the properties owned prior to December 31, 2006 also increased as at December 31, 2007 to \$920 from \$886 compared to December 31, 2006, with solid gains of between 2.6% and 5.0% in all segments of the portfolio due to CAP REIT's successful sales and marketing strategies. The occupancy as at December 31, 2007 also improved for the residential suite portfolio to 97.8% from 97.2% in the prior year. The occupancy for the land lease portfolio remained very strong at 99.8% since acquisition.

Suite turnovers in the residential suite portfolio (excluding co-ownerships) remained stable during 2007 and CAP REIT generated increases of approximately \$18 or 2.0% in average monthly rents on suite turnovers as compared to \$10 or 1.1% in the prior year. Average monthly rents increased on lease renewals by approximately \$27 or 3.0% as compared to \$20 or 2.2% last year. Management believes the market for rental accommodation will continue to improve, resulting in further sustainable rent increases on both turnovers and lease renewals.

Portfolio Average Monthly Rents and Occupancy (By Geography)

AS AT DECEMBER 31,

	2007		2006	
	AVERAGE MONTHLY RENTS	OCCUPANCY %	AVERAGE MONTHLY RENTS	OCCUPANCY %
Ontario				
Greater Toronto Area	\$ 1,036	98.0	\$ 1,004	97.0
Ottawa	801	99.9	778	99.9
London/Kitchener–Waterloo	793	96.9	762	94.9
Other Ontario	868	97.5	858	97.6
	\$ 987	98.0	\$ 957	97.2
Quebec				
Montreal	\$ 652	96.3	\$ 641	97.0
Quebec City	710	98.5	654	97.2
	\$ 673	97.1	\$ 645	97.0
Nova Scotia				
Halifax	\$ 939	97.6	\$ 902	94.8
Alberta				
Edmonton	\$ 940	96.8	\$ 830	98.7
Calgary	1,020	97.6	856	98.4
	\$ 1,002	97.4	\$ 850	98.5
Saskatchewan				
Saskatoon	\$ 600	98.5	\$ 500	95.5
Regina	709	97.2	642	99.1
	\$ 649	97.9	\$ 564	97.1
British Columbia				
Greater Vancouver Region	\$ 900	99.4	\$ 885	99.1
Victoria	709	97.6	–	–
	\$ 852	98.9	\$ 885	99.1
Total Residential Suites	\$ 913	97.8	\$ 886	97.2
Land Lease Sites	\$ 591	99.8	\$ –	–
Total Residential Suites and Sites	\$ 899	97.9	\$ 886	97.2

Steady increases in average rents and occupancies were experienced in each successive quarter during 2007 compared to the prior year periods, except in Alberta, where, with significant increases in average monthly rents, occupancies declined through the year compared to 2006. The increases were primarily due to strengthening market fundamentals, capital improvement programs aimed at enhancing the property portfolio, and successful sales and marketing strategies to attract and retain residents. Management believes that this trend of increasing occupancies and average monthly rents will continue in the foreseeable future, and that overall annual occupancies can be maintained in the 97% to 98% range, which, combined with steady increases in overall average monthly rents, will provide the basis for sustained revenue growth in the future.

Management also believes that its truly national portfolio and ongoing strategies to further diversify among Canada's major rental markets and by property type will continue to protect Unitholders from any downturn in a specific geographic region or demographic group.

Section 2

RESULTS OF OPERATIONS

(\$ THOUSANDS)

YEAR ENDED DECEMBER 31,	2007	%	2006	%
Operating Revenues	\$ 293,978	100.0	\$ 271,096	100.0
Operating Expenses				
Realty Taxes	39,303	13.4	37,385	13.8
Utilities	40,888	13.9	39,701	14.6
Other	58,212	19.8	52,850	19.5
Total Operating Expenses	138,403	47.1	129,936	47.9
Net Operating Income	\$ 155,575	52.9	\$ 141,160	52.1

Net Operating Income ("NOI") is not a measure defined by Canadian generally accepted accounting principles ("GAAP"). NOI is a key measure of operating performance in the real estate industry and includes all rental revenues generated at the property level, less related direct costs such as utilities, realty taxes, insurance, repairs and maintenance and on-site wages and salaries. It may not, however, be comparable to similar measures presented by other real estate trusts or companies.

Operating Revenues

Total operating revenues increased in 2007 compared to the prior year, primarily due to acquisitions completed over the past twelve months. Also, average monthly rents and occupancy for the total portfolio increased at December 31, 2007 compared to the same period last year. CAP REIT increased average monthly rents to \$913 at December 31, 2007 as compared to \$886 last year and improved occupancy to 97.8% from 97.2%. CAP REIT also generated a 12.1% increase in parking revenues in 2007 as compared to the prior year. As CAP REIT continues to enhance the profile of its resident base and increase the level of service to its residents, it expects to realize future growth in operating revenues.

Overall vacancies, bad debts and tenant inducements as a percentage of operating revenues remained stable at 3.3% for the years ended December 31, 2007 and 2006. The unamortized balance of tenant inducements was \$0.3 million at December 31, 2007 compared to \$0.4 million at December 31, 2006, which will be amortized and offset to revenue from income properties.

Operating Expenses

Operating expenses for the year ended December 31, 2007 rose in comparison to the same period last year primarily due to the increase in the size of the property portfolio resulting from acquisitions completed over the past twelve months. Overall operating expenses as a percentage of operating revenues improved in 2007 in comparison to last year primarily due to the following factors:

- Realty taxes as a percentage of revenues decreased due to the enhanced diversification of the portfolio in regions with lower taxation rates, as well as successful tax appeals.
- Utility costs as a percentage of revenues decreased due to CAP REIT's energy management strategies, which include locking in future prices where possible, as well as lower hydro prices.
- Other operating expenses as a percentage of revenues rose slightly in 2007 due to the increased size of the portfolio, as well as higher on-site wages and benefits compared to 2006.

Net Operating Income

(\$ THOUSANDS)

YEAR ENDED DECEMBER 31,	2007			2006			CHANGE IN NOI	
	NOI	NOI AS A % OF REVENUES	% OF TOTAL NOI	NOI	NOI AS A % REVENUES	% OF TOTAL NOI	\$	%
Ontario	\$110,429	51.5	71.0	\$ 103,304	50.7	73.2	\$ 7,125	6.9
Quebec	18,741	54.6	12.0	14,602	53.0	10.3	4,139	28.3
Alberta	10,454	59.8	6.7	8,570	57.3	6.1	1,884	22.0
British Columbia	7,655	57.4	4.9	5,998	56.4	4.2	1,657	27.6
Nova Scotia	7,548	59.4	4.9	7,978	63.6	5.7	(430)	(5.4)
Saskatchewan	748	42.7	0.5	708	42.1	0.5	40	5.7
Total	\$155,575	52.9	100.0	\$ 141,160	52.1	100.0	\$ 14,415	10.2

While CAP REIT continued to increase NOI in most of its markets through 2007, it is gradually increasing its presence in regions with higher growth potential such as Quebec, Alberta and British Columbia, while maintaining a strong presence in the Ontario market with longer term potential. With the acquisition of two adult lifestyle land lease communities, it has also diversified into a new residential asset class.

Ontario | As a result of CAP REIT's efforts to enhance the diversification of its total portfolio, the Ontario portfolio represented 71.0% of total NOI for the year ended December 31, 2007 compared to 73.2% in the prior year. Despite this decrease, the NOI contribution from the Ontario portfolio increased 6.9% while the NOI as a percentage of revenues improved primarily due to higher average monthly rents and the acquisition of 1,258 land lease sites in the current year.

Quebec | CAP REIT's acquisitions over the last twelve months in Quebec have resulted in the province representing 12.0% of total NOI for the year ended December 31, 2007 compared to 10.3% last year. Primarily due to the increase in size of the Quebec portfolio, and higher average monthly rents this year, the NOI contribution from Quebec through 2007 increased 28.3% compared to the prior year, while the NOI margin increased to 54.6% from 53.0% last year.

Alberta | CAP REIT has established a solid presence in the strong Alberta market on which it will build over the long term. Primarily due to stable occupancies and higher average monthly rents in the Alberta portfolio, the contribution to NOI from the properties increased 22.0% to 6.7% of total NOI in 2007 from 6.1% last year. In addition, the NOI margin rose to 59.8% in 2007 from 57.3% last year. Both the Calgary and Edmonton markets remained strong with significant increases in average monthly rents.

British Columbia | CAP REIT has also targeted the British Columbia market for future expansion going forward. As a result of stable occupancies and increased average monthly rents for the Greater Vancouver Region properties, the NOI contribution from the British Columbia portfolio in 2007 increased 27.6% to 4.9% from 4.2% last year. The NOI margin also increased to 57.4% from 56.4% last year. The British Columbia market remained strong through 2007.

Nova Scotia | While occupancies and average monthly rents were higher in Nova Scotia compared to the prior year, increased suite turnover costs and wages resulted in a decline in NOI contribution and NOI margin through 2007 compared to last year.

Saskatchewan | The Regina and Saskatoon markets continued to perform well through 2007 as both average monthly rents and occupancies increased overall compared to last year. As a result, the NOI contribution increased slightly by 5.7%, while the NOI margin increased to 42.7% from 42.1%.

NET (LOSS) INCOME

(\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS)

YEAR ENDED DECEMBER 31,	2007	2006
Net Operating Income	\$ 155,575	\$ 141,160
<i>Less:</i>		
Trust Expenses	10,928	9,097
Mortgage Interest	69,444	62,618
Interest On Bank Indebtedness	6,206	5,311
Other Income	(1,140)	(21)
Subtotal	70,137	64,155
<i>Less:</i>		
Depreciation	66,708	56,938
Amortization	2,898	6,638
Income From Continuing Operations Before Income Taxes	531	579
Provision For Future Income Taxes	(51,789)	–
(Loss) Income Before Discontinued Operations	(51,258)	579
Income From Discontinued Operations	1,062	143
Net (Loss) Income	\$ (50,196)	\$ 722
Net (Loss) Income Per Unit From Continuing Operations Basic and Diluted	\$ (0.849)	\$ 0.010
Net Income Per Unit From Discontinued Operations Basic and Diluted	\$ 0.018	\$ 0.003
Net (Loss) Income Per Unit – Basic and Diluted	\$ (0.831)	\$ 0.013
Weighted Average Number of Units (000s) – Basic	60,387	56,565

Depreciation and Amortization

CAP REIT depreciates its properties on a straight-line basis over their estimated useful lives, not exceeding 40 years. Depreciation expense increased in 2007 due to new acquisitions as well as capital expenditures incurred for the property portfolio.

Amortization expense in 2007 decreased in comparison to last year as a result of the decrease in amortization of intangibles to \$1.4 million as compared to \$5.0 million as most of the costs allocated for previous acquisitions have been fully amortized.

Trust Expenses

Trust expenses include costs directly attributable to head office, such as salaries, Trustee fees, professional fees for legal and accounting services, trustees' and officers' insurance premiums, and other general and administrative expenses. Trust expenses increased in 2007, mainly due to the increased size of the portfolio and an increase in overall compensation costs resulting from the new initiatives to enhance CAP REIT's marketing and information technology platforms. As a result of the increase in staff, management now believes it has built an operating platform sufficient to manage the strong growth it expects to generate in the future. Trust expenses were also impacted by higher compensation costs related to CAP REIT's Incentive Plans at \$0.93 million as compared to \$0.75 million in the previous year.

Interest on Mortgages and Bank Indebtedness

Mortgage interest expense increased in 2007 due to new debt associated with the acquisition of properties and top up mortgage financings completed during the year. Mortgage interest also includes costs for pre-payment penalties and related deferred costs

MANAGEMENT'S DISCUSSION AND ANALYSIS

written off in the first quarter for several mortgages refinanced prior to maturity to take advantage of lower interest rates and additional top up financing. Mortgage interest expense as a percentage of operating revenues increased slightly to 23.6% in 2007 compared to 23.1% in the prior year.

Interest on bank indebtedness relates to borrowings under CAP REIT's Acquisition and Operating Facilities and CAPLP's Land Lease Facility. The interest costs for the year ended December 31, 2007 increased slightly to \$6.2 million from \$5.3 million due to increased borrowings on the Acquisition Facility and the new Land Lease Facility as compared to December 31, 2006 and also due to higher interest rates on floating rate debt, which rose to a weighted average interest rate of 6.0% in 2007 compared to 5.93% in 2006.

The interest coverage ratio (defined as earnings before interest, depreciation, amortization, income taxes and LTIP and SELTIP compensation costs divided by interest expense) was stable at 1.94 times for the year ended December 31, 2007 compared to 1.96 the previous year.

Other Income

Other income includes interest, dividends and other (see notes 2(o)(i) and 5 to the consolidated financial statements).

Future Income Taxes

CAP REIT uses the liability method of accounting for future income taxes. The provision for future income taxes aggregating to \$51.8 million represents the cumulative amount of taxes applicable to temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes that are expected to reverse on or after January 1, 2011. Future income taxes are measured at the substantively enacted tax rates expected to apply in the future when the temporary differences reverse. (Also see Taxation of Income Trusts on page 35 and note 10 to the consolidated financial statements.)

STABILIZED PORTFOLIO PERFORMANCE

YEAR ENDED DECEMBER 31,	2007	2006
Stabilized Suites	24,489	24,489
Operating Revenues (\$ millions)	\$ 284.1	\$ 276.1
Net Operating Income (\$ millions)	\$ 148.4	\$ 142.9
Net Operating Income Margin	52.2%	51.7%
Change in Operating Revenues	2.9%	
Change in NOI	3.9%	

Stabilized properties for the year ended December 31, 2007 are defined as all properties owned by CAP REIT as at December 31, 2005 and, therefore, do not take into account the impact on performance of acquisitions completed during 2007 and 2006.

As of December 31, 2007, CAP REIT's stabilized portfolio has generated eight consecutive quarters of stable or positive stabilized NOI growth. In the fourth quarter of 2007, operating revenues increased 3.9% and operating costs increased 1.7%, resulting in a 6.0% increase in NOI for the quarter. The NOI margin increased to 51.6% in the fourth quarter of 2007 compared to 50.6% in the prior year period.

For 2007, in the stabilized portfolio, which represents 86.4% of the portfolio owned as at December 31, 2007, operating revenues increased by 2.9% due to a combination of solid growth in rental and parking income. CAP REIT's operating costs increased by 1.8% due primarily to higher wages and benefits. As a result, NOI for the year ended December 31, 2007 increased 3.9% compared to the prior year and the NOI margin increased to 52.2% from 51.7% in the prior year.

For properties acquired since December 31, 2005, the NOI margin was 58.6% in 2007 as compared to 56.6% in 2006, primarily due to lower realty taxes and utility costs as a result of the portfolio diversification strategy.

Section 3

DISTRIBUTABLE INCOME, DISTRIBUTIONS TO UNITHOLDERS, PAYOUT RATIO AND DRIP

Distributable Income

Distributable Income ("DI") is not a measure defined by GAAP, nor does it have a standard definition, and as such may not be comparable to other trusts that use similar terms. Management considers DI to be a key cash flow measure for determining CAP REIT's capacity to pay cash distributions to its Unitholders, one of CAP REIT's key objectives. CAP REIT calculates DI as defined in its Declaration of Trust, which requires CAP REIT to declare distributions to Unitholders each year not less than the greater of: (i) 85% of its DI (or a lesser amount at the discretion of the trustees); or (ii) an amount calculated to ensure CAP REIT will not be subject to tax on its income and capital gains.

Summarized below is a reconciliation of cash from operating activities as presented in the consolidated financial statements to DI.

(\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS)

	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	2007	2006	2007	2006
Cash from Operating Activities	\$ 30,294	\$ 24,774	\$ 71,541	\$ 69,871
Add:				
Changes in Non-cash Operating Assets and Liabilities	(10,964)	(7,940)	2,890	(1,898)
Less:				
Amortization of Other Financing Costs and CMHC Premiums	(339)	(437)	(1,228)	(1,739)
Amortization of Leasehold Improvements	(19)	(19)	(74)	(74)
Distributable Income (DI)	18,972	16,378	73,129	66,160
DI Retention	1,372	196	6,327	3,932
Distributions Declared to Unitholders	\$ 17,600	\$ 16,182	\$ 66,802	\$ 62,228
DI Per Unit – Basic	\$ 0.300	\$ 0.278	\$ 1.211	\$ 1.170
DI Retention Per Unit	0.030	0.008	0.131	0.090
Distributions Declared to Unitholders Per Unit	\$ 0.270	\$ 0.270	\$ 1.080	\$ 1.080

Management relies on cash flow information including budgets to establish the level of cash distributions to Unitholders, which are paid monthly. DI for the three months and year ended December 31, 2007 has increased over comparable periods in 2006 primarily due to acquisitions completed, and higher overall occupancies and average monthly rents offset by a marginal increase in operating costs.

Distributions to Unitholders and Payout Ratio

(\$ THOUSANDS, EXCEPT WHERE NOTED)

	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	2007	2006	2007	2006
Distributions Declared	\$ 17,600	\$ 16,182	\$ 66,802	\$ 62,228
Distributions Declared Per Unit	\$ 0.270	\$ 0.270	\$ 1.080	\$ 1.080
DI Retention ⁽¹⁾	\$ 1,372	\$ 196	\$ 6,327	\$ 3,932
Payout Ratio	92.8%	98.8%	91.3%	94.1%

(1) Defined as Distributable Income less distributions declared.

Management expects that DI will be sufficient to fund its current level of distributions and that the annual payout ratio will be in the 85% to 90% range.

MANAGEMENT'S DISCUSSION AND ANALYSIS

DRIP Reinvestment and Effective Payout Ratio

(\$ THOUSANDS, EXCEPT WHERE NOTED)

	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	2007	2006	2007	2006
Distributions Reinvested ⁽¹⁾	\$ 3,348	\$ 2,769	\$ 12,633	\$ 8,347
Net Distributions ⁽²⁾	\$ 14,252	\$ 13,413	\$ 54,169	\$ 53,881
% Reinvested	19.0%	17.1%	18.9%	13.4%
DI Retention ⁽³⁾	\$ 4,720	\$ 2,965	\$ 18,960	\$ 12,279
Effective Payout Ratio ⁽⁴⁾	75.1%	81.9%	74.1%	81.4%

(1) Cash reinvested by Unitholders through the DRIP.

(2) Distributions declared less cash reinvested through the DRIP.

(3) Distributable Income less distributions declared after DRIP reinvestment.

(4) Excludes from distributions cash reinvested by Unitholders through the DRIP.

CAP REIT continues to have strong Unitholder participation in its DRIP. The percentage of distributions reinvested through the DRIP at December 31, 2007 was 19.5% compared to 20.0% in 2006. DI retained (including cash reinvested through the DRIP) was \$19.0 million for the year ended December 31, 2007 compared to \$12.3 million in the prior year, more than sufficient to fund its maintenance capital expenditures.

Comparison of Distributions Declared to Cash Flow From Operations and Net (Loss) Income

A comparison of distributions declared to Unitholders with cash flows from operating activities and net (loss) income is as follows:

(\$ THOUSANDS)

YEAR ENDED DECEMBER 31,	2007	2006
Cash Flows Provided By Operating Activities	\$ 71,541	\$ 69,871
Net (Loss) Income	\$ (50,196)	\$ 722
Distributions Declared	\$ 66,802	\$ 62,228
Excess of Cash Flows Provided By Operating Activities Over Distributions Declared ⁽ⁱ⁾	\$ 4,739	\$ 7,643
Shortfall of Net (Loss) Income Over Distributions Declared ⁽ⁱⁱ⁾	\$ (116,998)	\$ (61,506)

(i) Excess of cash flows provided by operating activities over distributions declared

Management relies on cash flow information to establish the overall level of cash distributions to Unitholders. GAAP-defined quarterly cash flows from operating activities (which includes non-cash operating assets and liabilities such as prepaid expenses and accounts payable and other liabilities) is not used to establish the level of current period Unitholders' distributions because fluctuations in the timing of payments for utility expenses and realty taxes are impacted by seasonality and timing of installment payments. In addition, the timing and level of repair and maintenance expenses, which include suite turnover costs, tend to vary based on market conditions. Cash flow from operating the income properties is the primary source of liquidity to fund CAP REIT's interest expenses, trust expenses and distributions to Unitholders. Accordingly, we expect our cash flow from operating activities to be sufficient to fund annual distributions to Unitholders.

(ii) Shortfall of net (loss) income over distributions declared

We do not use net (loss) income calculated in accordance with GAAP as the basis for establishing the level of current period Unitholders' distributions, as net (loss) income includes, among other items, non-cash expenses for depreciation and amortization related to income properties and sundry assets and the non-cash provision for future income taxes. Management believes that it is

appropriate to exclude the impact of future income taxes as CAP REIT intends to qualify for the REIT Exception prior to 2011 (see Taxation of Income Trusts). Also, our portfolio of income properties continues to increase in value over time as management continues to invest significant capital resources to improve the productive capacity of the portfolio, so as to sustain and grow its future rental income stream. Therefore, it is appropriate for CAP REIT to exclude depreciation related to income properties. Based on the above, excluding the impact of the provision for future income taxes and depreciation and amortization expenses, there would be an excess of net (loss) income to distributions declared to Unitholders.

FUNDS FROM OPERATIONS

Funds From Operations ("FFO") is a measure of the operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO is not a measure defined by GAAP. FFO as presented is in accordance with the recommendations of the Real Property Association of Canada ("REALpac"). It may not, however, be comparable to similar measures presented by other trusts or companies in similar or different industries. Management considers FFO to be an important measure of CAP REIT's operating performance.

A reconciliation of net income (loss) to FFO is as follows:

(\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS)	THREE MONTHS ENDED DECEMBER 31,		YEAR ENDED DECEMBER 31,	
	2007	2006	2007	2006
Net Income (Loss)	\$ 9,130	\$ (209)	\$ (50,196)	\$ 722
<i>Add:</i>				
(Recovery of) Provision for Future Income Taxes	(7,819)	–	51,789	–
Depreciation	17,272	15,603	69,133	59,563
Amortization of Tenant Improvements	73	44	226	161
Amortization of Intangibles	334	961	1,343	4,997
FFO	\$ 18,990	\$ 16,399	\$ 72,295	\$ 65,443
FFO – Continuing Operations	\$ 18,027	\$ 15,513	\$ 68,754	\$ 62,341
FFO – Discontinued Operations	\$ 963	\$ 886	\$ 3,541	\$ 3,102
FFO Per Unit – Basic	\$ 0.301	\$ 0.278	\$ 1.197	\$ 1.157
FFO Per Unit – Diluted	\$ 0.299	\$ 0.276	\$ 1.190	\$ 1.152

FFO increased in 2007 primarily due to acquisitions completed during the past twelve months, as well as stable overall occupancies and higher average monthly rents resulting from management's sales and marketing programs, offset by increased operating costs. Comparing cash distributions to FFO, the FFO payout ratio was approximately 92.4% in 2007 compared to 95.1% in 2006. The effective FFO payout ratio, which excludes from distributions cash reinvested through the DRIP, improved to 74.9% for the year ended December 31, 2007 from 82.3% in the prior year.

CAPITAL INVESTMENTS

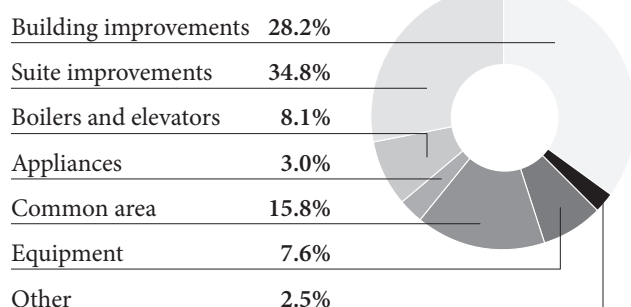
CAP REIT believes it acquires property at values significantly below current replacement costs and is committed to improving its operating performance by investing annually in capital expenditures in order to replace and improve its property portfolio so as to sustain and grow the portfolio's future rental income generating potential over its useful life.

MANAGEMENT'S DISCUSSION AND ANALYSIS

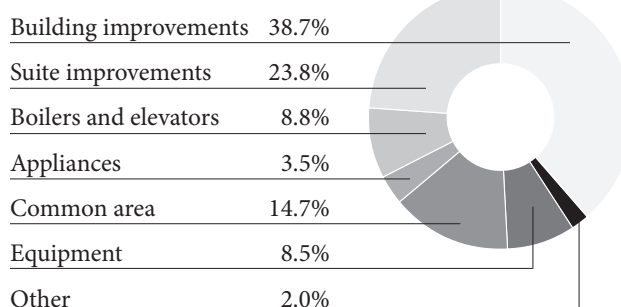
In accordance with GAAP, CAP REIT capitalizes all capital expenditures related to the acquisition and improvement of its properties, which increases the value of the portfolio and extends the useful lives of its assets. During 2007, CAP REIT incurred capital expenditures of \$44.2 million as compared to \$33.5 million in 2006. Capital expenditures were higher in 2007 than in the prior year due to the increase in the size of the portfolio resulting from significant acquisitions completed over the last two years. Over the last three years, management has also accelerated its suite improvements and common area upgrade programs in certain markets to achieve higher occupancy levels and average monthly rents.

A breakdown of capital expenditures by category is summarized in the charts below:

YEAR ENDED DECEMBER 31, 2007



YEAR ENDED DECEMBER 31, 2006



Management expects total spending on its capital investments for the total portfolio will be approximately \$45 to \$50 million in 2008.

PRODUCTIVE CAPACITY

CAP REIT has two types of capital expenditures: *maintenance capital expenditures*, and *stabilized and value enhancing capital expenditures*. Maintenance capital expenditures vary with market conditions and are partially related to suite turnover. These expenditures are funded from operating cash flows. Based on historical experience, CAP REIT estimates its overall maintenance capital expenditures at \$450 per suite (range of approximately \$400–\$500 per suite), which maintain the earning capacity of its rental portfolio.

Stabilized and value-enhancing capital expenditures are focused on increasing the productivity of the property portfolio. These expenditures are primarily related to acquisitions completed over the last few years, are estimated at the time of acquisition, and are included in the acquisition analysis to ensure the transaction is accretive to Unitholders. These expenditures enhance operating effectiveness and profitability and reduce costs to improve NOI. In addition, they improve the economic life and value of the properties, and are mainly long-term in nature. The timing of these expenditures varies and the expenditures are funded over a period of several years from mortgage advances or refinancing, and equity.

The breakdown of capital expenditures by category, based on management's estimate, is as follows:

(\$ THOUSANDS, EXCEPT PER SUITE AMOUNTS)

YEAR ENDED DECEMBER 31,	2007		2006	
	TOTAL	PER SUITE ⁽¹⁾	TOTAL	PER SUITE ⁽¹⁾
Maintenance capital expenditures	\$ 11,943	\$ 450	\$ 11,354	\$ 450
Stabilized and value-enhancing capital expenditures	32,245	1,215	22,195	880
Total ⁽²⁾	\$ 44,188	\$ 1,665	\$ 33,549	\$ 1,330

(1) Based on the weighted average number of suites owned during the year.

(2) Excludes head office assets, assets held for sale, land lease sites, tenant improvements and signage.

LIQUIDITY AND FINANCIAL CONDITION

Liquidity

Management ensures that there is adequate overall liquidity by maintaining sufficient amounts of cash and available credit facilities to fund ongoing operational and capital expenditure commitments, distributions to Unitholders and to provide for future growth in our business. CAP REIT finances these commitments through: (i) cash flow from operating activities; (ii) mortgage debt secured by its income properties; (iii) secured short-term debt financing with two Canadian chartered banks; and (iv) equity.

CAP REIT expects to generate sufficient cash flow from its operating activities to be able to fund its current level of distributions. Management is of the opinion that funds reinvested from its DRIP and the retained portion of its annual DI will be sufficient to fund its ongoing maintenance capital expenditures. In addition, funds generated from its mortgage refinancing program, the available borrowing capacity under its credit facilities and net proceeds of equity issues will be sufficient to fund mortgage principal repayments and its ongoing stabilizing and value-enhancing capital expenditures. The key liquidity metrics are summarized as follows:

(\$ THOUSANDS, EXCEPT WHERE NOTED)

AS AT DECEMBER 31,	2007	2006
Mortgage Debt to Gross Book Value (%)	57.48	57.37
Total Debt to Gross Book Value (%)	61.55	61.56
Total Debt to Total Market Capitalization (%)	59.19	55.11
Debt Coverage Ratio (times)	1.26	1.27
Interest Coverage Ratio (times)	1.94	1.96
Weighted Average Mortgage Interest Rate (%)	5.37 ⁽¹⁾	5.28
Weighted Average Mortgage Term to Maturity (years)	5.5	6.1
Acquisition and Operating Line Availability	\$ 146,805	\$ 62,024

(1) Effective weighted average interest rate including deferred financing costs and fair value adjustments.

As at December 31, 2007, the ratio of total debt to gross book value remained steady at 61.55% compared to 61.56% as at December 31, 2006. After applying the net proceeds of \$63.4 million from the sales of properties in January, 2008 (see Subsequent Events), the pro forma ratio of total debt to gross book value was approximately 60.0%. The maximum ratio allowable under CAP REIT's Declaration of Trust is 70%.

With a total market capitalization of approximately \$1.1 billion as at December 31, 2007, CAP REIT's total debt is approximately 59.19% of total market capitalization at December 31, 2007 as compared to 55.11% at December 31, 2006.

Mortgages Payable

CAP REIT takes a long-term, conservative approach and actively manages its mortgage portfolio to reduce interest costs while ensuring it is not overly exposed to interest rate volatility risk. Management takes a portfolio approach to its mortgage debt, proactively staggering maturities and interest rates to reduce risk while taking advantage of low interest rate environments.

(\$ THOUSANDS)

AS AT DECEMBER 31,	2007	2006
Balance, Beginning of Year	\$ 1,275,211	\$ 1,215,256
<i>Add:</i>		
New Borrowings	155,495	46,576
Assumed	–	13,293
Refinanced	99,081	92,194
<i>Less:</i>		
Mortgage Repayments	(43,139)	(38,860)
Mortgages Matured	(25,698)	(53,248)
Deferred Financing Costs and Fair Value Adjustments	(5,769)	–
Balance, End of Year	\$ 1,455,181	\$ 1,275,211
<i>Represented By:</i>		
Mortgages Payable – Continuing Operations	\$ 1,395,321	\$ 1,215,368
– Held-for-Sale	59,860	59,843

During 2007, total financings of \$254.6 million were completed, including \$155.5 million of new mortgages for newly acquired properties, at an effective weighted average interest rate of 5.19%. Existing mortgages, aggregating to approximately \$99.1 million, were also refinanced or topped up to fund CAP REIT's acquisition and capital expenditure programs at an effective weighted average interest rate of 4.94%.

During the second quarter of 2005, CAP REIT entered into interest rate forward contracts to hedge its exposure to rising interest rates for refinancing of mortgages maturing in 2009. These contracts, aggregating to \$145.7 million, assume mortgage renewals will match the terms of the interest rate forward contracts and are for terms ranging from five to 13 years. These contracts provide for a fixed rate on the contract settlement date in 2009, which, after including estimated funding spreads for lenders, will result in estimated interest rates ranging from approximately 5.69% to 5.87%.

To ensure CAP REIT is not overly exposed to interest rate volatility risk, management has also been successful in staggering the maturity dates of its mortgage portfolio. During 2008 and 2009, total debt repayments (including maturing mortgages) will be approximately 7.2% and 15.6%, respectively, of the total mortgage portfolio.

To reduce its interest cost and cost of capital, management will continue to leverage its balance sheet strength and the stability of its property portfolio to reduce borrowings on its credit facilities. The additional financings completed during the year were applied to reduce the credit facilities.

The debt coverage ratio (defined as earnings before interest, depreciation, amortization, income taxes and the add-back of LTIP and SELTIP compensation costs divided by principal and interest repayments) was 1.26 times as at December 31, 2007 compared to 1.27 times as at December 31, 2006.

The breakdown of future principal repayments, including mortgage maturities and weighted average interest rates as at December 31, 2007 is as follows:

(\$ THOUSANDS, EXCEPT WHERE NOTED)

YEAR	PRINCIPAL REPAYMENTS	MORTGAGE MATURITIES	TOTAL DEBT	% OF TOTAL DEBT	WEIGHTED AVG. INTEREST RATE (%) ⁽¹⁾
2008	\$ 45,601	\$ 60,086	\$ 105,687	7.2	5.51
2009	43,880	183,917	227,797	15.6	5.31
2010	37,870	144,032	181,902	12.5	5.01
2011	30,781	196,602	227,383	15.6	5.32
2012	28,218	202,341	230,559	15.8	5.46
2013	22,377	87,942	110,319	7.6	5.51
2014	18,771	86,961	105,732	7.3	5.43
2015	15,205	38,800	54,005	3.7	4.97
2016	12,254	17,878	30,132	2.0	6.64
2017	9,217	71,672	80,889	5.5	4.90
2018 – 2022	33,983	47,175	81,158	5.6	6.02
2023 onwards	9,731	13,753	23,484	1.6	5.70
	\$ 307,888	\$ 1,151,159	\$ 1,459,047	100.0	5.37 ⁽²⁾
Deferred Financing Costs and Fair Value Adjustments			(3,866)		
			\$ 1,455,181		
<i>Represented By:</i>					
Mortgages Payable – Continuing Operations			\$ 1,395,321		
– Held-for-Sale			59,860		

Portfolio weighted average term to maturity – 5.5 years.

(1) Rates for maturing mortgages only.

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

Bank Indebtedness and Credit Facilities

Bank indebtedness includes borrowings on CAP REIT's Acquisition and Operating Facilities and CAPLP's Land Lease Facility. On June 30, 2007, the Acquisition Facility was renewed and amended to \$200 million from \$140 million and the Operating Facility was increased to \$50 million from \$30 million. As at December 31, 2007, \$60.0 million was outstanding on the Acquisition Facility and \$39.9 million on the Operating Facility. Subsequent to year-end, \$63.4 million was repaid on the Acquisition Facility from non-core property dispositions (see Subsequent Events). On July 9, 2007, the Land Lease Facility was established for a maximum of \$10 million to fund operating, development and acquisition costs for the Bowmanville and Grand Bend land lease properties. As at December 31, 2007, \$3.2 million was outstanding on this Facility.

Unitholders' Equity

On November 7, 2007, CAP REIT issued 5,350,000 Units at \$18.65 per Unit on a bought-deal basis for aggregate gross proceeds of approximately \$99.8 million. The net proceeds of approximately \$95.1 million were used to repay borrowings on the Acquisition and Operating Facilities.

On July 10, 2007, CAP REIT, as part of its acquisition of two land lease properties, issued to the vendor 411,311 exchangeable limited partnership units ("CAPLP Units") at a weighted average price of \$19.45 for an aggregate amount of \$8.0 million. The CAPLP Units are entitled to distributions equivalent to distributions on CAP REIT Units, must be exchanged solely for CAP REIT Units on a one-for-one basis, and are exchangeable at any time at the option of the holder.

The total market value of CAP REIT's equity as at December 31, 2007 was \$1.1 billion. As at December 31, 2007, officers and trustees owned approximately 5.0% of CAP REIT's issued and outstanding Units.

Normal Course Issuer Bid

On June 21, 2007, CAP REIT announced that the Toronto Stock Exchange (the "Exchange") had approved its normal course issuer bid ("NCIB"). CAP REIT intends to acquire over the ensuing 12 months up to 5,759,361 Units, representing 10% of the public float. Purchases will be made at market prices through the facilities of the Exchange. Any tendered Units taken up and paid for by CAP REIT will be cancelled. CAP REIT believes that the ongoing purchase of its outstanding Units is an appropriate use of its resources at this time and will afford liquidity to anyone who desires to sell their Units. As of December 31, 2007, CAP REIT had acquired 202,400 Units for cancellation at market prices aggregating \$3.6 million.

UNITHOLDER TAXATION

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

	2007	2006
Taxable to Unitholders as Other Income	10.21%	3.93%
Tax Deferral	89.79%	96.07%
Total	100.00%	100.00%

Management believes that CAP REIT continues to have one of the highest tax deferrals among the REITs, thereby significantly improving the after tax returns to our Unitholders.

Section 4

QUARTERLY RESULTS

(\$ THOUSANDS, EXCEPT PER UNIT AMOUNTS)

	Q4 07	Q3 07	Q2 07 ⁽¹⁾	Q1 07 ⁽¹⁾	Q4 06 ⁽¹⁾	Q3 06 ⁽¹⁾	Q2 06 ⁽¹⁾	Q1 06 ⁽¹⁾
Operating Revenues	\$ 77,238	\$ 74,675	\$ 71,705	\$ 70,360	\$ 69,412	\$ 68,190	\$ 67,045	\$ 66,449
NOI	\$ 40,327	\$ 42,527	\$ 39,898	\$ 32,823	\$ 35,502	\$ 37,762	\$ 36,509	\$ 31,387
Income (Loss) From Continuing Operations								
Before Income Taxes	\$ 386	\$ 2,236	\$ 1,844	\$ (3,935)	\$ (278)	\$ 2,711	\$ 1,486	\$ (3,340)
Income (Loss) From Discontinued Operations								
Before Income Taxes	\$ 925	\$ 12	\$ 232	\$ (107)	\$ 69	\$ 189	\$ (29)	\$ (86)
(Recovery of) Provision for Future Income Taxes for Continuing Operations ⁽²⁾	\$ (7,819)	\$ 3,236	\$ 56,372	–	–	–	–	–
(Recovery of) Provision for Future Income Taxes for Discontinued Operations	–	\$ (4,628)	4,628	–	–	–	–	–
Net Income (Loss)	\$ 9,130	\$ 3,640	\$(58,924)	\$ (4,042)	\$ (209)	\$ 2,900	\$ 1,457	\$ (3,426)
DI ^{(3) (5)}	\$ 18,972	\$ 21,297	\$ 19,898	\$ 12,962	\$ 16,378	\$ 19,310	\$ 17,469	\$ 13,003
FFO ^{(4) (5)}	\$ 18,990	\$ 20,800	\$ 19,964	\$ 12,541	\$ 16,399	\$ 19,311	\$ 17,470	\$ 12,263
Net Income (Loss) Per Unit								
– Basic	\$ 0.145	\$ 0.061	\$ (0.993)	\$ (0.068)	\$ (0.004)	\$ 0.051	\$ 0.026	\$ (0.062)
DI Per Unit – Basic	\$ 0.300	\$ 0.356	\$ 0.335	\$ 0.219	\$ 0.278	\$ 0.339	\$ 0.316	\$ 0.233
FFO Per Unit – Basic	\$ 0.301	\$ 0.348	\$ 0.336	\$ 0.212	\$ 0.278	\$ 0.339	\$ 0.316	\$ 0.220
Weighted Avg. Units (000s)								
– Basic	63,174	59,799	59,353	59,183	59,014	56,890	55,220	55,672

(1) Reclassified for discontinued operations.

(2) See Notes 2(m) and 10 to the consolidated financial statements.

(3) See page 23 for reconciliation of Cash from Operating Activities to DI.

(4) See page 25 for reconciliation of Net Income (Loss) to FFO.

(5) 2006 has been adjusted to include amortization of tenant improvements.

CAP REIT has steadily increased its revenues over the past two years as a result of new acquisitions and stable average monthly rents and occupancies.

The weighted average number of Units increased in the fourth quarters of 2007 and 2006 due to the equity offerings completed on November 7, 2007 and August 22, 2006, respectively. As a result, per Unit amounts were affected.

Commencing in the second quarter of 2006, fundamentals in the residential rental industry gradually began to improve due to enhanced rental income. This was partially offset in the third and fourth quarters of 2006 and the first quarter of 2007 by increased operating costs, increased payroll, rental incentives and advertising costs targeted at specific properties to improve occupancies.

The fourth and first quarters of each year tend to generate weaker performance due to increased energy consumption during the winter months.

Section 5

ACCOUNTING POLICIES

Changes in Accounting Policies and New Accounting Standards

The consolidated financial statements have been prepared in accordance with GAAP consistent with those disclosed in CAP REIT's consolidated financial statements for the year ended December 31, 2006, except for the following new accounting standards adopted as of January 1, 2007.

As required by the CICA, on January 1, 2007, CAP REIT adopted CICA Handbook Section 1530, 'Comprehensive Income', Section 3251, 'Equity', Section 3855, 'Financial Instruments – Recognition and Measurement', Section 3861, 'Financial Instruments – Disclosure and Presentation', and Section 3865, 'Hedges.' The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges as well as the recognition of certain transition adjustments that have been recorded in opening cumulative earnings or opening accumulated other comprehensive loss. As required by the implementation of these new standards, the comparative consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments and hedges due to the adoption of these accounting standards are described in note 2(o) to the consolidated financial statements.

On June 12, 2007, amendments to the *Income Tax Act (Canada)* ("Tax Act") were substantively enacted (as a result of tax legislation included in Bill C-52, the *Budget Implementation Act, 2007*, which modifies the tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships ("SIFTs"). Under the SIFT rules, a SIFT will generally be taxed in a manner similar to corporations on income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act) at a combined federal/provincial tax rate similar to that of a corporation. CAP REIT did not meet the technical requirements of the REIT Exception (see Taxation of Income Trusts) and, accordingly is required to set up future income taxes.

CAP REIT uses the liability method of accounting for future income taxes. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes expected to reverse on or after January 2011. Future income taxes are measured at the tax rates expected to apply in the future when temporary differences reverse. Also see note 10 to the consolidated financial statements.

Future Changes in Accounting Policies

There are three new accounting standards that are effective for CAP REIT's 2008 fiscal year: Section 1535, 'Capital Disclosures'; Section 3862, 'Financial Instruments – Disclosures'; and Section 3863, 'Financial Instruments – Presentation'.

Section 1535 requires disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital.

Sections 3862 and 3863 replace the existing Section 3861, 'Financial Instruments – Disclosure and Presentation'. These new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The impact of these new standards on disclosure and presentation is being evaluated by CAP REIT.

Critical Accounting Estimates

Certain accounting policies require management to make estimates or assumptions that in some cases relate to matters that are inherently uncertain.

The more significant estimates relate to future income taxes where management is required to estimate future tax assets and liabilities. The provision for future income taxes represents management's estimate of the future income tax implications of the transactions and events during the period. A future income tax asset or liability is determined for each temporary difference expected as at January 1, 2011, and is based on future tax rates substantively enacted at the balance sheet date that will apply in the periods that the temporary differences are expected to reverse and management's assumptions regarding the expected timing of the reversal of such temporary differences.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

CAP REIT maintains appropriate information systems, procedures and controls to ensure that new information disclosed externally is complete, reliable and timely. Pursuant to the requirements of Multilateral Instrument 52-109 of the Canadian Securities Administrator, the Chief Executive Officer and the Chief Financial Officer have evaluated, or have caused an evaluation under their direct supervision of, the design and effectiveness of our disclosure controls and procedures as at December 31, 2007, and have concluded that such disclosure controls and procedures are operating effectively.

Internal Controls over Financial Reporting

CAP REIT's management is responsible for designing internal controls over financial reporting as defined in Multilateral Instrument 52-109. The Chief Executive Officer and the Chief Financial Officer have evaluated, or have caused an evaluation under their direct supervision, of the design of our internal controls over financial reporting as at December 31, 2007, and have concluded that such internal controls over financial reporting are appropriately designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with GAAP.

Changes to Internal Controls and Procedures

During the last quarter of 2007, CAP REIT completed the implementation of a Procurement System, which has significantly changed the design of internal controls as they relate to the procurement of supplies, services and contracts. Under the new system, CAP REIT has enhanced controls over vendor selection, items procured, and pricing. The new system provides on-line functionality at the sites to requisition and receive supplies and services, thereby improving the overall internal controls over the procurement process.

Aside from the above, there have been no additional changes in the design of CAP REIT's internal controls over financial reporting that occurred during the three months ended December 31, 2007, the most recently completed interim period, that have materially affected, or are reasonably likely to materially affect, CAP REIT's internal controls over financial reporting.

Note, however, that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, 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.

Section 6

RISKS AND UNCERTAINTIES

CAP REIT has been structured and is operated in adherence to the stringent investment restrictions and operating policies, as set out in its Declaration of Trust. These policies cover such matters as the type and location of properties that CAP REIT can acquire, the maximum leverage allowed, environmental matters and investment restrictions.

Operating Risk

The major operating risk affecting financial performance arises from CAP REIT's ability to maintain stable or increasing average rental rates combined with acceptable occupancy levels. Management has developed a focused program to build its brand as Landlord of Choice in its markets to increase resident loyalty for CAP REIT's properties. As a result, CAP REIT believes it is increasingly recognized as the preferred landlord in all its markets.

CAP REIT's diversification by geographic location and by asset type minimizes exposure to any one region or demographic sector.

CAP REIT operates under rent control legislation in most of its major markets. In January 2007, the Province of Ontario passed new legislation to govern landlord and tenant relations. CAP REIT has operated successfully in periods of legislated rent control in the past, and believes its strategies to foster resident loyalty and build its brand will continue to result in CAP REIT being considered a preferred landlord in its chosen markets.

CAP REIT's growth in the past has come from its focused acquisition program. Management has demonstrated an ability to locate and complete property purchases at accretive capitalization rates. There is a risk that continuing increased competition for apartment and townhouse acquisitions may increase purchase prices to levels that are not accretive to distributable income for Unitholders.

Interest Rate Risk

CAP REIT seeks to minimize its interest rate risk by staggering the maturity dates of its mortgage portfolio and by ensuring that it has government-backed mortgage insurance through the National Housing Act, which is administered by the Canada Mortgage and Housing Corporation ("CMHC"). As at December 31, 2007, 91.1% of CAP REIT's mortgages were CMHC insured.

Interest rate risk is managed by ensuring that debt maturities are staggered over a number of years and by taking advantage of low interest rate environments to refinance mortgages to extend the average term to maturity. This strategy helps protect Unitholders from future significant increases in interest rates. In addition, the amount of floating rate debt incurred by CAP REIT is restricted to less than 10% of total indebtedness by its Declaration of Trust. To reduce its exposure to increases in interest rates, management may also employ hedging strategies from time to time. As at December 31, 2007, \$1.1 million of mortgages (0.08% of total indebtedness) and \$103.1 million of bank indebtedness represented by borrowings on the Operating and Acquisition Facilities and the Land Lease Facility were on a floating rate basis.

Capital Risk

A residential rental business, like any other real estate enterprise, is capital intensive. Since its Initial Public Offering, CAP REIT has invested approximately \$239 million in capital expenditures to enhance its properties. CAP REIT is exposed to the risk of being unable to fund its capital expenditure and repair and refurbishment programs to upgrade its properties. Management is also focused on ensuring that sufficient mortgage debt capacity and unutilized credit facilities are available.

Environmental Risk

CAP REIT is subject to various laws relating to the protection of the environment. Management attempts to reduce any potential environmental risks by ensuring comprehensive Phase 1 environmental audits are completed prior to any property acquisition. In addition, ongoing environmental training programs ensure continued compliance with all laws and regulations governing environmental and related matters.

Commitments

CAP REIT has entered into commitments for fixed price natural gas, hydro, land leases, normal course issuer bid and development agreements as outlined in note 20 to the consolidated financial statements.

Taxation of Income Trusts

Prior to June 12, 2007, no provision for income taxes was recorded in the consolidated financial statements. On June 12, 2007, amendments to the *Income Tax Act (Canada)* ("Tax Act") were substantively enacted (as a result of tax legislation included in Bill C-52, the *Budget Implementation Act, 2007*, which modifies the tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships ("SIFTs"). Under the SIFT Rules, a SIFT will generally be taxed in a manner similar to corporations on income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act) at a combined federal/provincial tax rate similar to that of a corporation. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be taxed as a dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. Subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 (the "Normal Growth Guidelines"), the SIFT Rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006 if the "SIFT trust" and "SIFT partnership" definitions in the Tax Act had been in force as of that date.

Certain real estate investment trusts that satisfy specified conditions (the "REIT Exception") are excluded from the SIFT definition and therefore will not be subject to the SIFT Rules. In order to qualify for the REIT Exception in respect of a taxation year: (i) the REIT must, at no time in that taxation year, hold non-portfolio property other than "qualified REIT properties" (as defined in the Tax Act); (ii) not less than 95% of the REIT's revenues for that taxation year must be derived from rent from real or immovable properties, interest, capital gains from disposal of real or immovable properties, dividends and royalties; (iii) not less than 75% of the REIT's revenues for that taxation year must be derived from rent from, interest from mortgages or hypothecs on, and capital gains from the disposal of, real or immovable properties situated in Canada; and (iv) the REIT must, throughout the taxation year, hold real or immovable properties situated in Canada, cash and certain government-guaranteed debt with a total fair market value that is not less than 75% of the REIT's equity value.

In a press release dated December 20, 2007, The Minister of Finance announced the government's intention to introduce certain amendments to the SIFT Rules, including an amendment to remove the requirements in (iii) and (iv), above, that real or immovable properties must be situated in Canada. The press release also announced the government's intention to amend the definition of a SIFT to exclude the equity (and equity-like debt) of trusts and partnerships that are not publicly-traded and which are wholly owned by, among others, a SIFT, a REIT, or a taxable Canadian corporation. Accordingly, this should provide clarification of any possible interpretation of the SIFT Rules under which CAPREIT Limited Partnership ("CAPLP"), a subsidiary of CAP REIT, could be considered to be a SIFT.

In common with a number of other REITs, CAP REIT did not meet the technical REIT Exception as at December 31, 2007, and accordingly, future income taxes in the amount of \$51.8 million have been recorded as at December 31, 2007 based on the temporary differences that are expected to reverse on or after January 1, 2011. The future income tax liability has been recorded as a charge to the consolidated statements of operations and comprehensive loss for the year ended December 31, 2007. If CAP REIT should meet the REIT Exception in the future, the future income tax liability will be reversed and recorded as a recovery through the consolidated statements of operations and comprehensive loss at that time. Management is of the opinion that the nature of the items, which causes CAP REIT not to be able to fully comply with some of the technical provisions as currently drafted, is subject to differing interpretations, which may be clarified in future amendments or may involve some restructuring of certain CAP REIT assets or activities, so as to ensure that CAP REIT qualifies for the REIT Exception by 2011. CAP REIT is not currently taxable and accordingly no current income taxes have been recorded as at December 31, 2007 and for the period then ended. (See also Future Income Taxes and note 10 to the consolidated financial statements.)

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2007, CAP REIT paid construction management fees of \$1.0 million (based on 4.5% of construction costs up to \$20 million and 3.0% thereafter) in consideration for construction management services provided by a company owned by two trustees and officers of CAP REIT in connection with the capital improvement programs for the properties.

For the year ended December 31, 2007, CAP REIT paid rent for head office space in the amount of \$0.6 million to a company in which one of the trustees and officers has an 18% beneficial interest. The lease for the head office space expires October 31, 2009 and provides for yearly minimum rental payments of \$0.3 million.

For the year ended December 31, 2007, CAP REIT paid consulting fees of \$0.1 million to a company controlled by a trustee and officer.

CAP REIT has entered into an agreement with a company to supply suite utility meters. This company is managed by a trustee and officer of CAP REIT. At December 31, 2007, \$0.04 million has been capitalized to income properties and is outstanding and included in accounts payable and other liabilities.

CONTINGENCIES

CAP REIT is contingently liable under guarantees provided to certain of CAP REIT's lenders in the event of defaults, and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of CAP REIT.

SUBSEQUENT EVENTS

On January 8, 2008, CAP REIT announced that it had completed its conversion from a "closed-end" investment trust to an "open-end" trust. Unitholders granted the trustees the authority to convert from a "closed-end" trust to an "open-end" trust at the annual and special meeting of the REIT's Unitholders on May 26, 2005. The conversion will remove certain investment restrictions on CAP REIT and will provide it with greater flexibility in structuring certain indirect investments. The conversion will not affect the investment focus of the REIT.

On January 10, 2008, CAP REIT acquired 11 Dervock Crescent and 75 Talara Crescent in Toronto, Ontario comprising 143 suites. The purchase price of \$14.0 million was satisfied by \$10.8 million in new mortgage financing at an interest rate of 4.69% for a five-year term and the balance from the Acquisition Facility.

On January 18, 2008, CAP REIT sold ten non-core properties consisting of 558 suites in Ontario and 920 suites in Quebec for a total sales price of \$121.2 million. The purchaser assumed \$57.6 million of existing mortgages. In a separate transaction on January 21, 2008, CAP REIT also sold two Quebec City apartment properties containing 152 suites for a sales price of \$6.4 million. Mortgages of \$2.2 million were repaid. The net cash proceeds of \$63.4 million from these sales were used to repay bank indebtedness. A gain of approximately \$17.0 million will be recognized in the first quarter of 2008.

Subsequent to December 31, 2007, pursuant to the NCIB, 371,500 Units were acquired for cancellation at market prices aggregating \$5.4 million.

Section 7

FUTURE OUTLOOK

Market conditions in the multi-unit residential rental market have begun to demonstrate positive trends due to a number of factors:

- Rising average home prices are causing mortgage carrying costs to rise and are reducing the affordability of home ownership, while increasing the demand for high-quality rental accommodation. As a result, the gap between owning and renting a home has been widening in favour of renting.
- Housing starts are gradually slowing in Canada after three years of significant increases, with the largest declines expected to be in Ontario and Quebec. This will drive increased demand for apartment and townhouse rentals.
- Due to the strong Canadian economy, youth job growth has begun to improve, increasing demand for rental suites from this traditionally strong demographic group.
- New immigration policies in Canada propose a 40% increase in the number of new Canadians, another traditionally strong market for rental accommodation.

As a result of the positive trends being experienced in the majority of the markets in which it operates, CAP REIT expects to see continued increases in overall average monthly rents on lease renewals and turnovers. CAP REIT believes it is well positioned in the right markets to benefit from these improving trends. Management is confident that its solid presence in Ontario will also benefit Unitholders over the long term. Ontario remains the heartland of the Canadian economy and, with a broad economic base, is not tied to any single cyclical industry. CAP REIT also has a dominant presence in the Greater Toronto Area, the financial engine of the Canadian economy. The proposed increases in immigration to Canada will also increase demand in CAP REIT's key markets.

Looking ahead, CAP REIT has defined a number of strategies to capitalize on these improving market fundamentals and achieve its objectives of providing Unitholders with stable and predictable monthly cash distributions while growing Distributable Income and Unit value over the long term.

First, management will maintain its focus on maximizing occupancy rates in accordance with local conditions in each of its markets. Since its inception in May 1997, CAP REIT's hands-on management style, focus on resident communications and capital improvement programs aimed at increasing the long-term value of its properties have contributed to a strong track record of stable portfolio occupancy.

Second, management will continue to direct its efforts on its program to upgrade properties, including suite renovations, in a number of specific properties across the portfolio to stabilize and enhance rental revenues.

Third, CAP REIT will continue to increase the size of its portfolio over the long term through accretive acquisitions that meet its strategic criteria and enhance CAP REIT's geographic diversification, while capturing economies of scale and cost synergies to increase FFO per Unit. From time to time, CAP REIT will also identify certain non-core assets for sale that do not meet with its current portfolio composition or operating strategies. Management believes the realization and reinvestment of capital is a fundamental component of its growth strategy and demonstrates the success of its investment programs. The proceeds from these dispositions will assist in funding the acquisition of properties more aligned with CAP REIT's goals.

Fourth, CAP REIT will continue to reduce interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce borrowings on its credit facilities, while appropriately staggering the maturity dates of its mortgage portfolio to ensure it is not exposed in any one year to a refinancing risk. In addition, CAP REIT will continue to manage its overall cost of capital and leverage ratios by raising equity at appropriate Unit prices as compared to net asset value and also to reduce its exposure to floating interest rates on its acquisition and credit facilities. Management believes its successful equity financing and mortgage refinancing programs have resulted in CAP REIT possessing one of the strongest balance sheets in its industry, well suited to delivering consistent, stable and secure monthly cash distributions over the long term.

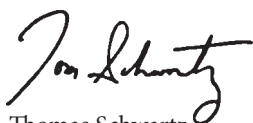
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and information included in this Annual Report have been prepared by the management of CAP REIT in accordance with Canadian generally accepted accounting principles, and include amounts based on management's informed judgments and estimates. Management is responsible for the integrity and objectivity of these consolidated financial statements. To fulfill this responsibility, CAP REIT maintains an appropriate system of internal controls, policies and procedures to reasonably ensure that its reporting practices and accounting and administrative procedures provide reliable and accurate financial information, and that assets are adequately safeguarded. The financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements in all material respects.

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

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

February 19, 2008



Thomas Schwartz
President and Chief Executive Officer



Yazdi Bharucha
Chief Financial Officer and Secretary

AUDITORS' REPORT

To the Unitholders of

Canadian Apartment Properties Real Estate Investment Trust

We have audited the consolidated balance sheets of Canadian Apartment Properties Real Estate Investment Trust ("CAP REIT") as at December 31, 2007 and 2006 and the consolidated statements of operations and comprehensive loss, unitholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of CAP REIT's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of CAP REIT as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario

February 19, 2008



Chartered Accountants, Licensed Public Accountants

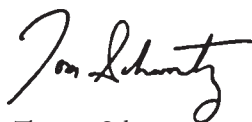
CONSOLIDATED BALANCE SHEETS

AS AT DECEMBER 31, 2007 AND 2006
(\$ THOUSANDS)

	2007	2006
Assets		
Income properties (note 4)		
Cost	\$ 2,333,570	\$ 2,050,471
Less: accumulated depreciation	(240,258)	(173,327)
Net book value	2,093,312	1,877,144
Sundry assets (note 5)	60,522	17,321
Deferred financing costs (note 6)	–	19,503
Intangible assets (note 7)	1,796	2,028
Assets held for sale (note 16)	106,426	106,844
	\$ 2,262,056	\$ 2,022,840
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages payable (note 8)	\$ 1,395,321	\$ 1,215,368
Bank indebtedness (note 9)	103,066	92,950
Accounts payable and other liabilities	41,476	35,008
Security deposits	18,257	17,779
Distributions payable	6,032	5,399
Intangible liabilities (note 7)	540	298
Future income taxes (note 10)	51,789	–
Liabilities related to assets held for sale (note 16)	61,294	61,555
	1,677,775	1,428,357
Unitholders' Equity	584,281	594,483
	\$ 2,262,056	\$ 2,022,840

See accompanying notes to consolidated financial statements.

Signed on behalf of the Trustees:



Thomas Schwartz
Trustee



Michael Stein
Trustee

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

FOR THE YEARS ENDED DECEMBER 31,
(\$ THOUSANDS, EXCEPT UNIT AND PER UNIT AMOUNTS)

	2007	2006
Operating Revenues		
Revenue from income properties	\$ 293,978	\$ 271,096
Operating Expenses		
Realty taxes	39,303	37,385
Property operating costs	99,100	92,551
Total expenses	138,403	129,936
Income Before the Undernoted	155,575	141,160
Depreciation (note 14)	66,708	56,938
Amortization (note 15)	2,898	6,638
Trust expenses	10,928	9,097
	80,534	72,673
Income Before Interest Expense	75,041	68,487
Mortgage interest	69,444	62,618
Interest on bank indebtedness	6,206	5,311
Other income	(1,140)	(21)
	74,510	67,908
Income From Continuing Operations Before Income Taxes	531	579
Provision for Future Income Taxes (note 10)	(51,789)	–
(Loss) Income Before Discontinued Operations	(51,258)	579
Income From Discontinued Operations (note 16)	1,062	143
Net (Loss) Income	\$ (50,196)	\$ 722
Basic and Diluted Net (Loss) Income Per Unit From		
Continuing operations	\$ (0.849)	\$ 0.010
Discontinued operations	0.018	0.003
Basic and Diluted Net (Loss) Income Per Unit	\$ (0.831)	\$ 0.013
Other Comprehensive Loss		
Loss on derivative instruments designated as cash flow hedges	\$ (965)	\$ –
Gain on amounts designated as cash flow hedges in prior years and transferred to mortgage interest expense	(277)	–
Change in fair value of investments	(3,296)	–
	\$ (4,538)	\$ –
Comprehensive Loss	\$ (54,734)	\$ –

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(\$ THOUSANDS)

	CUMULATIVE CAPITAL	CUMULATIVE NET INCOME	CUMULATIVE DISTRIBUTIONS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
Unitholders' Equity, January 1, 2007	\$ 757,143	\$ 135,659	\$ (298,319)	\$ –	\$ 594,483
Adjustment to opening					
Unitholders' equity to comply					
with the new accounting standards	–	167	–	(4,816)	(4,649)
<i>(notes 2 (o)(i) and (ii), 13 (b))</i>					
Unitholders' equity January 1, 2007 (restated)	757,143	135,826	(298,319)	(4,816)	589,834
Net loss	–	(50,196)	–	–	(50,196)
Distributions declared and paid	–	–	(60,770)	–	(60,770)
Distributions payable	–	–	(6,032)	–	(6,032)
New Units Issued <i>(note 13 (a))</i>	103,134	–	–	–	103,134
Distribution Reinvestment Plan <i>(note 13 (c))</i>	12,546	–	–	–	12,546
Unit Option Plan <i>(note 13 (d))</i>	683	–	–	–	683
Employee Unit Purchase Plan <i>(note 13 (f))</i>	188	–	–	–	188
Long-Term Incentive Plan <i>(note 13 (g))</i>	1,485	–	798	–	2,283
Senior Executive Long-Term					
Incentive Plan <i>(note 13 (h))</i>	558	–	210	–	768
Units cancelled <i>(note 13 (i))</i>	(3,619)	–	–	–	(3,619)
Other comprehensive loss	–	–	–	(4,538)	(4,538)
Unitholders' Equity, December 31, 2007	\$ 872,118	\$ 85,630	\$ (364,113)	\$ (9,354)	\$ 584,281
	CUMULATIVE CAPITAL	CUMULATIVE NET INCOME	CUMULATIVE DISTRIBUTIONS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TOTAL
Unitholders' Equity, January 1, 2006	\$ 690,080	\$ 134,937	\$ (236,661)	\$ –	\$ 588,356
Net income	–	722	–	–	722
Distributions declared and paid	–	–	(56,829)	–	(56,829)
Distributions payable	–	–	(5,399)	–	(5,399)
New Units issued <i>(note 13 (a))</i>	57,320	–	–	–	57,320
Distribution Reinvestment Plan <i>(note 13 (c))</i>	8,115	–	–	–	8,115
Unit Option Plan <i>(note 13 (d))</i>	95	–	–	–	95
Employee Unit Purchase Plan <i>(note 13 (f))</i>	155	–	–	–	155
Long-Term Incentive Plan <i>(note 13 (g))</i>	1,378	–	570	–	1,948
Unitholders' Equity, December 31, 2006	\$ 757,143	\$ 135,659	\$ (298,319)	\$ –	\$ 594,483

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,
(\$ THOUSANDS)

	2007	2006
Cash Provided By (Used In):		
Operating Activities		
Net (loss) income	\$ (50,196)	\$ 722
<i>Items not affecting cash:</i>		
Provision for future income taxes	51,789	–
Depreciation (note 14)	69,133	59,563
Amortization (note 15)	2,969	7,021
Amortization of above and below market leases	(98)	(50)
Straight-line rent adjustment	(99)	(33)
Compensation component of the LTIP and SELTIP awards granted	933	750
	74,431	67,973
Changes in non-cash operating assets and liabilities (note 17)	(2,890)	1,898
Cash Provided By Operating Activities	71,541	69,871
Financing Activities		
Mortgage financings	254,576	138,770
Mortgage principal repayments	(43,139)	(38,860)
Mortgages repaid on maturity	(25,698)	(53,248)
Mortgage financing costs	(1,966)	–
Bank indebtedness	10,116	5,192
Proceeds on issuance of Units	96,005	57,570
Net cash distributions to Unitholders (note 17)	(53,623)	(53,712)
Cancellation of Units	(3,619)	–
Deferred financing costs incurred	–	(3,158)
Amounts received under the LTIP and SELTIP	2,118	1,198
Cash Provided By Financing Activities	234,770	53,752
Investing Activities		
Acquisition of income properties (notes 3 and 17)	(227,611)	(84,554)
Capital improvements	(51,543)	(32,575)
Investments	(33,134)	–
Change in restricted cash	5,977	(6,494)
Cash Used in Investing Activities	(306,311)	(123,623)
Changes in Cash and Cash Equivalents During the Year	–	–
Cash and Cash Equivalents, Beginning of Year	–	–
Cash and Cash Equivalents, End of Year	\$ –	\$ –

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006
(\$ THOUSANDS EXCEPT UNIT AND PER UNIT AMOUNTS)

Note 1 ORGANIZATION OF THE TRUST

Canadian Apartment Properties Real Estate Investment Trust ("CAP REIT") became an open-end real estate investment trust on January 8, 2008 (note 23) created for the benefit of the Unitholders. CAP REIT commenced active operations on February 4, 1997 when it acquired an initial portfolio of properties and became a reporting issuer on May 21, 1997 pursuant to an initial public offering prospectus dated May 12, 1997. All of CAP REIT's assets are in, and the revenues derived from, the Canadian real estate industry.

Note 2 SIGNIFICANT ACCOUNTING POLICIES

A. Basis of presentation

CAP REIT's accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles ("GAAP"), the more significant of which are described below.

B. Principles of consolidation

The consolidated financial statements include the accounts of CAP REIT and its subsidiaries, together with CAP REIT's proportionate share of assets and liabilities and revenues and expenses of co-ownerships in which it participates. All inter-entity transactions and accounts have been eliminated.

C. Income properties

Income properties are recorded at cost less accumulated depreciation, net of any impairment loss. Cost of the properties includes all amounts related to the acquisition and improvement of the properties. Costs associated with upgrading the existing facilities, other than ordinary repairs and maintenance, are capitalized.

Depreciation on buildings is recorded on a straight-line basis so as to fully depreciate the cost of the buildings over their estimated useful lives, not exceeding 40 years. *Capital improvements* are depreciated on a straight-line basis over their estimated useful lives ranging from 3 to 40 years.

Depreciation on leasehold interest – buildings and improvements is recorded on a straight-line basis over the term of the leases ranging from 29 to 40 years.

Leasehold interest – options to purchase are evaluated for impairment annually or more frequently when events have occurred that would suggest an impairment. Impairment would be recognized when the estimated fair value of the option is lower than the carrying value. Should a decision be made to not exercise an option, the value ascribed would be expensed at that date. Otherwise, on acquisition of title, the carrying value would form part of the purchase price of the income properties. No depreciation is recorded on these assets.

Tenant improvements – amounts incurred for lease obligations are characterized as either tenant improvements, owned by CAP REIT, or tenant inducements. When the obligations are determined to be tenant improvements the costs are accounted for as property. Tenant improvements are amortized over the asset's useful life.

Equipment is amortized on a straight-line basis over its estimated useful life ranging from 3 to 25 years.

D. Prepaid CMHC premiums

Fees paid to Canada Mortgage and Housing Corporation ("CMHC") for mortgage insurance premiums are amortized over the shorter of the original or modified amortization period of the underlying mortgage loans (typically 25 to 30 years) and are included in amortization expense. Unamortized amounts are expensed when the underlying mortgage loan has been discharged or fully repaid.

E. Intangible assets and liabilities acquired on acquisitions

For property acquisitions initiated after September 12, 2003, a portion of the purchase price is allocated to intangible amounts for the fair value of tenant in-place leases, above and below market leases and tenant relationships. These intangible amounts are amortized over the respective terms of the leases or relationships and are included in amortization expense, except for the amounts related to above and below market leases, which are amortized to revenues from income properties in respect of tenant leases, and property operating expenses in respect of land leases. In the event that a tenant vacates their leased space prior to the contractual term of the lease, any unamortized balance will be expensed at that time. For acquisitions initiated prior to September 12, 2003, the allocation of purchase price was to land and buildings based on their respective fair values.

F. Impairment of long-lived assets

CAP REIT reviews its long-lived assets for impairment if events or circumstances indicate that the carrying value of a property or long-lived asset may be impaired. A recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from the property or long-term asset's operations and projected disposition to determine if the carrying value is recoverable. If the analysis indicates that the carrying value is not recoverable, the property or long-term asset is written down to its estimated fair value and an impairment loss is recognized.

G. Revenue recognition

CAP REIT recognizes rental revenue using the straight-line method whereby the total amount of rental revenue to be received from all leases is accounted for on a straight-line basis over the term of the related leases. The difference between the rental revenue recognized and the amounts contractually due under the lease agreements are accrued as rent receivable.

Other income includes interest, dividends and other. Interest and dividend income is recognized as earned.

H. Discontinued operations

CAP REIT allocates interest on its credit facilities to discontinued operations based on the ratio of net assets to be sold to the sum of total net assets.

I. Stock-based compensation

CAP REIT uses the fair value based method of accounting for all Unit based options under which compensation expense is recognized as a charge to income over the vesting period. As no options were issued during 2007 and 2006, there was no impact on compensation expense for the years ended December 31, 2007 and 2006.

CAP REIT accounts for its Long-Term Incentive Plan ("LTIP") and Senior Executive Long-Term Incentive Plan ("SELTIP") using the fair value based method under which compensation expense is recognized at the time of grant for the estimated fair value of the participant's rights, as they vest. The Units are treated as options for accounting purposes and are included in the calculation of diluted net (loss) income per Unit.

J. Use of significant estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

K. Cash flow statements

Cash and cash equivalents consist of cash on hand and 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 cash flow statements and are disclosed separately.

L. Tenant inducements

Tenant inducements such as free rent or move-in allowances, which are provided upon signing a lease with a term of one year or more, are initially deferred and included in sundry assets, and amortized over the respective term of the lease and included in the determination of revenues from income properties. In the event that a tenant vacates its leased space prior to the contractual term of the lease, any unamortized balance will result in a reduction of revenues at that time.

M. Income taxes

CAP REIT is taxed as a mutual fund trust for income tax purposes. Pursuant to its Declaration of Trust, CAP REIT is required to distribute its income for income tax purposes each year to its Unitholders to such an extent that it will 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.

CAP REIT uses the liability method of accounting for future income taxes. The net future income tax liability represents the cumulative amount of taxes applicable to temporary differences between the carrying amount of assets and liabilities and their carrying amounts for tax purposes. Future income taxes are measured at the tax rates expected to apply in the future when temporary differences reverse. Changes to future income taxes related to changes in tax rates are recognized in income in the period when the tax rate change is substantively enacted.

N. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

O. Changes in accounting policies

As required by the CICA, on January 1, 2007, CAP REIT adopted CICA Handbook Section 1530, 'Comprehensive Income,' Section 3251, 'Equity,' Section 3855, 'Financial Instruments – Recognition and Measurement,' Section 3861, 'Financial Instruments – Disclosure and Presentation,' and Section 3865, 'Hedges.' The adoption of these new standards resulted in changes in the accounting for financial instruments and hedges as well as the recognition of certain transition adjustments that have been recorded in opening cumulative net income or opening accumulated other comprehensive loss within Unitholders' Equity as described below. As required by the implementation of these new standards, the consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments and hedges due to the adoption of these accounting standards are described below:

i) Section 3855, Financial Instruments – Recognition and Measurement
Section 3861, Financial Instruments – Disclosure and Presentation

Financial assets and financial liabilities | Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and CAP REIT's designation of such instruments. The standards require that all financial assets and financial liabilities be classified as *held-for-trading*, *held-to-maturity*, *available-for-sale*, *loans* and *receivables* or *other liabilities*.

Classification of financial instruments | The following summarizes the accounting model CAP REIT has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

Cash and cash equivalents	Held-for-trading
Restricted cash	Held-for-trading
Other receivables	Loans and receivables
Investments	Available-for-sale
Mortgages payable	Other liabilities
Bank indebtedness	Other liabilities
Accounts payable and other liabilities	Other liabilities
Security deposits	Other liabilities
Distributions payable	Other liabilities

Held-for-trading | Financial assets that are acquired with the intention of generating profits in the near term are accounted for at fair value. Interest earned or accrued is included in revenue from income properties.

Loans and receivables | Loans and receivables are accounted for at amortized cost.

Available-for-sale | Investments are accounted for as *available-for-sale*. The assets are measured at fair value at each balance sheet date and the difference between the fair value of the asset and its cost basis is included in Other Comprehensive Income. Differences accumulated in Accumulated Other Comprehensive Income are transferred to net income when the asset is removed from the balance sheet or an impairment loss on the asset has to be recognized. Income on *available-for-sale* investments is recognized as earned and included in other income.

Other liabilities | Other liabilities are recorded at amortized cost and include all liabilities other than derivatives or liabilities, which are required to be accounted for at fair value.

Deferred financing costs, which were previously classified as deferred assets and amortized on a straight-line basis over the term of the related debt, are now netted against the carrying value of mortgages payable and amortized using the effective interest method. This change resulted in an adjustment to Opening Unitholders' Equity in January 1, 2007 of \$167.

Transaction costs | Transaction costs related to *held-for-trading* financial assets are expensed as incurred. Transaction costs related to loans and receivables and other liabilities 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. Transaction costs relating to *available-for-sale* financial assets are included in the cost of the asset.

Determination of fair value | The fair value of a financial instrument on initial recognition is generally the transaction price, which is the fair value of the consideration given or received.

Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities.

Derivatives | Derivatives are carried at fair value and where they have a positive value are included in sundry assets and where they have a negative value in accounts payable and other liabilities.

Prior to January 1, 2007, CAP REIT entered into fixed price supply contracts for the physical delivery of gas and hydro. As these contracts provide for physical delivery or net settlement in cash, they are treated as derivatives measured at fair value with changes therein recognized in the consolidated statement of operations in property operating costs, except for those contracts that are designated for its own use. As at December 31, 2007, the change in fair value for those contracts not designated for its own use was an unrealized gain of \$196.

Embedded derivatives | Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when: their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free standing derivative; and the combined instrument or contract is not measured at fair value. These embedded derivatives are measured at fair value with changes therein recognized in the consolidated statements of operations.

CAP REIT selected January 1, 2003 as the transition date for embedded derivatives and as such, only contracts or financial instruments entered into or modified since that transition date were examined for embedded derivatives. As at December 31, 2007 and 2006, CAP REIT did not have any outstanding contracts or financial instruments with embedded derivatives that required bifurcation.

- ii) **Section 3865, Hedges** | Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies and cash flow hedges. Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

Prior to January 1, 2007, CAP REIT entered into interest rate forward contracts to hedge its exposure to rising interest rates for mortgages maturing in 2009. As these hedging relationships continue to qualify for hedge accounting as cash flow hedges under the new standard, the losses at January 1, 2007 of \$5,638 were recorded in Accumulated Other Comprehensive Loss ('AOCL'). The changes resulting from mark-to-market valuations until maturity of the contracts will be reflected in Other Comprehensive Loss ('OCL').

iii) **Section 1530, Comprehensive loss** | Comprehensive loss includes net loss and other comprehensive loss. Other comprehensive loss includes changes in the fair value of investments and changes in the fair value of the effective portion of cash flow hedges less any amounts reclassified to mortgage interest expense in the current year. The components of comprehensive loss are disclosed in the consolidated statements of operations and comprehensive loss.

iv) **Section 3251, Equity** | AOCL is included in the consolidated balance sheets as a separate component of Unitholders' Equity and includes the unrealized gains and losses and changes in the fair market value of cash flow hedges and investments.

P. Future accounting changes

There are three new accounting standards that are applicable and effective for CAP REIT's 2008 fiscal year: Section 1535, 'Capital Disclosures'; Section 3862, 'Financial Instruments – Disclosures'; and Section 3863, 'Financial Instruments – Presentation'.

Section 1535 requires disclosures of an entity's objectives, policies and processes for managing capital, and quantitative data about what the entity regards as capital.

Sections 3862 and 3863 replace the existing Section 3861, 'Financial Instruments – Disclosure and Presentation'. These new sections revise and enhance disclosure requirements, and carry forward unchanged existing presentation requirements. These new sections require disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The impact of these new standards on disclosure and presentation is being evaluated by CAP REIT.

Note 3 RECENT PROPERTY ACQUISITIONS

CAP REIT has completed the following acquisitions, which have contributed to operating results effective from their respective acquisition dates:

For the year ended December 31, 2007:

- On November 1, 2007, CAPLP acquired 25 land lease sites (18 sites near Bowmanville, Ontario and seven lots in Grand Bend, Ontario) for total acquisition costs of \$1,247, which were funded from the Land Lease Facility (note 9 (b)).
- On September 26, 2007, CAP REIT completed the acquisition of eight apartment buildings consisting of 748 suites located in Coquitlam, New Westminster, Victoria, British Columbia and Calgary, Alberta. The total acquisition costs of \$96,466 were satisfied by \$61,159 in new mortgage financing at a weighted average interest rate of 4.73% for a five-year term and the balance from the Acquisition Facility (note 9 (a)).
- On July 10, 2007, CAP REIT completed the acquisition of two land lease adult lifestyle communities in Ontario located near Bowmanville and in Grand Bend totalling 1,233 sites. The total acquisition costs of \$76,581 were satisfied by \$55,000 in new mortgage financing at a floating interest rate, the issuance to the vendor of \$8,000 in new CAPREIT Limited Partnership Units ("CAPLP Units") and the balance from the Acquisition Facility. CAP REIT has entered into a five-year fixed interest rate swap contract for \$55,000 at an effective interest rate of 5.71% maturing on July 9, 2012 for which hedge accounting has been applied.
- On February 1, 2007, CAP REIT completed the acquisition of 17 apartment buildings in Quebec City, Quebec, totalling 607 suites. The total acquisition costs of \$61,317 were satisfied by \$39,336 in mortgage financing at an effective interest rate of 4.87% for a ten-year term and the balance from the Acquisition Facility.

For the year ended December 31, 2006:

- On February 1, 2006, CAP REIT completed the acquisition of six apartment buildings and six townhouse complexes in Etobicoke, Ontario totalling 464 suites including 107 townhouses. The total acquisition costs of \$44,875 were satisfied by \$29,103 in new mortgage financing at an effective interest rate of 4.30% for a five-year term and the balance from the Acquisition Facility.
- On March 20, 2006, CAP REIT completed the acquisition of a parcel of land adjacent to 10851 – 10991 Mortfield Road, in Richmond, British Columbia. The total acquisition costs of \$1,612 were drawn from the Acquisition Facility.
- On May 24, 2006, CAP REIT completed the acquisition of two apartment buildings in Orangeville, Ontario consisting of 93 suites. The total acquisition costs of \$7,235 were satisfied by an assumed mortgage with a fair value of \$1,767 at an effective interest rate of 4.48% for a three-year term and the balance from the Acquisition Facility.
- On July 27, 2006, CAP REIT completed the acquisition of two apartment portfolios in Longueuil, Quebec consisting of 338 suites. The total acquisition costs of \$19,236 were satisfied by assumed mortgages with a total fair value of \$11,526 at an effective weighted average interest rate of 4.63% for one- to five-year terms and the balance from the Acquisition Facility.
- On September 1, 2006, CAP REIT completed the acquisition of two apartment complexes in Quebec City, Quebec consisting of 215 suites. The total acquisition costs of \$10,453 were satisfied by \$6,641 in new mortgage financing at an effective interest rate of 4.88% for a ten-year term and the balance from the Acquisition Facility.
- On December 21, 2006, CAP REIT completed the acquisition of an apartment portfolio in Toronto, Ontario consisting of 136 suites. The total acquisition costs of approximately \$14,436 were satisfied by \$10,832 in new mortgage financing at an effective interest rate of 4.50% for a ten-year term and the balance from the Acquisition Facility.

The assets acquired and liabilities assumed in these transactions were allocated as follows:

	2007	2006
<i>The consideration paid consists of:</i>		
Assumed mortgages payable	\$ –	\$ 13,293
New mortgages payable	155,495	46,576
Bank indebtedness	72,100	37,978
New CAPLP Units	8,000	–
Other liabilities	16	–
	\$ 235,611	\$ 97,847
<i>The allocation of consideration paid is as follows:</i>		
Income properties		
Land	\$ 107,971	\$ 20,585
Buildings and improvements	125,452	76,292
Equipment	1,374	198
	234,797	97,075
Intangible assets		
Value of tenant in-place leases	1,222	921
Value of tenant relationships	–	7
Value of above market leases	26	17
	1,248	945
Intangible liabilities		
Value of below market leases	(434)	(173)
	\$ 235,611	\$ 97,847

Note 4 INCOME PROPERTIES

	COST	ACCUMULATED DEPRECIATION	2007 NET BOOK VALUE
Freehold			
Land	\$ 327,932	\$ –	\$ 327,932
Buildings and improvements	1,504,773	(175,898)	1,328,875
	1,832,705	(175,898)	1,656,807
Leasehold interest			
Buildings and improvements	454,705	(56,052)	398,653
Options to purchase	10,830	–	10,830
	465,535	(56,052)	409,483
Equipment	35,330	(8,308)	27,022
	\$ 2,333,570	\$ (240,258)	\$ 2,093,312
	COST	ACCUMULATED DEPRECIATION	2006 NET BOOK VALUE
Freehold			
Land	\$ 219,959	\$ –	\$ 219,959
Buildings and improvements	1,343,154	(128,595)	1,214,559
	1,563,113	(128,595)	1,434,518
Leasehold interest			
Buildings and improvements	449,396	(38,940)	410,456
Options to purchase	10,830	–	10,830
	460,226	(38,940)	421,286
Equipment	27,132	(5,792)	21,340
	\$ 2,050,471	\$ (173,327)	\$ 1,877,144

Leasehold interest – buildings and improvements represent buildings and improvements relating to three properties under long-term land leases and fifteen properties under long-term operating leases. There are no future obligations with respect to the long-term operating leases as all rents were prepaid.

Leasehold interest – options to purchase represent the fair value assigned at the date of acquisition of the fixed price options to acquire the leasehold properties under long-term operating leases at their lease expiry dates. Options are exercisable by CAP REIT after the expiration of the 25th year of the respective leasehold term.

Note 5 **SUNDRY ASSETS**

	2007	2006
Prepaid CMHC premiums – net of amortization of \$3,857	\$ 18,122	\$ –
Prepaid expenses	1,578	1,575
Tenant inducements	324	422
Other receivables	4,571	4,323
Restricted cash	2,488	8,465
Deposits on purchases (a)	1,751	–
Deposits	961	1,745
Investments	29,838	–
Leasehold improvements – net of accumulated amortization of \$367 (2006 – \$294)	715	791
Other assets net of accumulated amortization of \$365	174	–
Total	\$ 60,522	\$ 17,321

a) Under the terms of the Development Agreements entered into concurrently with the acquisition of land lease sites on July 10, 2007, CAPLP is required to fund servicing costs on the lands in the land lease communities for future developments. These funded amounts will be deducted from the final purchase price when the land lease sites are acquired by CAPLP. The Agreements are for a ten-year term and can be extended for an additional ten years.

Effective January 1, 2007, amounts reclassified from deferred financing costs include \$15,477 for prepaid CMHC premiums and \$148 net for other financing costs related to bank indebtedness now included in other assets.

Note 6 **DEFERRED FINANCING COSTS**

	COST	ACCUMULATED AMORTIZATION	2007 NET BOOK VALUE
CMHC mortgage insurance premiums	\$ –	\$ –	\$ –
Other financing costs	–	–	–
	\$ –	\$ –	\$ –
	COST	ACCUMULATED AMORTIZATION	2006 NET BOOK VALUE
CMHC mortgage insurance premiums	\$ 18,377	\$ (2,900)	\$ 15,477
Other financing costs	6,603	(2,577)	4,026
	\$ 24,980	\$ (5,477)	\$ 19,503

Effective January 1, 2007, CMHC premiums were reclassified to sundry assets while other financing costs were netted against the carrying value of mortgages payable and reclassified to sundry assets for \$3,878 and \$148, respectively.

Note 7 INTANGIBLE ASSETS AND LIABILITIES

	COST	ACCUMULATED AMORTIZATION	2007 NET BOOK VALUE
Intangible assets			
Value of tenant in-place leases	\$ 14,193	\$ (12,867)	\$ 1,326
Value of tenant relationships	1,456	(1,041)	415
Value of above market leases	1,225	(1,170)	55
	\$ 16,874	\$ (15,078)	\$ 1,796
Intangible liabilities			
Value of below market leases	\$ 1,651	\$ (1,111)	\$ 540
	COST	ACCUMULATED AMORTIZATION	2006 NET BOOK VALUE
Intangible assets			
Value of tenant in-place leases	\$ 12,971	\$ (11,777)	\$ 1,194
Value of tenant relationships	1,456	(749)	707
Value of above market leases	1,199	(1,072)	127
	\$ 15,626	\$ (13,598)	\$ 2,028
Intangible liabilities			
Value of below market leases	\$ 1,217	\$ (919)	\$ 298

Note 8 MORTGAGES PAYABLE

Mortgages payable bear interest at a year-end weighted average rate of 5.37% (2006 – 5.28%), and mature between 2008 and 2026. The income properties have been pledged as security. Future principal repayments ending December 31 for the years indicated are as follows:

	PRINCIPAL AMOUNT	% OF TOTAL PRINCIPAL
2008	\$ 105,687	7.2
2009	227,797	15.6
2010	181,902	12.5
2011	227,383	15.6
2012	230,559	15.8
Subsequent to 2012	485,719	33.3
	1,459,047	100.0
Deferred financing costs and fair value adjustments	(3,866)	
	\$ 1,455,181	
<i>Represented by:</i>		
Mortgages payable – continuing operations	\$ 1,395,321	
– held for sale (note 16)	59,860	

Effective January 1, 2007, other deferred financing costs of \$4,056 were reclassified to mortgages payable. As at December 31, 2007, fair value adjustments of \$1,903 and (\$5,769) of unamortized deferred financing costs are netted in mortgages payable.

Note 9 BANK INDEBTEDNESS

A. Acquisition and Operating Facilities

On June 29, 2007, the Acquisition and Operating Facilities were renewed and amended. The maximum amount available under the Acquisition Facility was increased from \$140,000 to \$200,000 comprising one facility of \$140,000 for a three-year term and another facility of \$60,000 for a one-year term. The maximum available under the Operating Facility was increased from \$30,000 to \$50,000. The Acquisition Facilities mature on June 30, 2010 and June 30, 2008, respectively, while the Operating Facility matures on June 30, 2008. Floating charge debentures on income properties have been provided as security. As at December 31, 2007, the weighted average interest rate for amounts drawn under these credit facilities is 6.0% (2006 – 5.93%).

As at December 31, the following balances are outstanding:

	2007	2006
Operating Facility	\$ 39,919	\$ 15,652
Acquisition Facility	59,975	77,298
	\$ 99,894	\$ 92,950

In addition, as at December 31, 2007, CAP REIT has letters of credit outstanding in the amount of \$3,301 (2006 – \$3,561), which affect the maximum available under the facilities.

B. Land Lease Facility

On July 9, 2007, a Land Lease Facility was established by CAPLP (notes 3 and 5) to fund operating, development and acquisition costs. The maximum amount of the facility is \$10,000 for a one-year term. Floating charge debentures on the land lease properties have been provided as security. As at December 31, 2007, the borrowings outstanding for this facility were \$3,172. In addition, CAPLP has letters of credit outstanding in the amount of \$170, which affect the maximum available under the facility. The weighted average year-end interest rate for amounts drawn under this facility is 5.22%.

Note 10 FUTURE INCOME TAXES

Prior to June 12, 2007, no provision for income taxes was recorded in the consolidated financial statements. On June 12, 2007, amendments to the Tax Act were substantively enacted (as a result of tax legislation included in Bill C-52, the *Budget Implementation Act, 2007*), which modify the tax treatment of certain publicly traded trusts and partnerships that are specified investment flow-through trusts or partnerships (“SIFTs”). Under the SIFT Rules, a SIFT will generally be taxed in a manner similar to corporations on income from a business carried on in Canada by the SIFT and income (other than taxable dividends) or capital gains from non-portfolio properties (as defined in the Tax Act) at a combined federal/provincial tax rate similar to that of a corporation. Allocations or distributions of income and capital gains that are subject to the SIFT Rules will be taxed as a dividend from a taxable Canadian corporation in the hands of the beneficiaries or partners of the SIFT. Subject to the normal growth guidelines issued in a press release by the Department of Finance (Canada) on December 15, 2006 (the “Normal Growth Guidelines”), the SIFT Rules will not apply until the 2011 taxation year to trusts or partnerships that would have been SIFTs on October 31, 2006 if the “SIFT trust” and “SIFT partnership” definitions in the Tax Act had been in force as of that date.

Certain real estate investment trusts that satisfy specified conditions (the “REIT Exception”) are excluded from the SIFT definition and therefore will not be subject to the SIFT rules. As CAP REIT did not meet the REIT Exception as at October 31, 2006, June 12, 2007 or as at December 31, 2007, a future income tax liability has been recorded as at December 31, 2007 based on the temporary differences that are expected to reverse on or after January 1, 2011. The future income tax liability has been recorded as a charge to the consolidated statements of operations and comprehensive loss for the year ended December 31, 2007. If CAP REIT should meet the REIT Exception in the future, the future income tax liability will be reversed and recorded as a recovery through the consolidated statements of operations and comprehensive loss at that time. CAP REIT is not currently taxable and accordingly no current income taxes have been recorded as at December 31, 2007 and for the year then ended. CAP REIT has not exceeded the Normal Growth Guidelines.

A reconciliation of income tax expense for the period follows:

Consolidated Statements of Operations

	2007	2006
Current income taxes at Canadian statutory tax rate	\$ –	\$ –
Increase in future income taxes for continuing operations		
resulting from a change in tax status with the enactment of Bill C-52	51,789	–
Future income taxes	\$ 51,789	\$ –

Note 11 DISTRIBUTIONS

CAP REIT calculates Distributable Income (“DI”) as defined in its Declaration of Trust and pays out monthly, on or about the 15th day of each month in each calendar year.

	2007	2006
Distributions to Unitholders (<i>note 17(b)</i>)	\$ 66,802	\$ 62,228
Distributions Per Unit	\$ 1.080	\$ 1.080

Note 12 PER UNIT CALCULATIONS

Basic per Unit calculations are based on the weighted average number of Units and CAPLP Units (collectively “Units”) outstanding for the year and exclude Units issued under the LTIP and SELTIP. The calculation of per Unit information on a diluted basis considers the potential exercise of outstanding Unit options to the extent each Unit option is dilutive and takes into consideration the effect of any dilutive LTIP and SELTIP Units. The following table provides a reconciliation between the outstanding weighted average number of Units and the number of diluted Units:

	2007	2006
Weighted average number of Units	60,386,653	56,564,616
Effect of dilutive Unit options, LTIP and SELTIP Units	382,660	251,795
Weighted average number of diluted Units	60,769,313	56,816,411

Note 13 UNITHOLDERS' EQUITY

Authorized – Unlimited, voting Units

The number of issued and outstanding Units comprises the following:

	TRUST UNITS	CAPLP UNITS	TOTAL
Units outstanding, January 1, 2007	59,987,260	–	59,987,260
<i>Issued during the year:</i>			
New Units	5,350,000	411,311	5,761,311
Distribution Reinvestment Plan	696,947	–	696,947
Unit Option Plan	51,400	–	51,400
Employee Unit Purchase Plan	10,048	–	10,048
Long-Term Incentive Plan (LTIP), net of 672,084 Units transferred to SELTIP	(105,084)	–	(105,084)
Senior Executive Long-Term Incentive Plan (SELTIP)	817,914	–	817,914
Units cancelled	(202,400)	–	(202,400)
Units outstanding, December 31, 2007	66,606,085	411,311	67,017,396
	TRUST UNITS	CAPLP UNITS	TOTAL
Units outstanding, January 1, 2006	55,535,616	–	55,535,616
<i>Issued during the year:</i>			
New Units	3,570,000	–	3,570,000
Distribution Reinvestment Plan	499,637	–	499,637
Unit Option Plan	8,000	–	8,000
Employee Unit Purchase Plan	9,007	–	9,007
Long-Term Incentive Plan (LTIP)	365,000	–	365,000
Units outstanding, December 31, 2006	59,987,260	–	59,987,260

The maximum number of Units issuable under all of CAP REIT's Unit incentive plans, namely the Unit Option Plan, the Employee Unit Purchase Plan, the Unit Purchase Plan, the LTIP and the SELTIP is 6,000,000 Units. The maximum available for future issuance under all Unit incentive plans as at December 31, 2007 is 1,816,810 Units (2006 – 1,589,688 Units).

A. New Units Issued

On November 7, 2007, CAP REIT issued 5,350,000 Units at \$18.65 per Unit for aggregate gross proceeds of \$99,778. The net proceeds after Underwriters' fees and issue costs were \$95,134.

CAP REIT acquired two land lease properties on July 10, 2007 for consideration including the issuance to the vendor of 411,311 exchangeable limited partnership units ("CAPLP Units") at a weighted average price of \$19.45. CAP REIT GP Inc. is the general partner of the Limited Partnership. The CAPLP Units are entitled to distributions equivalent to distributions on CAP REIT Units, must be exchanged solely for CAP REIT Units on a one-for-one basis, and are exchangeable at any time at the option of the holder.

On August 22, 2006, CAP REIT issued 3,570,000 Units at \$16.90 per Unit for aggregate gross proceeds of \$60,333. The net proceeds after Underwriters' fees and issue costs were \$57,320.

B. Accumulated Other Comprehensive Loss ("AOCL")

	2007	2006
Balance, beginning of year	\$ –	\$ –
Transition adjustment on adoption of accounting policies (<i>note 2 (o)</i>)	(4,816)	–
Other comprehensive loss	(4,538)	–
Balance, end of year	\$ (9,354)	\$ –

AOCL represents gains and losses on derivative instruments and investments. A gain of \$822 on cash flow hedges was accrued in prior years and previously included in accounts payable and other liabilities.

C. Distribution Reinvestment Plan ("DRIP")

The terms of the Distribution Reinvestment Plan 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 forgone.

D. Unit Option Plan

Under the terms of the Unit Option Plan, Units are granted to Trustees, officers and employees based on a performance incentive for improved service and enhancing profitability and vest on grant. There were no options granted in 2006 and 2007.

A summary of Unit option activity for the years ended December 31, 2007 and 2006 is presented below. All options are exercisable as at December 31, 2007.

	2007		2006	
	NUMBER OF UNITS	WEIGHTED AVG. EXERCISE PRICE	NUMBER OF UNITS	WEIGHTED AVG. EXERCISE PRICE
Options outstanding, beginning of year	471,000	\$ 13.35	499,000	\$ 13.34
Options exercised	(51,400)	13.28	(8,000)	11.85
Options expired	–	–	(20,000)	13.73
Options outstanding, end of year	419,600	\$ 13.35	471,000	\$ 13.35

The following Unit Option Plan grants are outstanding:

EXERCISE PRICE	EXPIRY DATE	2007 NUMBER OF UNITS	2006 NUMBER OF UNITS
\$11.85	December 17, 2010	78,100	93,500
\$14.10	November 14, 2011	158,000	185,000
\$13.73	April 4, 2012	40,000	40,000
\$13.25	November 17, 2012	143,500	152,500
		419,600	471,000

E. Unit Purchase Plan

Under contracts with certain executives, in addition to base cash compensation, incentive compensation may be declared by the Compensation and Governance Committee of the Board of Trustees, subject to the attainment of specified performance objectives. The executive officers are eligible to participate in the Unit Purchase Plan and can elect to either receive incentive compensation in cash or alternatively, participate in the Unit Purchase Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Unit Purchase Plan provided executives the ability to purchase CAP REIT Units with the assistance of loans to the extent of three times the amount of incentive compensation earned. No new Units were issued and no new loans to purchase Units were granted to the executives during 2007 and 2006.

The summary of Units previously issued under the Unit Purchase Plan and loans granted thereunder (included in sundry assets) is as follows:

Number of Units

	2007	2006
Balance, beginning of year	423,725	423,725
Issued during the year	—	—
Balance, end of year	423,725	423,725

Loans

	2007	2006
Loans receivable, beginning of year	\$ —	\$ 601
Loans matured and repaid	—	(582)
Principal repayments	—	(19)
Loans receivable, end of year	\$ —	\$ —

The loans granted were for three-year terms and bore interest at the rate of prime plus 0.25% and were with recourse to the executive officers. The loans were secured by the Units as well as distributions on the Units. Incentive compensation declared and earned was applied against repayment of the loans. The loans were repaid in full in the first quarter of 2006.

F. Employee Unit Purchase Plan

The Employee Unit Purchase Plan grants employees the right to receive an additional amount equal to 10% of the Units they acquired from treasury, paid in the form of additional Units. This additional amount is expensed as compensation upon issuance of the Units. The amount expensed for the year was \$17 (2006 – \$14).

G. Long-Term Incentive Plan (“LTIP”)

The Compensation and Governance Committee of the Board of Trustees may award LTIP Units, subject to the attainment of specified performance objectives, to certain officers and key employees, collectively the “Participants.” The Participants can subscribe for Units of CAP REIT at a purchase price equal to the weighted average trading price of the Units for five trading days prior to issuance. The purchase price is payable in installments, with an initial installment of 5% paid when the Units are issued. The balance represented by Installment Receipts is due over a term not exceeding ten years. Participants are required to pay interest at a ten-year fixed rate based on the Trust’s fixed borrowing rate for long-term mortgage financing (4.88% and 4.56% for awards granted in 2007, 4.67% for awards granted in 2006) and are required to apply cash distributions received by them on these Units toward the payment of interest and principal installments. Participants may pre-pay any remaining installments at their discretion. The Installment Receipts are non-recourse to the Participants and are secured by the Units as well as the distributions on the Units. If a Participant fails to pay interest and/or principal, CAP REIT may elect to reacquire or sell the Units in satisfaction of the outstanding amounts.

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

Number of Units

	2007	2006
Balance, beginning of year	899,828	534,828
Issued during the year	567,000	365,000
Transferred to SELTIP	(672,084)	—
Balance, end of year	794,744	899,828
Value of LTIP Units granted during the year	\$ 11,248	\$ 6,227

Installment Receipts

	2007	2006
Balance, beginning of year	\$ 12,824	\$ 7,225
Amounts granted, net of initial installment of \$562 (2006 – \$312)	10,686	5,915
Amounts transferred to SELTIP	(10,922)	—
Principal repayments during the year	(343)	(316)
Balance, end of year	\$ 12,245	\$ 12,824

The Installment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the year, interest payments in the amount of \$798 (2006 – \$570) were credited to Unitholders' Equity in cumulative distributions.

On August 21, 2007, 190,000 Units were issued at \$17.73. The fair value of the Units granted on this day under the LTIP using the Black-Scholes option pricing model was estimated to be \$480. As the Units granted vest one-third on the date of grant, and one-third on each of the anniversary of the date of grant for each of the next two years, compensation cost of \$160 was expensed in the consolidated statements of operations during the year ended December 31, 2007, with a corresponding amount included in Unitholders' Equity in cumulative capital.

On August 21, 2007, 672,084 LTIP Units with an installment receivable balance of \$10,922 were transferred to SELTIP.

On March 2, 2007, 377,000 Units were issued at \$20.90. The fair value of the Units granted on this day under the LTIP using the Black-Scholes option pricing model was estimated to be \$1,260. As the Units granted vest one-third on the date of grant, and one-third on each of the anniversary of the date of grant for each of the next two years, compensation cost of \$420 was expensed in the consolidated statements of operations during the year ended December 31, 2007, with a corresponding amount included in Unitholders' Equity in cumulative capital.

On March 20, 2006, 365,000 Units were issued at \$17.06. The fair value of the Units granted on this day under the LTIP using the Black-Scholes option pricing model was estimated to be \$750. As the Units granted vested immediately, compensation cost of \$750 was expensed in the consolidated statements of operations during the year ended December 31, 2006, with a corresponding amount included in Unitholders' Equity in cumulative capital.

The weighted average assumptions for the grants awarded in the respective periods were as follows:

	SEPTEMBER 30, 2007	MARCH 31, 2007	DECEMBER 31, 2006
Risk free interest rate	4.38%	4.06%	4.17%
Expected lives (years)	10	10	10
Expected volatility	12.00%	12.00%	12.00%
Dividend yield	6.10%	5.25%	6.50%

H. Senior Executive Long-Term Incentive Plan (“SELTIP”)

The Compensation and Governance Committee of the Board of Trustees may award SELTIP Units, subject to the attainment of specified performance objectives, to the Chief Executive Officer and the Chief Financial Officer, collectively the “Participants.” The Participants can subscribe for Units of CAP REIT at a purchase price equal to the weighted average trading price of the Units for five trading days prior to issuance. The purchase price is payable in installments, with an initial installment of 5% paid when the Units are issued. The balance represented by Installment Receipts is due over a term not exceeding thirty years. Participants are required to pay interest at a thirty-year fixed rate based on the Trust’s fixed borrowing rate for long-term mortgage financing (4.96% for awards granted to-date) and are required to apply cash distributions received by them on these Units toward the payment of interest and principal installments until the tenth anniversary of issuance. Following the tenth anniversary, cash distributions shall be applied to pay interest only and any excess shall be distributed to the Participants. Participants may pre-pay any remaining installments at their discretion. The Installment Receipts are non-recourse to the Participants and are secured by the Units as well as the distributions on the Units. If a Participant fails to pay interest and/or principal, CAP REIT may elect to reacquire or sell the Units in satisfaction of the outstanding amounts.

The details of the Units issued under the SELTIP and Installment Receipts are shown below:

Number of Units

	2007	2006
Balance, beginning of year	–	–
Issued during the year	145,830	–
Transferred from LTIP	672,084	–
Balance, end of year	817,914	–
Price per Unit, issued during the year	\$ 17.73	\$ –
Value of SELTIP Units granted during the year	\$ 2,585	\$ –

Installment Receipts

	2007	2006
Balance, beginning of year	\$ –	\$ –
Amounts granted, net of initial installment of \$129 (2006 – \$nil)	2,456	–
Amounts transferred from LTIP	10,922	–
Principal repayments during the year	(76)	–
Balance, end of year	\$ 13,302	\$ –

The Installment Receipts are recognized as a deduction from Unitholders’ Equity in cumulative capital. During the period, interest payments in the amount of \$210 (2006 – \$nil) were credited to Unitholders’ Equity in cumulative distributions.

On August 21, 2007, 145,830 Units were issued at \$17.73. The fair value of the Units granted on this day under the SELTIP using the Black-Scholes option pricing model including the effects of the transfer from the LTIP was estimated to be \$1,060. As the Units granted vest one-third on the date of grant, and one-third on each of the anniversary of the date of grant for each of the next two years, compensation cost of \$353 was expensed in the consolidated statements of operations during the year ended December 31, 2007, with a corresponding amount included in Unitholders’ Equity in cumulative capital.

On August 21, 2007, 672,084 LTIP Units with an installment receivable balance of \$10,922 were transferred to the SELTIP. The weighted average assumptions for the grants awarded were as follows:

	2007	2006
Risk free interest rate	4.46%	—
Expected lives (years)	30	—
Expected volatility	12.00%	—
Dividend yield	6.10%	—

I. Units Cancelled

During 2007, pursuant to a normal course issuer bid ("NCIB")(note 20), 202,400 Units were acquired for cancellation at market prices aggregating \$3,619. No Units were acquired for cancellation during 2006.

Note 14 DEPRECIATION

	2007	2006
Depreciation	\$ 69,133	\$ 59,563
Depreciation included with discontinued operations (note 16)	(2,425)	(2,625)
	\$ 66,708	\$ 56,938

Note 15 AMORTIZATION

	2007	2006
Amortization of other financing costs and CMHC premiums	\$ 1,228	\$ 1,739
Amortization of leasehold improvements	74	74
Amortization of tenant improvements	226	161
Amortization of intangibles	1,441	5,047
	2,969	7,021
Amortization included with discontinued operations (note 16)	(71)	(383)
	\$ 2,898	\$ 6,638

Note 16 DISCONTINUED OPERATIONS

On January 18, 2008, CAP REIT sold ten non-core properties consisting of 558 suites in Ontario and 920 suites in Quebec for a total sales price of \$121,250. The purchaser assumed \$57,643 of existing mortgages.

In a separate transaction on January 21, 2008, CAP REIT also sold two Quebec City apartment properties containing 152 suites for a sales price of \$6,350. Mortgages of \$2,187 were repaid.

The net cash proceeds of \$63,432 from these sales were used to repay bank indebtedness. A gain of approximately \$16,981 will be recognized in the first quarter of 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The results of operations of these properties have been reclassified as discontinued operations:

	2007	2006
Operating revenues	\$ 14,205	\$ 12,608
Operating expenses	(7,189)	(6,479)
Depreciation	(2,425)	(2,625)
Amortization	(71)	(383)
Mortgage interest	(2,955)	(2,578)
Interest on bank indebtedness	(503)	(400)
Income from discontinued operations	\$ 1,062	\$ 143

The following are the assets and liabilities of the properties classified as held-for-sale:

	2007	2006
Assets		
Income properties	\$ 105,727	\$ 105,928
Sundry assets	594	288
Deferred financing costs	–	463
Intangible assets	105	165
	\$ 106,426	\$ 106,844
Liabilities		
Mortgages payable	\$ 59,860	\$ 59,843
Accounts payable and other liabilities	1,015	1,295
Security deposits	419	412
Intangible liabilities	–	5
	\$ 61,294	\$ 61,555

Note 17 SUPPLEMENTAL CASH FLOW INFORMATION

A. Changes in non-cash operating assets and liabilities

	2007	2006
Prepaid CMHC premiums	\$ (3,643)	\$ –
Prepaid expenses	16	(85)
Tenant inducements	37	(29)
Other receivables	(103)	(271)
Other assets	(282)	–
Investments	3,296	–
Deposits on purchases	(1,751)	601
Deposits	784	(26)
Leasehold improvements	4	(4)
Accounts payable and other liabilities	(1,733)	783
Security deposits	485	929
	\$ (2,890)	\$ 1,898

B. Net cash distributions to Unitholders

	2007	2006
Distributions declared to Unitholders	\$ 66,802	\$ 62,228
Add: Distributions payable at beginning of year	5,399	4,998
Less: Distributions payable at end of year	(6,032)	(5,399)
Less: Distributions to Participants in the Distribution Reinvestment Plan	(12,546)	(8,115)
	\$ 53,623	\$ 53,712

C. Mortgages and loans

	2007	2006
Interest paid	\$ 78,455	\$ 70,541

D. Income properties

	2007	2006
Acquisition of income properties through issuance of exchangeable CAPLP Units	\$ 8,000	\$ –

Note 18 CO-OWNERSHIPS

CAP REIT's share of assets, liabilities, revenues, expenses and cash flows from co-ownership activities is summarized as follows:

	2007	2006
Assets	\$ 35,743	\$ 36,407
Liabilities	31,895	22,982
Revenues	7,671	7,447
Expenses	6,458	6,184
Net income	1,213	1,263
<i>Cash Provided By (Used In):</i>		
Operating activities	\$ 2,111	\$ 2,329
Financing activities	\$ (1,937)	\$ (2,389)
Investing activities	\$ (179)	\$ (82)

Note 19 RELATED PARTY TRANSACTIONS

A. CAP REIT has entered into construction management agreements with a company that is owned by two trustees and officers of CAP REIT to provide construction management services (based on 4.5% of construction costs up to \$20,000 and 3% thereafter) to carry out the capital improvements for the properties. The total construction management fees for 2007 (excluding GST) amounted to \$1,002 (2006 – \$972) and have been capitalized to income properties. At December 31, 2007, there were construction management fees outstanding of \$12 (2006 – \$213) in accounts payable and other liabilities.

B. CAP REIT has a lease for office space with a company in which one of the trustees and officers has an 18% beneficial interest. The rent paid for office space (which is based on fair market rents at the date the lease was entered into) for 2007 was \$559 (2006 – \$592), including property operating costs, and has been expensed as trust expenses. The lease expires on October 31, 2009. The minimum annual rental payments are as follows:

2008	\$	315
2009		263

C. CAP REIT has a consulting agreement with a company owned by one of the trustees and officers. The total fees paid for 2007 (excluding GST) were \$121 (2006 – \$213) and have been expensed as trust expenses. At December 31, 2007, there were consulting fees outstanding of \$17 (2006 – \$25) in accounts payable and other liabilities.

D. CAP REIT has entered into an agreement with a company to supply suite utility meters. This company is managed by a trustee and officer of CAP REIT. At December 31, 2007, \$38 (excluding GST) has been capitalized to income properties and is outstanding and included in accounts payable and other liabilities.

Note 20 COMMITMENTS

Natural gas and hydro

CAP REIT has entered into fixed price commitments in the aggregate amount of \$11,973 for its natural gas and \$1,725 for its hydro requirements. These commitments, which range from one to three years, fix the price of natural gas and hydro for a portion of CAP REIT's gas and hydro requirements. Certain of these contracts have been designated for CAP REIT's own use.

Land leases

Four of the properties have land leases with various expiry dates between September 30, 2013 and March 31, 2070. Generally, each lease provides for annual rent and additional rent calculated from the results of property operations. Minimum annual rent for the next five years under these leases, is as follows:

2008	\$	735
2009		736
2010		736
2011		736
2012		736
Thereafter		30,056

Development agreements

As at December 31, 2007, CAPLP was committed to fund an additional \$376 in land development costs for the remaining lots in the current phase to be purchased (note 5).

Normal course issuer bid

On June 21, 2007, CAP REIT announced that the TSX had approved its notice of intention to acquire up to 5,759,361 Units at market prices over the twelve-month period ending June 24, 2008.

Note 21 RISK MANAGEMENT AND FAIR VALUE

Risk management

CAP REIT is exposed to financial risk that arises from the fluctuation in interest rates and in the credit quality of its tenants. These risks are managed as follows:

- a) **Interest rate risk** | Interest rate risk is minimized as floating rate indebtedness is restricted to 10% of total indebtedness pursuant to the terms of the operating policies contained in CAP REIT's Declaration of Trust. In addition, CAP REIT structures its financings so as to stagger the maturities of its debt, thereby minimizing exposure to future interest rate fluctuations.
- b) **Credit risk** | Credit risk arises from the possibility that the tenants of CAP REIT's properties may experience financial difficulty and be unable to fulfill their rental commitments. CAP REIT mitigates the risk of credit loss by diversifying its portfolio geographically and in different multi-residential property classes as well as performing credit assessments in respect of new tenants.

Fair value

- a) The fair value of CAP REIT's financial assets and liabilities, except as noted below, approximates their recorded values at December 31, 2007 and 2006 due to their short-term nature.
- b) At December 31, 2007, the fair value of CAP REIT's mortgages payable is estimated to be \$1,444,961 (2006 – \$1,291,206) due to changes in interest rates since the dates on which the individual mortgages were financed. The fair value of the mortgages payable has been estimated based on the current market rates for mortgages with similar terms and conditions. These estimates are subjective in nature and cannot be determined with precision. Changes in assumptions could significantly affect estimates.
- c) At December 31, 2007, CAP REIT has outstanding interest rate forward contracts with a total notional amount of \$145,740 (2006 – \$145,740) with an unrealized loss of \$4,972 (2006 – \$5,639). The fair value of these contracts has been estimated based on current market rates for contracts with similar terms and conditions. These estimates are subjective in nature and cannot be determined with precision. Changes in assumptions could significantly affect estimates.

Note 22 CONTINGENCIES

CAP REIT is contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of CAP REIT.

Note 23 SUBSEQUENT EVENTS

On January 8, 2008, CAP REIT announced that it had completed its conversion from a "closed-end" investment trust to an "open-end" trust. Unitholders granted the trustees the authority to convert from a closed-end trust to an "open-end" trust at the annual and special meeting of CAP REIT's Unitholders on May 26, 2005. The conversion will remove certain investment restrictions on CAP REIT and will provide greater flexibility in structuring certain indirect investments. The conversion will not affect the investment focus of CAP REIT.

On January 10, 2008, CAP REIT acquired 11 Dervock Crescent and 75 Talara Crescent in Toronto, Ontario comprising 143 suites. The purchase price of \$14,000 was satisfied by \$10,782 in new mortgage financing at an interest rate of 4.69% for a five-year term and the balance from the Acquisition Facility.

Subsequent to December 31, 2007, pursuant to the NCIB, 371,500 Units were acquired for cancellation at market prices aggregating \$5,378.

FIVE-YEAR REVIEW

FOR THE YEAR ENDED DECEMBER 31,
(\$ THOUSANDS, EXCEPT WHERE NOTED)

	2007	2006	2005	2004	2003
Operating Revenues ⁽¹⁾	\$ 293,978	\$ 271,096	\$ 258,666	\$ 200,901	\$ 124,732
Net Operating Income ("NOI") ⁽¹⁾	\$ 155,575	\$ 141,160	\$ 133,300	\$ 105,505	\$ 66,945
Net Operating Income Margin (%) ⁽¹⁾	52.9	52.1	51.5	52.5	53.7
Net (Loss) Income ⁽²⁾	\$ (50,196)	\$ 722	\$ 12,809	\$ 10,222	\$ 28,692
Income from Discontinued Operations ⁽³⁾	\$ 1,062	\$ 143	\$ 11,470	\$ 3,439	\$ 3,899
Distributable Income ⁽⁴⁾	\$ 73,129	\$ 66,160	\$ 61,827	\$ 52,298	\$ 36,026
Funds From Operations (FFO)	\$ 72,295	\$ 65,443	\$ 61,360	\$ 50,349	\$ 36,026
Cash Distributions	\$ 66,802	\$ 62,228	\$ 57,552	\$ 45,142	\$ 30,771
Payout Ratio (%)	91.3	94.1	93.1	86.3	85.4
Non-taxable Distributions (%) ⁽⁴⁾	90	96	75	93	70
Net (Loss) Income Per Unit – Basic	\$ (0.831)	\$ 0.013	\$ 0.240	\$ 0.244	\$ 1.001
Distributable Income Per Unit	\$ 1.211	\$ 1.170	\$ 1.161	\$ 1.251	\$ 1.257
Funds From Operations (FFO) Per Unit	\$ 1.197	\$ 1.157	\$ 1.152	\$ 1.204	\$ 1.257
Cash Distributions Per Unit	\$ 1.080	\$ 1.080	\$ 1.080	\$ 1.080	\$ 1.073
Weighted Average Number of Units (000s)	60,387	56,565	53,255	41,816	28,659
Number of Suites – Total	29,111	26,498	25,252	24,132	13,438
Number of Suites – CAP REIT's Share	28,348	25,735	24,489	23,045	12,351
Book Value of Income Properties ⁽⁵⁾	\$ 2,093,312	\$ 1,877,144	\$ 1,908,083	\$ 1,763,393	\$ 775,817
Unitholders' Equity	\$ 584,281	\$ 594,483	\$ 588,356	\$ 575,700	\$ 270,179
Occupancy (%)	97.9	97.2	97.4	96.6	97.6
Mortgage Debt to Gross Book Value (%)	57.5	57.4	58.5	59.0	58.0
Interest Coverage (times)	1.94	1.96	1.94	2.03	2.20
Weighted Average Mortgage Interest Rate (%) ^{(6) (7)}	5.37	5.33	5.38	5.42	6.04
Weighted Average Mortgage Term (years) ⁽⁷⁾	5.5	7.5	8.1	7.4	7.1
Net Income Return on Equity (%) ⁽⁸⁾	0.3	0.1	2.2	2.4	10.7
Distributable Income Return on Equity (%)	12.4	11.2	10.6	12.4	13.5
Cumulative Compounded Return (%)	284	319	241	195	176
Unit Price at End of Year	\$ 16.03	\$ 18.58	\$ 16.15	\$ 15.08	\$ 15.36

(1) 2006 has been restated for discontinued operations.

(2) 2007 includes a provision for future income taxes of \$51,789 or equivalent to (\$0.858) per Unit.

(3) Includes gain on property dispositions of \$10,867 in 2005, \$2,559 in 2004 and \$2,110 in 2003.

(4) 2004 calculation based on weighted average tax returns pre and post ResREIT acquisition of 97.92% and 89.82%, respectively.

(5) 2006 has been restated to exclude assets held for sale.

(6) 2007 including deferred financing costs and fair value adjustments.

(7) 2006 and 2005 including interest rate forward contracts.

(8) 2007 net income return on equity excludes provision for future income taxes.

CORPORATE AND UNITHOLDER INFORMATION

Board of Trustees

Thomas Schwartz
*President and
Chief Executive Officer*

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

Dino Chiesa ‡
*Vice-Chair and Chair of the Board
of Directors of Canada Mortgage and
Housing Corporation*

Catherine G. Barbaro ‡
Corporate Director

Robert D. Brown ▫
Business and Policy Consultant

Paul Harris *
*Partner, Davies, Ward,
Phillips & Vineberg LLP
(a law firm)*

Edwin F. Hawken *
Corporate Director

Marvin A. Sadowski ‡
*Executive Vice President, Sterling Silver
Development Corporation (a real estate
investment company)*

Stanley Swartzman ▫ ‡
*Executive Vice President (retired),
Loblaw Properties Limited
(a real estate development company),
Corporate Director and Lead Trustee*

David Williams ▫ *
Corporate Director

Officers & Senior Management

Thomas Schwartz
*President and
Chief Executive Officer*

Michael Stein
Chairman

Dino Chiesa
Vice-Chair

Yazdi Bharucha
Chief Financial Officer and Secretary

Mark Kenney
Vice President, Operations

Maria Amaral
Vice President, Finance

Head Office

11 Church Street, Suite 401
Toronto, Ontario M5E 1W1
Tel: 416-861-9404
Fax: 416-861-9209

Website: www.capreit.net

Investor Information

Analysts, Unitholders and others seeking financial data should visit CAP REIT's Website at www.capreit.net or contact: Yazdi Bharucha
Chief Financial Officer and Secretary
Tel: 416-861-5771
Email: ir@capreit.net

Registrar and Transfer Agent

Computershare Trust Company of Canada
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1
Tel: 1-800-663-9097
Email: caregistry@computershare.com

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Stikeman Elliott LLP

Stock Exchange Listing

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

Monthly Distributions per Unit

January 2007 – December 2007: \$0.09

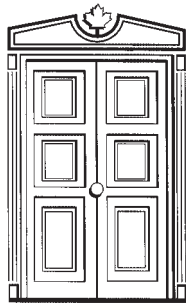
Annual Meeting of Unitholders

The Annual Meeting of Unitholders will be held at 4:30 p.m. on Wednesday, May 21, 2008 at The Dominion Club
1 King Street West,
Toronto, Ontario

▫ Audit Committee

* Compensation and Governance Committee

‡ Investment Committee



CAP REIT

www.capreit.net