5 REASONS TO INVEST IN CAPREIT

ONE: Strong Industry Fundamentals

TWO: Experienced, Hands-On Management Team

THREE: Solid Financial Position and Balance Sheet

FOUR: Track Record of Stable Performance

FIVE: Diversified, Well-Maintained Property Portfolio

CAP REIT ANNUAL REPORT 2008

CAP REIT

Profile

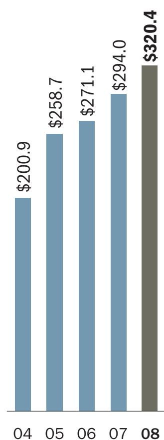
Canadian Apartment Properties Real Estate Investment Trust ("CAP REIT") is a growth-oriented investment trust owning freehold interests in multi-unit residential complexes, including apartment buildings, townhouses and land lease communities, located in or near major urban centres across Canada.

Objectives

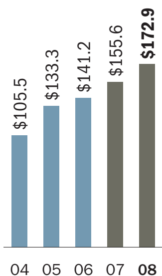
- To provide Unitholders with long-term, stable and predictable monthly cash distributions.
- To grow Distributable Income, distributions and Unit value through active management of our properties, accretive acquisitions and strong financial management.

Operating Highlights

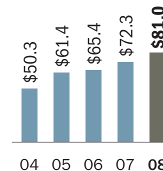
- Average occupancies increased to 98.5% while average monthly rents rose 2.8%
- Net Operating Income margin increased to 54.0%
- Same property Net Operating Income was up 4.8%; 12 consecutive quarters of same property NOI growth
- Strong accretive growth as Distributable Income per Unit and Normalized Funds From Operations per Unit increase 4.1% and 3.4%, respectively
- Strengthened balance sheet and financial position



Operating Revenues
($ MILLIONS)



Net Operating Income
($ MILLIONS)



Normalized Funds From Operations
($ MILLIONS)

Financial Performance

2008 was another year of solid and accretive growth as we met our expansion and geographic diversification objectives.

($ THOUSANDS, EXCEPT PER UNIT AMOUNTS)

Year ended December 31,		2008		2007
Operating Revenues	$	320,418	$	293,978
Net Operating Income ("NOI")	$	172,933	$	155,575
NOI Margin		54.0%		52.9%
Discontinued Operations	$	17,155	$	1,062
Provision for Future Income Taxes	$	(9,134)	$	(51,789)
Net Loss	$	(3,477)	$	(50,196)
Net Loss Per Unit – Basic	$	(0.053)	$	(0.831)
Distributable Income	$	82,481	$	73,129
Distributable Income Per Unit – Basic	$	1.261	$	1.211
Distributions Declared Per Unit	$	1.080	$	1.080
Payout Ratio		88.2%		91.3%
Effective Payout Ratio		72.9%		74.1%
Normalized Funds From Operations ("NFFO")	$	80,993	$	72,295
Normalized Funds From Operations Per Unit – Basic	$	1.238	$	1.197
Number of Suites and Sites		28,892		29,111
Income Properties	$	2,192,945	$	2,093,312
Weighted Average Number of Units – Basic		65,411,875		60,386,653

REASON NUMBER ONE

STRONG INDUSTRY FUNDAMENTALS

Report to Unitholders

2008 was another record year for CAP REIT as we generated increases in all of our performance metrics. With a strong balance sheet and strengthening industry fundamentals, we are well positioned to deliver solid and sustainable results over the near term and prosper as the economy recovers.

Track Record of Stable Performance

Despite the slowing economy through the last half of the year, we generated strong growth in 2008 as we capitalized on steadily improving fundamentals in the Canadian apartment industry. Revenues rose 9% with the contribution from acquisitions made over the past year, as well as solid increases in average monthly rents and average occupancies that rose to 98.5% from 98.0% last year.

Our net operating income margin improved to 54%, due primarily to our successful cost control initiatives, while same property net operating income rose 4.8%. Importantly, we generated strong accretive growth in our Normalized Funds From Operations (NFFO), while our Adjusted Funds From Operations (AFFO), which exclude our maintenance capital expenditures, rose 13.4%. With this strong performance, our normalized FFO payout ratio improved to a conservative 89.8%. Not including cash re-invested from the distributions declared through our successful Distribution Reinvestment Program, the effective payout ratio was 74.2%.

Our strong performance in 2008 caps more than a decade of stable and prudent growth since we entered the Canadian capital markets in 1997. We are very proud to have now delivered 12 consecutive years of consistent, growing and sustainable cash distributions to our Unitholders – a significant achievement – and we look for this performance to continue going forward. We were also pleased to have generated a 12th consecutive quarter of same property net operating income growth in the fourth quarter of 2008, a testament to our management team and its ongoing ability to execute our proven value-enhancing strategies. Looking ahead, the properties acquired since December 31, 2006 generated a very strong margin of 61.1% in 2008, well ahead of the 53.3% margin for the stabilized portfolio, indicating that we should see further growth in same property NOI as these recently-acquired buildings become part of the stabilized portfolio.

Solid Financial Position and Balance Sheet

Despite the significant growth in our portfolio over the past five years, we have maintained what we believe is one of the strongest balance sheets in the Canadian apartment industry. Our debt ratios and interest coverage ratios remained very conservative at year end, while the five-year weighted average term to maturity and the low 5.3% weighted average interest rate for our mortgage portfolio compare very favourably to our peers. Looking ahead, we believe this strong financial position will contribute to our stable performance going forward and our ability to maintain cash distributions to Unitholders at current levels.

On the financing front, it is important to note that approximately 95% of our mortgages are insured by the Canada Mortgage and Housing Corporation (CMHC), providing us with significant comfort in our ability to refinance our maturing mortgages with our traditional lenders over the near term despite the tight credit markets currently being experienced. In addition, CMHC

REASON NUMBER TWO

EXPERIENCED HANDS-ON MANAGEMENT TEAM

insurance allows us to take advantage of interest rates that are considerably lower than conventional mortgages, generating substantial savings.

For 2009, we plan on completing a total of approximately $300 million in mortgage renewals and top-up financings. We remain confident that we will be able to complete this aggressive schedule while also maintaining our weighted average term to maturity in the five-year range. Our refinancing program this year will generate approximately $100 million in new funds for our capital investment programs, as well as substantial interest rate savings as we take advantage of the low interest rate environment.

The weighted average interest rate on our 2009 maturing mortgages is 5.3%, and we believe we can reduce this to a range of between 3.5% and 4.0%.

Diversified, Well-Maintained Property Portfolio

Since our initial public offering in 1997, we have steadily and prudently expanded the size and scope of our property portfolio to where we now own a high-quality portfolio consisting of 27,614 apartment and townhouse suites. With this growth, we have also focused on strengthening the defensive nature of the portfolio by enhancing our presence in established growth markets across the country. By diversifying our properties both geographically and by property type, we mitigate risk for our Unitholders.

In 2007, we enhanced the diversification of our portfolio with the purchase of two high-quality land lease communities in Ontario, which now comprise 1,278 sites. While owning and operating a land lease community is very similar to the apartment business, Unitholders benefit from this 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. The acquisitions made a solid contribution to our cash flow in 2008, and we will prudently examine further growth opportunities in this sector in the future.

During 2008 we further enhanced the defensive characteristics of our portfolio with the acquisition of a total of 1,391 apartment suites in the Greater Toronto Area, Richmond, B.C., Victoria, B.C. and Quebec City. During the first quarter of the year we also sold 12 non-core properties in Ontario and Quebec. We had maximized the value we could achieve from these non-core properties, and generated significant cash from their sale. The $17.0 million gain resulting from the dispositions clearly demonstrated the success we are achieving in enhancing the value of our properties through our active property management and capital investment programs.

As a result of our growth over the past 11 years, CAP REIT now possesses a diversified, balanced and well-maintained property portfolio situated in key locations across all major markets from coast to coast in Canada.

Experienced, Hands-On Management Team

A key reason for our success over the past decade is our experienced and proven management and operations teams. At CAP REIT, we are real estate people in the real estate business. We focus on building strong relationships with our residents, ensuring we have strong lines of communication to ensure their needs and concerns are met and to provide them with the highest levels of service. These initiatives are supported by 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. CAP REIT truly is the Landlord of Choice in the Canadian apartment industry.

Over the past four years we have also made significant investments to enhance our information systems and operating platform. Our new lease management system improves our operating efficiency while helping us capture increased revenues by tracking market rents in a specific area to achieve the highest rent possible for any given suite. It also helps us reduce turnover time and provides real-time information on activity across our portfolio to ensure we are properly directing our resources.

REASON NUMBER THREE

SOLID FINANCIAL POSITION & BALANCE SHEET

REASON NUMBER FOUR

TRACK RECORD OF STABLE PERFORMANCE

Our recently implemented new procurement programs are generating cost 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.

Strong Industry Fundamentals

2008 saw continued strengthening in the Canadian apartment industry as spreads between the cost of owning a home and renting remained high. Financial institutions have also tightened their lending practices, which in turn has made it more difficult to obtain financing to purchase a home. As a result, renting has become the most realistic and affordable alternative for young professionals, families, seniors and new Canadians in these challenging times.

Looking ahead, we believe demand will continue to grow, driven by increased immigration, little new supply of residential rental accommodation, and a fast-growing seniors population that increasingly considers rental accommodation a viable housing alternative.

Looking Ahead

The past five years was a period of significant growth for CAP REIT as we expanded the size and depth of our portfolio across Canada. For 2009, we are taking a more conservative approach to growth, and while our target remains to acquire between 1,500 and 2,000 suites, we will carefully assess each acquisition to ensure it meets our rigorous investment criteria. 2009 will also be a year in which we accelerate investments in our current portfolio. We will increase our focus on environmentally-friendly energy-saving initiatives, including high-efficiency boilers, energy-efficient lighting systems, water-saving and garbage recycling programs, and individual suite metering. We will move up planned building improvement programs, including upgraded parking garages, balconies, sidewalks and life safety systems, taking advantage of the current availability and competitive pricing from construction trades. Importantly, all of these projects were identified at the time of acquisition to ensure each purchase was accretive. We believe these investments will generate strong returns for our Unitholders.

Finally, while we will not be immune to the current economic slowdown in Canada, we are also confident that our performance will not be materially impacted. During challenging economic times, demand for rental housing increases, driven by the much higher cost of home ownership, tight credit market conditions and decreased expectations that home ownership will generate meaningful capital appreciation. Our defensive property portfolio helps to mitigate risk, while our strong balance sheet ensures we will have the financial resources and flexibility to execute our value-enhancing strategies.

Thomas Schwartz
President and
Chief Executive Officer

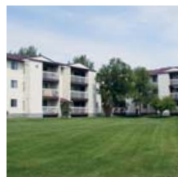
Michael Stein
Chairman

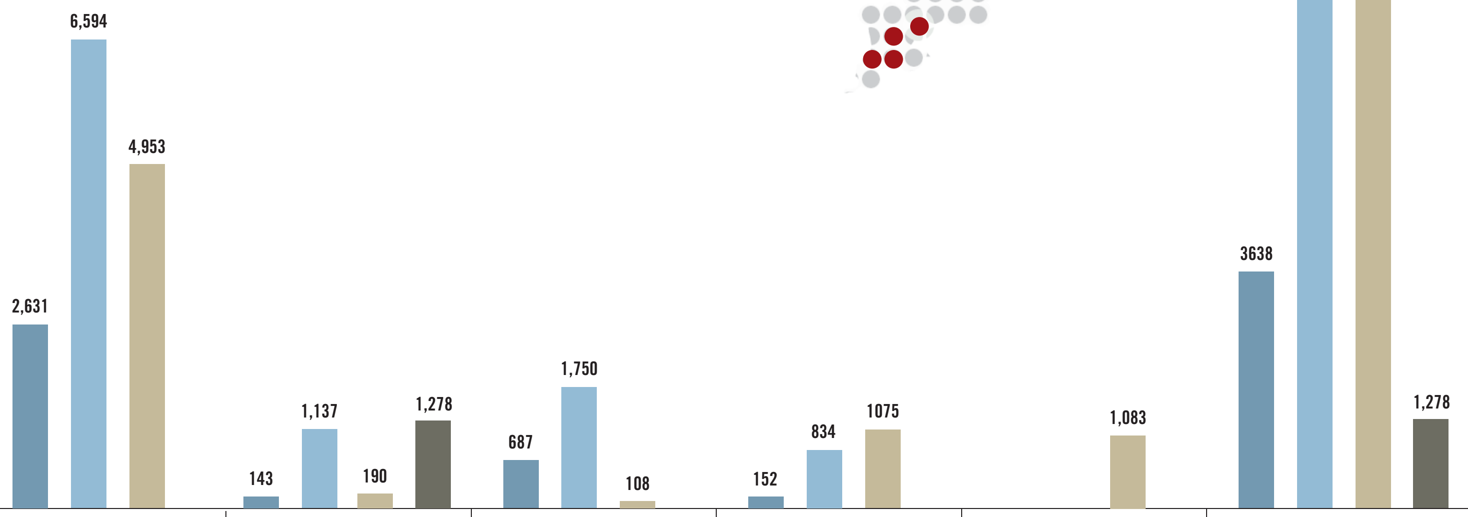
REASON NUMBER FIVE

DIVERSIFIED, WELL-MAINTAINED PROPERTY PORTFOLIO

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

	Greater Vancouver Region & Victoria	Calgary	Edmonton	Regina & Saskatoon	Ottawa	London & Kitchener-Waterloo
Total suites	**1,799**	**1,070**	**310**	**241**	**1,527**	**1,482**
Occupancy	**98.1%**	**97.3%**	**99.0%**	**99.2%**	**99.9%**	**96.0%**
Average monthly rent	**$867**	**$1,081**	**$1,059**	**$768**	**$824**	**$796**





Greater Toronto Area (GTA)

Total suites
14,178

Occupancy
98.7%

Average monthly rent
$1,058

Outside GTA

Total suites and sites
2,748

Occupancy
99.1%

Average monthly rent
$771

Montreal

Total suites
2,545

Occupancy
97.4%

Average monthly rent
$646

Quebec

Total suites
1,909

Occupancy
98.9%

Average monthly rent
$761

Halifax

Total suites
1,083

Occupancy
99.2%

Average monthly rent
$989

Total

Total suites and sites
28,892

Occupancy
98.5%

Average monthly rent
$934

Financial Performance

Management's Discussion and Analysis

Section 1
8 Forward-looking Disclaimer
9 Overview
10 Objectives
10 Business Strategy
11 Key Performance Indicators
12 Performance Measurements
13 Property Portfolio

Section 2
16 Results of Operations
17 Net Operating Income
18 Stabilized Portfolio Performance
19 Net Loss.
22 Other Comprehensive Loss

Section 3
22 Capital Investments
23 Productive Capacity
25 Capital Structure
26 Liquidity and Financial Condition
31 Unitholder Taxation

Section 4
31 Non-GAAP Performance Measurements

Section 5
37 Quarterly Results

Section 6
38 Selected Financial Information

Section 7
39 Accounting Policies
40 International Financial Reporting Standards
41 Controls and Procedures

Section 8
42 Risks and Uncertainties
45 Related Party Transactions
45 Commitments and Contingencies
45 Subsequent Event

Section 9
46 Future Outlook

Consolidated Financial Statements

48 Management's Responsibility For Financial Statemets
48 Auditors' Report
49 Consolidated Balance Sheets
50 Consolidated Statements of Operations and Comprehensive Loss
51 Consolidated Statements of Unitholders' Equity
52 Consolidated Statements of Cash Flows
53 Notes to Consolidated Financial Statements

Management's Discussion and Analysis

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, 2008 and 2007 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 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 regulatory filings, including CAP REIT's Annual Information Form, which can be obtained on SEDAR at www.sedar.com as well as in Section 8 of this document. The information in this MD&A is based on information available to management as of February 26, 2009.

OVERVIEW

CAP REIT is an unincorporated open-ended real estate investment trust 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 July 11, 2008. CAP REIT owns interests in multi-unit residential rental properties, including apartments, townhouses and land lease communities located in and near major urban centres across Canada. At December 31, 2008, CAP REIT had ownership interests in a portfolio that included 27,614 residential suites (CAP REIT's share – 26,459 suites), and two Ontario land lease communities comprising 1,278 sites, well diversified by geographic location and asset type. At December 31, 2008, CAP REIT had 820 employees.

On January 8, 2008, CAP REIT 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, if and when they considered it desirable, at the annual and special meeting of CAP REIT's Unitholders on May 26, 2005. The conversion removes certain investment restrictions on CAP REIT and provides it with greater flexibility in structuring certain indirect investments. The conversion has resulted in certain amendments to CAP REIT's Declaration of Trust which, among other things, now provides Unitholders with a restricted right of redemption. The conversion will not affect the investment focus of CAP REIT. In addition, on April 1, 2008, pursuant to the reorganization, CAP REIT transferred the beneficial interest of all its properties along with the related mortgages and all the corporate debt obligations to CAPREIT Limited Partnership ("CAPLP").

On January 10, 2008, CAP REIT acquired two adjoining apartment properties located in North Toronto close to the Bayview Shopping Centre. The complex, consisting of 143 mid-tier suites, has easy access to Sheppard Avenue, Highway 401 and the subway line. The total acquisition cost for the property was $14.3 million with a new mortgage insured with the Canada Mortgage and Housing Corporation ("CMHC") of $10.8 million for a five-year term at an interest rate of 4.69%. The balance of the purchase was funded from CAP REIT's Acquisition Facility. The property has had extensive retrofits to the roof, windows, balconies and heating system. In addition, the opportunity exists to enhance cash flow from the property as a number of existing rents are well below market.

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 $121.3 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 total sales price of $6.4 million. Mortgages of $2.2 million were repaid. The net cash proceeds of $63.0 million from these sales were used to repay bank indebtedness. A gain of approximately $17.0 million ($0.261 Per Unit) has been recognized.

On April 8, 2008, CAPLP acquired nine land lease sites (six sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of $0.6 million, and on September 1, 2008 an additional 11 land lease sites (nine sites near Bowmanville, Ontario and two sites in Grand Bend, Ontario) for total acquisition costs of $0.7 million, all of which were funded from the Land Lease Facility (note 8(b) to the consolidated financial statements).

On April 30, 2008, CAP REIT acquired an apartment complex located in Richmond, British Columbia comprising 174 suites. The total acquisition costs of $24.2 million were satisfied by the assumption of an existing mortgage of $5.8 million maturing in 2016 at an interest rate of 4.6%, new CMHC-insured mortgage financing of $6.8 million maturing in 2013 at 4.45% and the balance from the Acquisition Facility.

On July 31, 2008, CAP REIT acquired a 50% interest in a portfolio of eight high-quality properties in Toronto, Ontario totalling 784 suites. The total acquisition costs for the 50% interest of $47.9 million were satisfied by the assumption of existing mortgages of $15.0 million maturing between 2011 and 2019 at an average interest rate of 4.75%, new CMHC-insured mortgages of $14.7 million for five-year terms at an average interest rate of 4.55%, and the balance from the Acquisition Facility.

On August 29, 2008, CAP REIT acquired a 137-suite apartment building in Victoria, British Columbia. The total acquisition costs of $14.3 million were satisfied by new CMHC-insured financing of $10.2 million for a five-year term at 4.35%, and the balance from the Acquisition Facility.

On December 5, 2008, CAP REIT completed the acquisition of a 153-suite, 19-storey luxury apartment building in Quebec City, Quebec. The total acquisition costs of approximately $17.8 million were satisfied by the assumption of a CMHC-insured mortgage of approximately $10.5 million maturing in 2011 with an interest rate of 4.21%, a new $2.2 million five-year mortgage with an interest rate of 3.62% and the balance from the Acquisition Facility.

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 and thereby maintain a high occupancy level. Numerous initiatives such as newsletters, special events, resident committees and other initiatives help to build a true sense of community at 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. CAP REIT's new enterprise-wide procurement system has streamlined and centralized purchasing controls and procedures and is generating reduced cost through national master sourcing contracts, improved pricing and enhanced operating efficiencies.

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. Management is increasingly focusing its capital investments towards environmentally-friendly energy-saving initiatives that improve overall net operating income. In addition, management will increase capital expenditures on building infrastructure improvements to improve life safety and long-term cash flow potential.

Portfolio Growth – CAP REIT will grow its portfolio over the long term through accretive acquisitions that meet its strategic criteria and enhance geographic diversification while capturing economies of scale and cost synergies, thereby increasing Net Operating 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 its growth strategy, and demonstrates the success of its 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 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. In addition, CAP REIT strives to maintain a conservative overall liquidity position and balance its overall capital resources requirements between debt and equity.

KEY PERFORMANCE INDICATORS

To achieve its objectives, CAP REIT has defined a number of key operating and performance indicators ("KPI") 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 resident 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.

Net Operating Income ("NOI") – 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 in the range of 53% to 54% of operating revenues.

Distributable Income ("DI"), Funds From Operations ("FFO"), Normalized Funds From Operations ("NFFO") and Adjusted Funds From Operations ("AFFO") – CAP REIT is focused on steady increases in these metrics on a per Unit basis. These non-GAAP metrics are indicative of CAP REIT's operating performance and capability of maintaining sustainable distributions on a per Unit basis in the future.

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

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. For this purpose, CAP REIT ensures that its overall leverage rates and interest and debt coverage ratios are at a sustainable level. In addition, CAP REIT focuses on ensuring capital adequacy by maintaining compliance with investment and debt restrictions in its Declaration of Trust and its financial covenants in its Credit Agreement (see Bank Indebtedness and Credit Facilities).

PERFORMANCE MEASUREMENTS

Summarized below is an overview of the key financial GAAP and non-GAAP measures and operational results of CAP REIT during 2008 and 2007, in order to assess CAP REIT's performance vis-à-vis its objectives, business strategy and KPIs to facilitate comparison with its peers. During this two-year period, monthly cash distributions declared to its Unitholders remained steady at $0.09 per Unit. Since its inception, CAP REIT has increased monthly cash distributions eight times or by approximately 51%.

Year Ended December 31,		**2008**		2007
Overall Portfolio Occupancy (%)		**98.5**		98.0
Overall Portfolio Average Monthly Rents	$	**934**	$	909
NOI Margin (%)		**54.0**		52.9
Net Loss Per Unit – Basic	$	**(0.053)**	$	(0.831)
DI Per Unit – Basic	$	**1.261**	$	1.211
FFO Per Unit – Basic	$	**0.969**	$	1.197
NFFO Per Unit – Basic	$	**1.238**	$	1.197
AFFO Per Unit – Basic	$	**1.059**	$	1.012
Debt Coverage (times)		**1.30**		1.26
Interest Coverage (times)		**2.06**		1.94
Total Debt to Gross Book Value Ratio (%)		**61.82**		61.55
Cash Distributions Per Unit	$	**1.080**	$	1.080
DI Payout Ratio (%)		**88.2**		91.3
AFFO Payout Ratio (%)		**86.7**		88.7
Number of Suites and Sites Acquired		**1,411**		2,613
Weighted Average Mortgage Interest Rate (%)		**5.30**		5.37
Weighted Average Mortgage Term (years)		**5.0**		5.5
Closing Price of CAP REIT Units	$	**15.74**	$	16.03
Market Capitalization ($ millions)(1)	$	**1,065**	$	1,074

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

PROPERTY PORTFOLIO

CAP REIT's property portfolio continues to be well diversified by geography and balanced among asset types and demographic segments. Management's long-term goal is to further enhance 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,	**2008**	**%**	2007	%
Affordable	**3,638**	**12.6**	4,154	14.3
Mid-tier	**14,711**	**50.9**	14,519	49.9
Luxury	**9,265**	**32.1**	9,180	31.5
Total Residential Suites	**27,614**	**95.6**	27,853	95.7
Land Lease Sites	**1,278**	**4.4**	1,258	4.3
Total Residential Suites and Land Lease Sites	**28,892**	**100.0**	29,111	100.0

Portfolio by Geography

As at December 31,	**2008**	**%**	2007	%
Ontario				
Greater Toronto Area	**14,178**	**49.1**	13,346	45.9
Ottawa	**1,527**	**5.3**	1,527	5.2
London/Kitchener - Waterloo	**1,482**	**5.1**	1,482	5.1
Other Ontario	**1,470**	**5.1**	1,933	6.6
Ontario Residential Suites	**18,657**	**64.6**	18,288	62.8
Land Lease Sites	**1,278**	**4.4**	1,258	4.3
Ontario Residential Suites and Land Lease Sites	**19,935**	**69.0**	19,546	67.1
Quebec				
Montreal	**2,545**	**8.8**	3,465	11.9
Quebec City	**1,909**	**6.6**	1,908	6.6
	4,454	**15.4**	5,373	18.5
Nova Scotia				
Halifax	**1,083**	**3.7**	1,083	3.7
Alberta				
Edmonton	**310**	**1.1**	310	1.1
Calgary	**1,070**	**3.7**	1,070	3.6
	1,380	**4.8**	1,380	4.7
Saskatchewan				
Saskatoon	**133**	**0.4**	133	0.5
Regina	**108**	**0.4**	108	0.4
	241	**0.8**	241	0.9
British Columbia				
Greater Vancouver Region	**1,291**	**4.5**	1,117	3.8
Victoria	**508**	**1.8**	371	1.3
	1,799	**6.3**	1,488	5.1
Total Residential Suites	**27,614**	**95.6**	27,853	95.7
Total Residential Suites and Land Lease Sites	**28,892**	**100.0**	29,111	100.0

Through accretive acquisitions and non-core property dispositions, CAP REIT continues to enhance the geographic diversification of its residential suites portfolio. In the past 12 months, CAP REIT acquired 1,391 residential suites and 20 land lease sites for total acquisition costs of approximately $119.8 million and, pursuant to its strategy to dispose of non-core assets from time to time, sold 1,630 residential suites for total sales price of $127.7 million. Over the past three years, CAP REIT has increased its presence in markets with higher growth potential and also acquired two land lease communities, while maintaining its strong presence in the Ontario residential suite market. Strategic acquisitions in Ontario were made in 2008 to capitalize on its established infrastructure, and while management continues to target growth in markets outside Ontario, it continues to believe its Ontario portfolio will benefit Unitholders, as the province's diversified economic base is not tied to any one cyclical industry. The geographic diversification of its portfolio also enables CAP REIT to mitigate the risks arising from a downturn in specific markets due to current economic conditions.

Portfolio Average Monthly Rents and Occupancy (By Asset Type)

	Total Portfolio				Properties Owned Prior to Dec. 31, 2007				Properties Acquired Since Dec. 31, 2007	
As at December 31,	**2008**		2007 (1)		**2008**		2007 (1)		**2008**	
	Average Monthly Rents	**Occ. %**	Average Monthly Rents	Occ. %	**Average Monthly Rents**	**Occ. %**	Average Monthly Rents	Occ. %	**Average Monthly Rents**	**Occ. %**
Affordable	**$ 841**	**98.3**	$ 827	97.7	**$ 841**	**98.3**	$ 827	97.7	**$ –**	**–**
Mid-tier	**$ 899**	**98.2**	$ 876	97.8	**$ 899**	**98.1**	$ 876	97.8	**$ 901**	**100.0**
Luxury	**$ 1,070**	**98.8**	$ 1,033	98.2	**$ 1,068**	**98.8**	$ 1,033	98.2	**$ 1,130**	**98.8**
Average Residential Suites	**$ 950**	**98.4**	$ 924	97.9	**$ 950**	**98.4**	$ 924	97.9	**$ 955**	**99.7**
Average Land Lease Sites	**$ 596**	**99.8**	$ 591	99.8	**$ 596**	**99.8**	$ 591	99.8	**$ n/a**	**n/a**
Overall Portfolio Average	**$ 934**	**98.5**	$ 909	98.0	**$ 934**	**98.5**	$ 909	98.0	**$ 955**	**99.7**

(1) 2007 has been adjusted to exclude properties sold in January 2008.

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 a 2.8% increase in overall average monthly rents as at December 31, 2008 to $934, compared to $909 last year. Average monthly rents for the properties owned prior to December 31, 2007 also increased at December 31, 2008 to $934 from $909 at December 31, 2007, with solid gains of up to 3.4% in all segments of the portfolio due to CAP REIT's successful sales and marketing strategies and continuing strength in the Canadian residential rental sector. Occupancy at December 31, 2008 for the residential suite portfolio also improved significantly to 98.4% from 97.9% in the prior year. The average monthly rents and occupancies for the land lease portfolio continue to remain very strong since acquisition.

Suite turnovers in the residential suite portfolio (excluding co-ownerships) remained steady during the year ended December 31, 2008, and CAP REIT generated increases of approximately $20 or 2.1% in average monthly rents compared to $18 or 2.0% in the prior year. Average monthly rents increased on lease renewals by approximately $21 or 2.2% compared to $27 or 3.0% last year. Management believes that, as occupancies in the portfolio continue to strengthen and the market for rental accommodation improves, CAP REIT will generate additional rent increases on both turnover and lease renewals.

Portfolio Average Monthly Rents and Occupancy (By Geography)

As at December 31,	2008		2007(1)	
	Average Monthly Rents	Occ. %	Average Monthly Rents	Occ. %
Ontario				
Greater Toronto Area	$ 1,058	98.7	$ 1,037	97.9
Ottawa	824	99.9	801	99.9
London/Kitchener - Waterloo	796	96.0	793	96.9
Other Ontario	923	98.4	900	97.3
	$ 1,014	98.6	$ 993	97.9
Quebec				
Montreal	$ 646	97.4	$ 626	97.1
Quebec City	761	98.9	722	98.9
	$ 695	98.1	$ 665	97.8
Nova Scotia				
Halifax	$ 989	99.2	$ 939	97.6
Alberta				
Edmonton	$ 1,059	99.0	$ 940	96.8
Calgary	1,081	97.3	1,020	97.6
	$ 1,076	97.7	$ 1,002	97.4
Saskatchewan				
Saskatoon	$ 724	98.5	$ 600	98.5
Regina	822	100.0	709	97.2
	$ 768	99.2	$ 649	97.9
British Columbia				
Greater Vancouver Region	$ 918	98.8	$ 900	99.4
Victoria	738	96.3	709	97.6
	$ 867	98.1	$ 852	98.9
Total Residential Suites	$ 950	98.4	$ 924	97.9
Land Lease Sites	$ 596	99.8	591	99.8
Total Residential Suites and Land Lease Sites	$ 934	98.5	$ 909	98.0

(1) 2007 has been adjusted to exclude properties sold in January 2008.

Overall average occupancy improved from 98.0% to 98.5% due to the strong performance in the majority of the regions in which CAP REIT operates. The increases in occupancy were primarily due to the strengthening demand for apartments and townhouses as the cost gap between owning and renting reached historical highs, and to tightening mortgage requirements for home purchases. Also contributing to the increases were CAP REIT's capital improvement programs aimed at enhancing the property portfolio, and successful sales and marketing strategies to attract and retain residents. As a result of these factors, and tightened vacancies across the portfolio, average monthly rents in the residential suite portfolio increased by approximately 2.8% for the year ended December 31, 2008 compared to last year. Management believes overall annual occupancies can be maintained in the 98% range which, combined with increases in overall average monthly rents, should provide the basis for sustained revenue growth in the future.

Management also believes the defensive characteristics of its national portfolio and its ongoing strategies to further diversify among Canada's major rental markets and by property type will continue to protect Unitholders from downturns in any specific geographic region or demographic group resulting from job losses and financial difficulty in meeting rental obligations.

Section 2

RESULTS OF OPERATIONS

($ Thousands)

Year Ended December 31,	2008	%	2007	%
Operating Revenues	$ **320,418**	**100.0**	$ 293,978	100.0
Operating Expenses				
Realty Taxes	**41,968**	**13.1**	39,303	13.4
Utilities	**42,765**	**13.3**	40,888	13.9
Other	**62,752**	**19.6**	58,212	19.8
Total Operating Expenses	**147,485**	**46.0**	138,403	47.1
Net Operating Income	$ **172,933**	**54.0**	$ 155,575	52.9

Net Operating Income ("NOI") is not a measure defined by Canadian generally accepted accounting principles ("GAAP"). Management believes 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 2008 compared to last year primarily due to acquisitions completed over the past 12 months as well as increased average monthly rents and occupancy for the total portfolio compared to last year. CAP REIT increased average monthly rents in the residential portfolio to $950 at December 31, 2008 compared to $924 last year and improved overall occupancy to 98.4% from 97.9%. Overall operating revenues were also favourably impacted by continuing increases in ancillary income, including parking revenues as a result of improved utilization and enforcement. 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 reduced to 3.8% of revenues for the year ended December 31, 2008 compared to 4.6% in the prior year.

Operating Expenses

Operating expenses for the year ended December 31, 2008 rose in comparison to last year, primarily due to the increase in the size of the property portfolio resulting from acquisitions completed over the past 12 months. Overall operating expenses as a percentage of operating revenues improved in comparison to last year, primarily due to the following factors:

- Realty taxes as a percentage of revenues decreased slightly due to the enhanced diversification of the portfolio in regions with lower taxation rates.
- Utility costs as a percentage of revenues decreased from 13.9% to 13.3% despite a colder winter, due to CAP REIT's energy management strategies, which include various energy savings programs combined with lower gas and hydro prices resulting from its proactive strategy of locking in future prices where possible.
- Other operating expenses as a percentage of revenues decreased slightly in 2008 despite increases in wages and benefits and repairs and maintenance costs compared with the prior year.

NET OPERATING INCOME

($ Thousands)

Year Ended December 31,	2008			2007				
	NOI	NOI as % of Revenues	% of Total NOI	NOI	NOI as % of Revenues	% of Total NOI	Change in NOI $	%
Ontario	$ 120,205	52.6	69.5	$ 110,429	51.5	71.0	$ 9,776	8.9
Quebec	19,252	53.1	11.1	18,741	54.6	12.0	511	2.7
Alberta	12,877	60.6	7.5	10,717	60.1	6.9	2,160	20.2
British Columbia	11,569	59.6	6.7	7,392	57.0	4.7	4,177	56.5
Nova Scotia	7,993	61.3	4.6	7,548	59.4	4.9	445	5.9
Saskatchewan	1,037	49.5	0.6	748	42.7	0.5	289	38.6
	$ 172,933	54.0	100.0	$ 155,575	52.9	100.0	$ 17,358	11.2

Overall NOI improved by $17.4 million or 11.2% through 2008 and the NOI margin increased to 54.0% compared to 52.9% in the previous year. While CAP REIT continued to increase NOI in all of its markets through 2008, it is gradually increasing its presence in regions with higher growth potential, while maintaining a strong presence in the Ontario market with longer term potential. With the recent acquisitions, CAP REIT has established an infrastructure in the British Columbia region to further its growth in this market.

Ontario – As a result of CAP REIT's efforts to enhance the diversification of its total portfolio, the Ontario portfolio represented 69.5% of total NOI for 2008 compared to 71.0% in the prior year. Despite this decrease, the NOI contribution from the Ontario portfolio increased 8.9% while NOI as a percentage of revenues improved, primarily due to the steady increase in average monthly rents and strong occupancies combined with profitability from the two land lease sites acquired in 2007. Management believes its strong presence in Ontario will benefit Unitholders during the current economic slowdown as the province's diversified economy is not tied to any single cyclical industry.

Quebec – NOI as a percentage of revenues from this province was lower for 2008 at 11.1% of total NOI compared to 12.0% for last year due to the slight reduction in the Quebec portfolio as a percentage of the overall portfolio. Primarily due to increased average monthly rents and occupancies, the NOI contribution from Quebec for 2008 increased 2.7% compared to last year while the NOI margin decreased to 53.1% from 54.6% last year, primarily due to increased wages. CAP REIT believes the Quebec rental market will remain stable during the current economic slowdown.

Alberta – CAP REIT continues to maintain a strong presence in the Alberta market. Mainly due to acquisitions completed in 2007, stable occupancies and an increase in average monthly rents, the overall NOI contribution increased 20.2% to 7.5% of total NOI for 2008 from 6.9% last year. In addition, the NOI margin rose to 60.6% for 2008 from 60.1% for last year. While the Alberta market softened through the last half of 2008 with a slight decrease in occupancies, management believes average monthly rents will remain strong, as its portfolio is well located in Calgary and Edmonton.

British Columbia – CAP REIT continues to target the British Columbia market for future expansion. Due to the acquisitions completed in Vancouver and Victoria over the past 12 months, combined with increased average monthly rents and steady occupancies, the NOI contribution from the British Columbia portfolio for 2008 increased 56.5% to 6.7% of total NOI from 4.7% last year. The NOI margin also increased to 59.6% from 57.0% last year. With its growth in the region, CAP REIT has established an infrastructure and critical mass to build its presence in this market going forward. Management believes the ongoing tight market will continue to generate high occupancies and average monthly rents.

Nova Scotia – Occupancies and average monthly rents were higher in Nova Scotia compared to past year, resulting in the NOI margin improving in 2008 to 61.3% from 59.4% last year. Management believes its presence primarily in downtown locations will serve to maintain stable occupancies and average monthly rents going forward.

Saskatchewan – The Regina and Saskatoon markets continued to perform well through 2008, with a significant 18.3% increase in average monthly rents and an increase in occupancies to 99.2% compared to 97.9% last year. As a result, the NOI contribution increased by 38.6%, while the NOI margin increased to 49.5% from 42.7% last year. The province's economy remains strong, and CAP REIT believes it is well positioned to maintain solid occupancies and average monthly rents over the long term.

STABILIZED PORTFOLIO PERFORMANCE

Year Ended December 31,	2008	2007
Stabilized Suites	**24,105**	24,105
Operating Revenues ($ millions)	**$ 291.9**	$ 282.4
Net Operating Income ($ millions)	**$ 155.4**	$ 148.3
Net Operating Income Margin	**53.3%**	52.5%
Change in Operating Revenues	**3.3%**	
Change in Operating Costs	**(1.7%)**	
Change in NOI	**4.8%**	

Stabilized properties for the year ended December 31, 2008 are defined as all properties owned by CAP REIT as at December 31, 2006 and, therefore, do not take into account the impact on performance of acquisitions completed during 2008 and 2007.

As of December 31, 2008, CAP REIT has generated 12 consecutive quarters of stable or improved stabilized NOI growth. In the fourth quarter of 2008, operating revenues increased 2.5% and operating costs increased 2.4%, resulting in a 2.6% increase in NOI for the period. For 2008, operating revenues for the stabilized portfolio increased by 3.3% and operating costs increased by 1.7%, resulting in a 4.8% increase in NOI. This solid increase in stabilized portfolio NOI was the key driver in CAP REIT's increase in FFO and NFFO Per Unit for the year ended December 31, 2008.

The NOI margin increased to 53.3% for the year ended December 31, 2008 compared to 52.5% in the same period last year. NOI for 2007 was negatively impacted by increased costs for higher wages and on-site costs, due to the rollout of the new lease administration system.

For properties acquired since December 31, 2006 (comprising 3,632 suites and sites in 2008 compared to 2,613 suites and sites in 2007), the NOI margin was 61.1% for the year ended December 31, 2008 compared to 62.5% last year. The non-stabilized portfolio comprises acquisitions completed recently in higher profitability markets, primarily in British Columbia, and the land lease sites in Ontario, where the NOI margins are higher than the portfolio average.

NET LOSS

($ Thousands, except per Unit amounts)

Year Ended December 31,	2008	2007
Net Operating Income	$ 172,933	$ 155,575
Less:		
Trust Expenses	13,155	10,928
Mortgage Interest	74,836	69,444
Interest on Bank Indebtedness	4,111	6,206
Other Income	(1,886)	(1,140)
Subtotal	$ 82,717	$ 70,137
Less:		
Depreciation	72,007	66,708
Amortization	2,982	2,898
Income From Continuing Operations Before Other Costs and Income Taxes	7,728	531
Reorganization Costs	(1,599)	–
Unrealized Loss on Derivative Financial Instruments	(17,627)	–
Provision for Future Income Taxes	(9,134)	(51,789)
Loss From Continuing Operations	(20,632)	(51,258)
Income From Discontinued Operations	17,155	1,062
Net Loss	$ (3,477)	$ (50,196)
Net Loss Per Unit From Continuing Operations – Basic and Diluted	$ (0.315)	$ (0.849)
Net Income Per Unit From Discontinued Operations – Basic and Diluted	$ 0.262	$ 0.018
Net Loss Per Unit – Basic and Diluted	$ (0.053)	$ (0.831)
Weighted Average Number of Units (000s) – Basic	65,412	60,387
Weighted Average Number of Units (000s) – Diluted	65,617	60,769

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 2008 due to new acquisitions as well as capital expenditures incurred for the property portfolio.

Amortization expense in 2008 increased slightly to $3.0 million in comparison to $2.9 million last year.

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 by $2.3 million to $13.2 million from $10.9 million, and as a percentage of revenues increased to 4.1% compared to 3.7% last year, mainly due to higher compensation costs related to CAP REIT's Incentive Plans of $1.6 million compared to $0.9 million in the previous year, as well as higher legal and compliance costs. Trust expenses in the December 2008 quarter include non-recurring legal and consulting costs of approximately $0.5 million or $0.01 per Unit. Management believes it has built an operating platform sufficient to manage the strong growth it expects to generate in the future.

Interest on Mortgages and Bank Indebtedness

Mortgage interest expense increased in 2008 due to new debt associated with the acquisition of properties and top up mortgage financings. Mortgage interest expense as a percentage of operating revenues decreased to 23.4% in 2008 compared to 23.6% 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, 2008 decreased to $4.1 million from $6.2 million in the prior year primarily due to the repayment of bank indebtedness using funds from the sales of non-core assets and mortgage refinancings during the year, as well as lower interest rates. The weighted average interest rate for the Acquisition and Operating Facilities was 3.38% at December 31, 2008 compared to 6.00% for the same period in 2007. At December 31, 2008, the weighted average interest rate for the Land Lease Facility was 2.89% compared to 5.22% last year.

The interest coverage ratio (defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by interest expense) improved to a strong 2.06 times for the year ended December 31, 2008 compared to 1.94 times the previous year.

Other Income

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

Reorganization Costs

These costs represent amounts incurred to complete the reorganization of CAP REIT's capital structure and include exclusively legal, accounting and tax consulting involved with the following:

1. Setting up of CAPLP and the issuance of CAPLP Units exchangeable into CAP REIT Units.
2. Conversion from closed-end to an open-end trust structure including changes to the Declaration of Trust.
3. Transfer of beneficial interest in all the properties, mortgage debt and trust debt obligations from CAP REIT to CAPLP.

In accordance with Canadian generally accepted accounting principles, CAP REIT has expensed these reorganization costs. These costs have been added back for the calculation of Distributable Income and Funds From Operations (as explained in later sections) as they do not impact the determination of CAP REIT's on-going capacity to pay distributions to the Unitholders or the measurement of its operating performance.

Unrealized Loss on Derivative Financial Instruments

During 2005, CAP REIT entered into interest rate forward contracts aggregating $145.7 million to hedge its exposure to the potential rise in interest rates for refinancings of mortgages maturing in 2009. These contracts assumed mortgage renewals would match the terms of the interest rate forward contracts, ranging from 5.5 to 13 years, and extended the terms for specific mortgages to between 2014 and 2022.

These contracts were previously classified as cash flow hedges (see note 2(h) to the consolidated financial statements), to which hedge accounting treatment was applied as we satisfied the hedging criteria identified in Section 3865, Hedges, of the Canadian Institute of Chartered Accountants ("CICA") Handbook. Accordingly, the unrealized loss on these contracts, aggregating $5.6 million as at January 1, 2007, the effective date of implementation of Section 3865, was recorded in Accumulated Other Comprehensive Loss ("AOCL"). In addition, the cumulative changes resulting from mark-to-market valuations during the period January 2, 2007 to September 30, 2008, aggregating $4.3 million, have been reflected in Other Comprehensive Loss ("OCL") and AOCL and the corresponding liability set up.

Due to the continuing constraints in the availability and significantly higher spreads for long-term mortgage financing, combined with the changed global economic circumstances and weakness in current credit markets, CAP REIT does not contemplate completing the anticipated refinancings for the same maturity terms and amortization periods as per the interest rate forward contracts. Accordingly, during the last quarter of 2008, management determined that the criteria for hedge accounting treatment was no longer satisfied and hedge accounting ceased on September 30, 2008, the last date for effectiveness testing.

In accordance with Section 3865, the unrealized loss resulting from mark-to-market valuation on these contracts, aggregating $17.6 million as at December 31, 2008, has been recognized in the consolidated statement of operations and comprehensive loss. The corresponding liability for the cumulative changes resulting from mark-to-market valuations, aggregating $27.5 million, has been set up in accounts payable and other liabilities. It is management's intention to terminate these contracts on or before their maturity dates in 2009.

CAP REIT monitors its exposure regarding these obligations with counterparties (mainly Canadian chartered banks) through the regular assessment of counterparties' credit positions.

Future Income Taxes

CAP REIT uses the liability method of accounting for future income taxes. The provision for future income taxes, aggregating $63.2 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, which are expected to reverse on or after January 1, 2011. The change in the future income tax liability has been recorded as a provision to the consolidated statement of operations and comprehensive loss in the amount of $9.1 million for the year ended December 31, 2008 (2007 – $51.8 million) and to Other Comprehensive Loss for $2.3 million (2007 – $nil) relating to the unrealized loss on derivative financial instruments. Future income taxes are measured at the tax rates expected to apply in the future when temporary differences reverse. (Also see Taxation of Income Trusts and note 9 to the consolidated financial statements.)

Gain on Sale of Assets

One of CAP REIT's key performance objectives is to maximize the earnings and cash flow potential from its operating properties and from time to time dispose of non-core properties. During the first quarter of 2008, CAP REIT completed the sales of 12 non-core properties, resulting in a gain on sale of approximately $17.0 million ($0.261 per Unit). Management believes the gain demonstrates its success in enhancing the value of its properties, primarily through its active property management and capital investment programs, thereby facilitating the continued realization and reinvestment of its capital to implement its growth strategy.

OTHER COMPREHENSIVE LOSS

Included in Other Comprehensive Loss are the following:

i) *Unrealized loss on derivative financial instruments:* as stated earlier, it is management's intention to terminate the interest rate forward contracts previously classified as cash flow hedges (see Unrealized Loss on Derivative Financial Instruments). The unrealized loss of $4.3 million on these contracts resulting from mark-to-market valuations for the period January 2, 2007 to September 30, 2008 (the date hedge accounting ceased) has been recognized in OCL. The unrealized loss on these contracts, aggregating $5.6 million as at January 1, 2007, the effective date of implementation of Section 3865, was recorded in AOCL. The cumulative loss on these contracts, aggregating $9.9 million (before provision for taxes), will be amortized to the statement of operations and comprehensive loss in the same periods to which the hedge items affect earnings.

ii) *Unrealized loss on interest rate swap agreements:* this represents the cumulative mark-to-market loss on an interest rate swap agreement entered into in July 2007, which effectively converts borrowings on a BA-based floating rate credit facility to a five-year fixed rate facility for $55 million for a five-year term. The difference between the effective all-in fixed interest rate and corresponding three-month BA rate is adjusted to interest expense every quarter. This interest rate swap agreement has been assessed as an effective hedge as per Section 3865, Hedges. The cumulative mark-to-market loss will reverse over the remaining term of the interest rate swap agreement.

iii) *Change in fair value of investments:* this represents the cumulative mark-to-market loss for the year on investments accounted for as available-for-sale (see note 2(g) to the consolidated financial statements).

Section 3

CAPITAL INVESTMENTS

During 2008, CAP REIT acquired 1,391 residential suites and 20 land lease sites for total acquisition costs of approximately $119.8 million and sold 1,630 residential suites for total sales price of $127.7 million.

In addition, 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.

In accordance with GAAP, CAP REIT capitalizes all capital expenditures related to the acquisition and improvement of its properties. During 2008, CAP REIT incurred capital expenditures of $50.0 million compared to $44.2 million for 2007. Capital expenditures were higher in the current year compared to the prior year due to

investments in new energy savings initiatives and acceleration of building improvement programs, partially offset by lower suite improvement costs.

A breakdown of capital expenditures (excluding head office assets, assets held-for-sale, land lease sites, tenant improvements and signage) is summarized by category below:

Capital Investments by Category

($ Thousands)

As at December 31,	2008	%	2007	%
Building Improvements	$ **19,615**	**39.3**	$ 12,636	28.6
Boilers and Elevators	**3,523**	**7.1**	3,556	8.0
Appliances	**1,010**	**2.0**	1,338	3.0
Common Area	**5,123**	**10.2**	6,959	15.8
Equipment	**3,455**	**6.9**	3,345	7.6
Energy-Saving Initiatives	**4,081**	**8.2**	–	–
Suite Improvements	**12,786**	**25.6**	15,397	34.8
Other	**375**	**0.7**	957	2.2
Total	$ **49,968**	**100.0**	$ 44,188	100.0

PRODUCTIVE CAPACITY

CAP REIT has two types of capital expenditures: *maintenance capital expenditures*, and *stabilizing and value-enhancing capital expenditures*. The primary focus in a discussion on capital expenditures is to differentiate between those costs incurred to maintain the existing cash flows from the properties versus costs incurred to achieve CAP REIT'S longer term goals to produce enhanced cash flows and Unit distributions.

Maintenance capital expenditures vary with market conditions and are partially related to suite turnover. These expenditures are funded from operating cash flows and, as such, are deducted from FFO in order to estimate a sustainable amount of AFFO that can be distributed to Unitholders. Based on historical experience, CAP REIT estimates its annual overall maintenance capital expenditures at $450 per residential suite (range of approximately $400 **to** $500 per residential suite), which maintain the earning capacity of its portfolio. These maintenance capital expenditures are in addition to normal repairs and maintenance expenditures, which are in the range of $700 **to** $800 per residential suite and which are expensed to NOI.

Stabilizing 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 past 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 are funded over a period of several years from CAP REIT's credit facilities, 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,				2008				2007
		Total		Per Suite[1]		Total		Per Suite[1]
Maintenance capital expenditures	$	11,700	$	450	$	11,210	$	450
Stabilizing and value-enhancing capital expenditures		38,268		1,472		32,978		1,324
Total[2]	$	49,968	$	1,922	$	44,188	$	1,774

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

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

Going forward, management believes there will be increased emphasis on capital reinvestment programs for its existing property portfolio. Management believes the capital investment plan in 2009 for its existing portfolio will be in the range of $75 to $80 million, as significant benefits will be realized by targeted capital investments focused on the following key areas:

i) Increased focus on environmentally-friendly energy-saving initiatives, including high-efficiency boilers that will reduce greenhouse gas emissions and be in a position to benefit from future carbon credit programs, individual suite metering, energy-efficient lighting systems, water savings and garbage recycling programs, all of which will improve overall portfolio NOI. Management's goal is to increase capital expenditure on this category from approximately $4.1 million in 2008 to a range of $10 to $12 million in 2009 in order to be in a position to realize significant NOI benefits in the future.

ii) Accelerated building improvement programs to reposition the portfolio and complete value-enhancing capital expenditures identified at the time of acquisition, including upgraded parking garages, balconies and sidewalks, combined with continued emphasis on improving life safety and resident service. In addition, these programs will help maintain CAP REIT's high occupancy levels and help achieve its objective to be recognized as the Landlord of Choice in all its chosen markets. Keeping in mind the soft economic conditions and availability of competitive pricing from construction trades, management's goal is to increase spending on building infrastructure improvements from $19.6 million in 2008 to a range of $45 to $55 million in 2009. As the age of the property portfolio is between 30 and 50 years, this reinvestment in the portfolio will improve its long-term cash flow-generating potential and increase its useful life over the long term.

iii) Reduced emphasis on suite improvements programs. This program over the past five years has primarily achieved CAP REIT's goal to reinvest and improve suite interiors (as compared to providing tenant incentives) in soft rental markets.

iv) Continued emphasis on common area improvements to maintain our high occupancy goals.

Management believes it is well positioned to have continued access to financing to be in a position to implement the above capital investment strategy so as to enhance our productive capacity over the long term.

CAPITAL STRUCTURE

CAP REIT defines capital as the aggregate of Unitholders' equity and debt. CAP REIT's objectives when managing capital are to safeguard its ability to continue to fund its distributions to Unitholders, to meet its repayment obligations under its mortgages and credit facilities, and to ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in CAP REIT's Declaration of Trust ("DOT") and Credit Agreement.

CAP REIT's DOT permits the maximum amount of total debt to 70% of the gross book value ("GBV") of CAP REIT's total assets. GBV is defined as the historical book value of CAP REIT's assets plus accumulated depreciation and amortization, and does not include any fair value adjustments to reflect the significant appreciation in value of the portfolio. In addition, the DOT provides for investment restrictions on type and maximum limits on single property investments.

CAP REIT's Credit Agreement requires compliance with the following financial covenants:

i) Maintain an interest coverage ratio of 1.50 times and a debt coverage ratio of 1.20 times, calculated on a rolling four-quarter basis. Interest coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by interest expense. Debt coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by principal and interest payments.

ii) Maintain tangible net worth of not less than $500 million. Tangible net worth is generally represented by Unitholders' equity and is defined as the sum of i) Units issued, ii) contributed surplus and iii) retained earnings after adding back provision for future income taxes payable to a maximum limit of $100 million.

iii) Ensure borrowings do not exceed borrowing base, calculated at a predefined percentage to the market value of the properties.

CAP REIT is in compliance with all its investment and debt restrictions and financial covenants. The total capital managed by CAP REIT and the results of our compliance with the key covenants are summarized below:

Year Ended December 31,	2008	2007
Mortgages payable	$ 1,472,822	$ 1,395,321
Bank indebtedness	121,029	103,066
Unitholders' Equity	485,933	584,281
Total Capital	$ 2,079,784	$ 2,082,668
Total Debt to Gross Book Value (%)	61.82	61.55

For the four quarters ended December 31,	2008	2007
Interest coverage ratio (times)	2.06	1.94
Debt coverage ratio (times)	1.30	1.26

Year Ended December 31,	2008	2007
Tangible Net Worth	$ 549,154	$ 636,070

LIQUIDITY AND FINANCIAL CONDITION

Liquidity and Capital Resources

Management ensures there is adequate overall liquidity by maintaining sufficient amounts of cash and available credit facilities to fund maintenance commitments, distributions to Unitholders, and 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. Management's view of CAP REIT's liquidity position going forward is that it continues to be stable based on our evaluation of capital resources as summarized below:

i) CAP REIT's operating business conditions continue to be stable and it 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 on-going maintenance capital expenditures. For the year ended December 31, 2008, CAP REIT's effective payout ratios for DI and AFFO to net distributions paid (see discussion in Non-GAAP Performance Measurements section) were 72.9% and 86.7%, respectively, compared to 74.1% and 88.7% last year.

ii) Notwithstanding the general deterioration in credit markets, management believes that because of the continuing availability of insured financing through CMHC, CAP REIT is well positioned to meet its mortgage renewals and refinancing goals in 2009. Management does not anticipate any material difficulties in renewing approximately $202.1 million of maturing mortgages, having an effective interest rate of approximately 5.27%, with new fixed rate mortgages. In addition, management anticipates being in a position to implement its refinancing plan to raise additional CMHC-insured financing in the range of $100 million as in previous years by topping up its existing mortgages.

iii) The excess borrowing capacity under its Credit Agreement as at December 31, 2008 was $94.5 million and management does not anticipate any material difficulties in renewing this agreement.

The contractual maturities and repayment obligations of CAP REIT's financial liabilities as at December 31, 2008 are as follows:

($ Thousands)	2009	2010 – 2011	2012 – 2013	2014 onward
Mortgages payable	$ 246,752	$ 421,063	$ 391,260	$ 417,709
Bank indebtedness	47,522	73,507	–	–
Mortgage interest payable	68,138	106,826	62,120	81,948
Bank indebtedness interest payable	2,958	3,299	–	–
Accounts payable and accrued liabilities	75,019	–	–	–
Security deposits	18,852	–	–	–
Distributions payable	6,084	–	–	–
	$ 465,325	$ 604,695	$ 453,380	$ 499,657

Mortgages Payable

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

The key liquidity metrics are summarized as follows:

As at December 31,	2008	2007
Mortgage Debt to Gross Book Value (%)	**57.12**	57.48
Total Debt to Gross Book Value (%)	**61.82**	61.55
Total Debt to Total Capitalization (%)	**59.96**	59.19
Debt Coverage Ratio (times)	**1.30**	1.26
Interest Coverage Ratio (times)	**2.06**	1.94
Weighted Average Mortgage Interest Rate (%)(1)	**5.30**	5.37
Weighted Average Mortgage Term to Maturity (years)	**5.0**	5.5

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

At December 31, 2008, the overall leverage represented by the ratio of total debt to gross book value (not including any fair value adjustments related to the appreciation in the value of CAP REIT's portfolio) increased slightly to 61.82% compared to 61.55% at December 31, 2007. The maximum ratio allowable under CAP REIT's Declaration of Trust is 70%. Management believes that, based on the fair market value of CAP REIT's portfolio, the leverage would be substantially lower. With a total market capitalization of approximately $1.1 billion as at December 31, 2008, CAP REIT's total debt is approximately 59.96% of total market capitalization compared to 59.19% last year. In addition, CAP REIT's coverage ratios, represented by debt and interest coverage tests, have continued to gradually improve during 2008, demonstrating the success of management's prudent operating and financing strategies.

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

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

At December 31, 2008, 95.0% (2007 – 94.5%) of CAP REIT's mortgage portfolio is CMHC-insured (excluding the land lease portfolio).

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

($ Thousands)

As at December 31,	2008	2007
Balance, Beginning of Year	$ 1,455,181	$ 1,275,211
Add:		
New Borrowings	44,557	155,495
Assumed	31,249	–
Refinanced	86,010	99,081
Less:		
Mortgage Repayments	(46,139)	(43,139)
Mortgages Repaid on Disposals	(59,830)	–
Mortgages Matured	(38,108)	(25,698)
Deferred Financing Costs and Fair Value Adjustments, net	(98)	(5,769)
Balance, End of Year	$ 1,472,822	$ 1,455,181
Represented By:		
Mortgages Payable – Continuing Operations	$ 1,472,822	$ 1,395,321
– Held-for-sale	$ –	$ 59,860

During 2008, total financings of $161.8 million were completed, including $44.6 million for the new acquisitions, at an average effective interest rate of 4.76%. Existing mortgages aggregating approximately $86.0 million were also refinanced at interest rates below the portfolio weighted average interest rate.

Subsequent to December 31, 2008, renewals and refinancings of approximately $200 million are in various stages of completion and are expected to be finalized before the end of the second quarter of 2009. Despite tightening credit markets, CAP REIT anticipates completing its refinancing program for additional financing of approximately $100 million in 2009, in line with previous years.

During 2005, CAP REIT entered into interest rate forward contracts aggregating $145.7 million to hedge its exposure to the potential rise in interest rates for refinancings of mortgages maturing in 2009. These contracts assumed mortgage renewals would match the terms of the interest rate forward contracts, ranging from 5.5 to 13 years, and extended the terms for specific mortgages to between 2014 and 2022.

Due to the continuing constraints in the availability of and significantly higher spreads for long-term mortgage financing, combined with the changed global economic circumstances and weakness in current credit markets, CAP REIT does not contemplate completing the anticipated refinancings for the same maturity terms and amortization periods as per the interest rate forward contracts (see note 16 to the consolidated financial statements and discussion regarding Unrealized Loss on Derivative Financial Instruments). As discussed above, it is management's intention to terminate these contracts on or before their maturity dates in 2009.

The breakdown of future principal repayments, including mortgage maturities and weighted average interest rates as at December 31, 2008, is as follows:

($ Thousands, except where noted)

Year	Principal Repayments	Mortgage Maturities	Total Debt	% of Total Debt	Weighted Average Interest Rate %[1]
2009	$ 44,701	$ 202,051	$ 246,752	16.7	5.27
2010	40,767	143,248	184,015	12.5	5.00
2011	34,163	202,885	237,048	16.0	5.28
2012	29,589	206,074	235,663	16.0	5.29
2013	25,158	130,439	155,597	10.5	5.22
2014	20,772	79,176	99,948	6.8	5.44
2015	17,977	25,946	43,923	3.0	5.02
2016	15,460	22,026	37,486	2.5	6.35
2017	11,911	80,920	92,831	6.3	4.66
2018	11,477	2,764	14,241	1.0	5.33
2019 – 2023	38,773	67,946	106,719	7.2	5.82
2024 onwards	8,307	14,254	22,561	1.5	5.67
	$ 299,055	$ 1,177,729	$ 1,476,784	100.0	5.30[2]
Deferred financing costs and fair value adjustments			(3,962)		
			$ 1,472,822		

(1) Rates for maturing mortgages only.

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

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 2009, total debt repayments (including maturing mortgages) will be approximately 16.7% of the total mortgage portfolio.

As a result of continuing access to CMHC-insured mortgage financing, CAP REIT is well positioned to implement its mortgage renewal and refinancing plan for 2009 (see discussion in the Liquidity and Capital Resources section). Due to the continuing constraints in both the availability of significantly higher spreads for long-term mortgage financing, management plans to focus its efforts primarily towards five-year shorter-term mortgages. This strategy will enable us to take advantage of the current low interest rate environment and further reduce our overall weighted average portfolio interest rate, while ensuring that the portfolio weighted average mortgage term continues to remain in the range of five years and the mortgage maturities remain well staggered.

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.

As at December 31, 2008, CAP REIT's overall portfolio weighted average interest rate and term to maturity were 5.30% and 5.0 years, respectively, compared to 5.37% and 5.5 years last year.

Bank Indebtedness and Credit Facilities

Bank indebtedness includes borrowings on CAP REIT's Acquisition and Operating Facilities and CAPLP's Land Lease Facility. On April 1, 2008, CAP REIT transferred the beneficial interest in all of its properties along with related debt obligations to CAPLP. The Acquisition and Operating Facilities and the Land Lease Facility were restructured into one Credit Agreement. On June 30, 2008, the Credit Agreement was renewed as described in note 8 to the consolidated financial statements. As at December 31, 2008, $73.5 million was outstanding on the Acquisition Facility and $43.4 million on the Operating Facility. The excess borrowing capacity on the Acquisition and Operating Facilities as at December 31, 2008 was $94.5 million. During 2008, $63.0 million was repaid on the Acquisition Facility from non-core property dispositions. The Land Lease Facility for $10 million was established by CAPLP to fund operating, development and acquisition costs for the Bowmanville and Grand Bend land lease properties. As at December 31, 2008, $4.1 million was outstanding on this Facility. On maturity (see note 8 to the consolidated financial statements), management does not anticipate any material difficulties in renewing these credit facilities.

Unitholders' Equity

During 2008, CAP REIT implemented the Deferred Unit Plan ("DUP") for the benefit of the non-executive trustees as approved by the Unitholders on May 21, 2008. This plan gives the non-executive trustees the right to receive a percentage of their annual retainers in the form of deferred Units (see note 12(i) to the consolidated financial statements). For 2008, total compensation costs of $0.5 million (2007 – $nil) were expensed in relation to awards under the DUP.

On November 7, 2007, CAP REIT issued 5,350,000 Units at $18.65 on a bought-deal basis for aggregate gross proceeds of approximately $99.8 million. The net proceeds of approximately $95.0 million were used to repay borrowings on the Acquisition and Operating Facilities.

On July 10, 2007, CAPLP acquired two land lease properties 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 per Unit 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.

Since its Initial Public Offering in May 1997, the total market value of CAP REIT's equity as at December 31, 2008 has risen to $1.1 billion. The total Units outstanding of CAP REIT as at December 31, 2008 were 67,632,402, of which trustees, officers and executives owned approximately 5.5%.

Normal Course Issuer Bid

On June 20, 2008, CAP REIT announced that the TSX had approved its normal course issuer bid ("NCIB") to acquire up to 6,309,967 Units, representing 10% of the public float, at market prices over the 12-month period ending June 24, 2009. Purchases will be made at market prices through the facilities of the TSX. Any tendered Units taken up and paid for by CAP REIT will be cancelled. CAP REIT believes 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 at December 31, 2008, 250,600 Units had been acquired under this NCIB at market prices aggregating $3.7 million.

For the year ended December 31, 2008, CAP REIT acquired a total of 684,300 Units under its NCIBs for cancellation at market prices aggregating $10.1 million.

UNITHOLDER TAXATION

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

	2008	2007
Taxable to Unitholders as Other Income	**26.05%**	10.21%
Taxable to Unitholders as Capital Gain Income	**35.71%**	–
Tax Deferral	**38.24%**	89.79%
Total	**100.00%**	100.00%
Total Effective Non-taxable Portion of Distributions	**56.10%**	89.79%

Section 4

NON-GAAP PERFORMANCE MEASUREMENTS

In addition to GAAP measures (net income and cash flow from operating activities), management uses supplemental non-GAAP performance measurements as summarized below in order to assess its operating performance and capability of maintaining sustainable distributions in the future.

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.

Pursuant to guidance provided in National Policy 41-201, summarized below is a reconciliation of cash provided by operating activities as presented in the consolidated financial statements to DI.

($ Thousands, except per Unit amounts)

Year Ended December 31,		2008		2007
Cash Provided By Operating Activities	$	**86,053**	$	71,541
Adjustments:				
Changes in Non-Cash Operating Assets and Liabilities		**(3,722)**		2,694
Fair Value Adjustment of Utility Contracts		**(36)**		196
Reorganization Costs[2]		**1,599**		–
Amortization of Other Financing Costs		**(1,334)**		(1,228)
Amortization of Leasehold Improvements		**(79)**		(74)
DI[1]	$	**82,481**	$	73,129
Retention of DI		**(9,727)**		(6,327)
Distributions Declared to Unitholders	$	**72,754**	$	66,802
DI Per Unit – Basic[1]	$	**1.261**	$	1.211
DI Retention Per Unit		**0.181**		0.131
Distributions Declared to Unitholders Per Unit	$	**1.080**	$	1.080
DI Per Unit – Diluted[1]	$	**1.257**	$	1.203

(1) 2008 excludes gain on disposal of properties of $17,046 or $0.261 per Unit.

(2) See Reorganization Costs on page 20.

Management relies on cash flow information, including budgets, to establish the level of cash distributions to Unitholders, which are paid monthly. DI and DI per Unit for 2008 increased by 12.8% and 4.1%, respectively, over 2007 primarily due to acquisitions and higher overall occupancies and average monthly rents, partially offset by a marginal increase in operating costs.

Distributions to Unitholders and Payout Ratio

($ Thousands, except where noted)

Year Ended December 31,		2008		2007
Distributions Declared	$	**72,754**	$	66,802
Distributions Declared Per Unit	$	**1.080**	$	1.080
DI	$	**82,481**	$	73,129
Payout Ratio[1]		**88.2%**		91.3%

(1) Distributions declared over DI.

The payout ratio of DI to distributions declared for the year ended December 31, 2008 improved to 88.2% from 91.3% in the previous year.

DRIP Investment and Effective Payout Ratio

($ Thousands, except where noted)

Year Ended December 31,	2008	2007
Distributions Declared	$ 72,754	$ 66,802
Less:		
Distributions Reinvested[1]	$ 12,647	$ 12,633
Net Distributions Paid[2]	$ 60,107	$ 54,169
% Reinvested	17.4%	18.9%
Effective Payout Ratio[3]	72.9%	74.1%

(1) Cash reinvested by Unitholders through the DRIP.

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

(3) Net Distributions Paid over DI.

Average DRIP participation in 2008 was 17.9% compared to 19.2% for 2007.

The effective payout ratio, which compares net distributions paid to DI for 2008, improved to 72.9% from 74.1% in the previous year.

Comparison of Distributions Declared to Cash Flows Provided By Operations and Net Loss

A comparison of distributions declared to Unitholders with cash flows provided by operating activities and net loss is as follows:

($ Thousands)

Year Ended December 31,	2008	2007
Cash Flows Provided By Operating Activities	$ 86,053	$ 71,541
Net Loss	$ (3,477)	$ (50,196)
Distributions Declared	$ 72,754	$ 66,802
Excess Between Cash Flows Provided By Operating Activities and Distributions Declared (i)	$ 13,299	$ 4,739
Shortfall Between Net Loss and Distributions Declared (ii)	$ (76,231)	$ (116,998)

i) Difference between cash flows provided by operating activities and 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 include non-cash operating assets and liabilities such as prepaid expenses and accounts payable and other liabilities) are not used to establish the level of Unitholders' distributions because fluctuations in the timing of payments for utility expenses and realty taxes is 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 flows provided by operating activities are the primary source of liquidity to fund CAP REIT's interest expense, trust expense and distributions to Unitholders. For the year ended December 31, 2008, cash flows provided by operating activities exceeded distributions declared and were significantly higher than the previous year primarily due to new acquisitions.

ii) Difference between net loss and distributions declared

Management does not use net loss calculated in accordance with GAAP as the basis for establishing the level of Unitholders' distributions, as net loss includes, among other items, non-cash expenses for depreciation and amortization related to income properties and sundry assets and provision for future income taxes. Management believes 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, CAP REIT's 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.

Funds From Operations and Normalized Funds From Operations

Funds From Operations ("FFO") is a measure of operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. FFO 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.

FFO as defined by REALpac differs from DI as defined in the DOT in that FFO includes adjustments for the compensation costs relating to all incentive compensation plans and straight-line rent.

A reconciliation of net loss to FFO is as follows:

($ Thousands, except per Unit amounts)

Year Ended December 31,		**2008**		2007
Net Loss	$	**(3,477)**	$	(50,196)
Add:				
Provision for Future Income Taxes		**9,134**		51,789
Reorganization Costs[1]		**1,599**		–
Depreciation		**72,007**		69,133
Amortization of Tenant Improvements		**287**		226
Amortization of Intangibles		**862**		1,343
Less:				
Gain on Sale of Assets		**(17,046)**		–
FFO	$	**63,366**	$	72,295
FFO – Continuing Operations	$	**63,257**	$	68,754
FFO – Discontinued Operations	$	**109**	$	3,541
FFO Per Unit – Basic	$	**0.969**	$	1.197
FFO Per Unit – Diluted	$	**0.966**	$	1.190

(1) See Reorganization Costs on page 20.

Normalized Funds From Operations ("NFFO") is a non-GAAP measure and should not be construed as an alternative to net loss or cash flow from operating activities as determined by GAAP. In addition, it may not be comparable to similar measures presented by other trusts or companies. CAP REIT calculates NFFO by excluding from FFO the effect of the decline in fair value of hedging instruments which were originally put in place for interest rate protection (see note 16 to the consolidated financial statements and discussion regarding Unrealized Loss on Derivative Financial Instruments section) in order to facilitate better comparability to prior year. Management considers NFFO to be an important measure of CAP REIT's operating performance.

A reconciliation of FFO to NFFO is as follows:

($ Thousands, except per Unit amounts)

Year Ended December 31,	2008	2007
FFO	$ **63,366**	$ 72,295
Add:		
Unrealized Loss on Derivative Financial Instruments	**17,627**	–
NFFO	$ **80,993**	$ 72,295
NFFO – Continuing Operations	$ **80,884**	$ 68,754
NFFO – Discontinued Operations	$ **109**	$ 3,541
NFFO per Unit – Basic	$ **1.238**	$ 1.197
NFFO per Unit – Diluted	$ **1.234**	$ 1.190

NFFO for the year ended December 31, 2008 increased by 12.03% compared to last year primarily due to acquisitions completed during the past 12 months, enhanced overall occupancies, higher average monthly rents resulting from management's sales and marketing programs and the contribution from the land lease communities. NFFO per Unit also increased 3.42% in 2008 to $1.238 per Unit from $1.197 per Unit last year.

Comparing distributions declared to NFFO, the NFFO payout ratio improved to 89.8% for 2008 compared to 92.4% last year. The effective NFFO payout ratio, which compares NFFO to net cash distributions paid to Unitholders (excluding from distributions declared cash reinvestments through the DRIP) was 74.2% for the year ended December 31, 2008, compared to 74.9% last year.

Adjusted Funds From Operations

Adjusted Funds From Operations ("AFFO") is a non-GAAP measure and should not be construed as an alternative to net loss or cash flow from operating activities as determined by GAAP. In addition, it may not be comparable to similar measures presented by other trusts or companies. AFFO is an important performance measure to determine the sustainability of future distributions paid to Unitholders after provision for maintenance capital expenditures. CAP REIT calculates AFFO by deducting from NFFO the industry provision for maintenance capital expenditure (see discussion earlier in the Productive Capacity section). In order to determine the AFFO payout ratio, CAP REIT compares AFFO to net cash distributions paid to Unitholders (excluding from distributions declared cash reinvestments through the DRIP).

A reconciliation of NFFO to AFFO is as follows:

($ Thousands, except where noted)

Year Ended December 31,	**2008**	2007
NFFO	$ **80,993**	$ 72,295
Less:		
Maintenance Capital Expenditure Provision	**11,700**	11,210
AFFO	$ **69,293**	$ 61,085
AFFO per Unit – Basic	$ **1.059**	$ 1.012
AFFO per Unit – Diluted	$ **1.056**	$ 1.005
Net Distributions Paid	$ **60,107**	$ 54,169
AFFO Payout Ratio	**86.7%**	88.7%

Section 5

QUARTERLY RESULTS

($ Thousands, except per Unit amounts)

	Q4 08	Q3 08	Q2 08	Q1 08	Q4 07	Q3 07[1]	Q2 07[1]	Q1 07[1]
Operating Revenues	**$ 82,616**	**$ 80,721**	**$ 78,977**	**$ 78,104**	$ 77,900	$ 74,223	$ 71,495	$ 70,360
NOI	**$ 43,567**	**$ 46,364**	**$ 44,581**	**$ 38,421**	$ 40,989	$ 42,075	$ 39,688	$ 32,823
(Loss) Income from Continuing Operations	**$ (26,221)**	**$ 4,994**	**$ 3,446**	**$ (2,851)**	$ 8,205	$ (1,000)	$ (54,528)	$ (3,935)
Net (Loss) Income	**$ (26,221)**	**$ 4,994**	**$ 3,387**	**$ 14,363**	$ 9,130	$ 3,640	$ (58,924)	$ (4,042)
DI	**$ 19,552**	**$ 23,730**	**$ 22,582**	**$ 16,617**	$ 18,972	$ 21,297	$ 19,898	$ 12,962
FFO	**$ 1,573**	**$ 23,469**	**$ 22,164**	**$ 16,160**	$ 18,990	$ 20,800	$ 19,964	$ 12,541
NFFO	**$ 19,200**	**$ 23,469**	**$ 22,164**	**$ 16,160**	$ 18,990	$ 20,800	$ 19,964	$ 12,541
Income (Loss) from Continuing Operations Per Unit								
– Basic	**$ (0.400)**	**$ 0.076**	**$ 0.053**	**$ (0.044)**	$ 0.130	$ (0.017)	$ (0.919)	$ (0.066)
– Diluted	**$ (0.400)**	**$ 0.076**	**$ 0.053**	**$ (0.044)**	$ 0.129	$ (0.017)	$ (0.919)	$ (0.066)
Net (Loss) Income Per Unit								
– Basic	**$ (0.400)**	**$ 0.076**	**$ 0.052**	**$ 0.220**	$ 0.145	$ 0.061	$ (0.993)	$ (0.068)
– Diluted	**$ (0.400)**	**$ 0.076**	**$ 0.052**	**$ 0.220**	$ 0.144	$ 0.060	$ (0.993)	$ (0.068)
DI Per Unit								
– Basic	**$ 0.298**	**$ 0.362**	**$ 0.346**	**$ 0.255**	$ 0.300	$ 0.356	$ 0.335	$ 0.219
FFO Per Unit								
– Basic	**$ 0.024**	**$ 0.358**	**$ 0.339**	**$ 0.248**	$ 0.301	$ 0.348	$ 0.336	$ 0.212
NFFO Per Unit								
– Basic	**$ 0.293**	**$ 0.358**	**$ 0.339**	**$ 0.248**	$ 0.301	$ 0.348	$ 0.336	$ 0.212
Weighted Average Units (000s)								
– Basic	**65,572**	**65,496**	**65,334**	**65,243**	63,174	59,799	59,353	59,183
Weighted Average Units (000s)								
– Diluted	**65,643**	**65,795**	**65,648**	**65,381**	63,461	60,188	59,784	59,599

(1) Reclassified for discontinued operations.

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

Results in the first and second quarters of 2007 were negatively impacted due to the rollout of the lease administration system, which resulted in higher payroll and site operating expenses during the stabilization period. Results in the fourth quarter of 2008 were impacted by an increase in Trust expenses resulting from non-recurring legal and consulting costs of approximately $0.5 million or $0.01 per Unit and higher compensation costs related to CAP REIT's Incentive Plans of $1.6 million compared to $0.9 million in the fourth quarter of the previous year.

Per Unit amounts in 2008 were affected by an increase in the weighted average number of Units due to an equity offering completed on November 7, 2007.

Fundamentals in the residential rental industry gradually began to improve through 2007 and into 2008. However, the resulting increases in occupancies and average monthly rents were partially offset by increased operating costs, increased payroll, rental incentives and advertising costs targeted at specific properties to enhance their performance.

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

Section 6

SELECTED FINANCIAL INFORMATION

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

($ Thousands, except per Unit amounts)

Year Ended December 31,	**2008**	2007	2006
Income Statement Data			
Operating Revenues	**$ 320,418**	$ 293,978	$ 271,096
Net (Loss) Income From Continuing Operations	**$ (20,632)**	$ (51,258)	$ 579
Net (Loss) Income	**$ (3,477)**	$ (50,196)	$ 722
Net (Loss) Income per Unit – Basic	**$ (0.053)**	$ (0.831)	$ 0.013
Distributions			
Distributions declared	**$ 72,754**	$ 66,802	$ 62,228
Distributions per Unit	**$ 1.080**	$ 1.080	$ 1.080
Balance Sheet Data			
Income properties	**$ 2,192,945**	$ 2,093,312	$ 1,877,144
Total assets	**$ 2,243,294**	$ 2,262,056	$ 2,022,840
Mortgages payable	**$ 1,472,822**	$ 1,395,321	$ 1,215,368
Bank indebtedness	**$ 121,029**	$ 103,066	$ 92,950

Section 7

ACCOUNTING POLICIES

Changes in Accounting Policies and New Accounting Standards
As required by The Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2008, CAP REIT adopted CICA Handbook 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 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.

Disclosures required as a result of adopting these sections can be found in notes 21 and 22 to the consolidated financial statements.

The CICA has issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards will be effective for CAP REIT's 2009 fiscal year. CAP REIT does not anticipate that the adoption of this standard, effective January 1, 2009, will significantly impact its financial results.

The CICA has also issued Section 1582, Business Combinations, which replaces Section 1581, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which together replace Section 1600. Under Section 1582, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of exchange. Furthermore, virtually all acquisition costs will be expensed which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value through earnings for each period until settled. Currently, only the contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill will be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from assets in the purchase price allocation. Sections 1601 and 1602 revise and enhance the standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. All three sections come into effect for financial periods beginning January 1, 2011 with prospective application.

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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011 (the "changeover date"). CAP REIT will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information.

In May 2008, the Canadian Securities Administrators issued Staff Notice 52-320, which provides guidance on the disclosure of changes in expected accounting policies related to the changeover to IFRS. In accordance with the notice, for purposes of the year ended December 31, 2008 CAP REIT is required to discuss the status of the key elements and timing of its changeover plan.

CAP REIT has initiated its changeover plan from Canadian GAAP to IFRS. It has established a project team to be led by its finance group, and will include representatives from other departments to plan, design and implement the changeover process. Progress reporting to CAP REIT's Board of Trustees began in the fourth quarter of 2008 on the status of IFRS implementation.

CAP REIT's changeover plan encompasses three primary phases:

i) *Scope/Diagnostic Phase* – a preliminary high-level diagnostic to identify key areas in which there may be significant differences between IFRS and Canadian GAAP for CAP REIT's financial statements. This phase also includes preliminary considerations with respect to processes, controls, systems and resources to facilitate the changeover process.

In the fourth quarter of 2008, CAP REIT finalized this phase, and identified certain standards that may have a significant financial statement impact, including *IAS 40, Investment Property; IAS 32, Financial Instruments: Presentation; IAS 39, Financial Instruments: Recognition and Measurement;* and *IFRS 1, First-Time Adoption of IFRS.* CAP REIT has also identified certain material agreements, which may be affected as a result of the changeover, such as the Declaration of Trust, mortgage and credit agreements, and employment agreements.

The diagnostic also identified a potential impact of IFRS changeover to information technology and data systems, IFRS staff training initiatives, and certain business and internal control processes.

ii) *Assessment/Design Phase* – outlines key changeover milestone dates, establishing internal training and external resource requirements, procedures and processes to accommodate the changeover, a review of material agreements of CAP REIT, a review of internal control requirements and an assignment of responsibility to various departments in the organization. A more detailed assessment of the impact of IFRS is to take place during this phase of the changeover plan. These assessments will result in recommendations on the implementation of the standards, taking into account implications to various segments of our business, including an assessment of the impact of changeover to the Key Performance Measurements of CAP REIT.

CAP REIT initiated this phase in the fourth quarter of 2008 and is working towards finalization of a comprehensive project plan in early 2009.

iii) *Implementation/Monitoring Phase* – involves implementation of the recommendations formulated during the assessment/design phase. This phase will monitor progress of the implementation of changes to business processes and information systems, finalization of recommended accounting policy changes and completion of training programs for staff. Completion of this phase will involve collection of all financial information necessary so as to work towards an effective and efficient transition to IFRS by the changeover date.

CAP REIT has not yet started this phase of its changeover plan.

As CAP REIT progresses through its changeover plan, the implementation of the plan may change due to changes to IFRS and changes from more detailed analysis during the assessment/design phase relative to the scope/diagnostic phase.

CAP REIT is not able to reasonably quantify the effects of IFRS to its financial statements at this time.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and the Chief Financial Officer, to allow timely decisions regarding required disclosure.

As at December 31, 2008, management evaluated, under the supervision of and with the participation of management, including the President and Chief Executive Officer and the Chief Financial Officer, the effectiveness of our disclosure controls and procedures as defined under National Instrument 52-109 – "Certification of Disclosure in Issuers' Annual and Interim Filings," the rules adopted by the Canadian Securities regulatory authorities. Based on that evaluation, using the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework, the President and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as at December 31, 2008.

Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. Management assessed the effectiveness of our internal controls over financial reporting as at December 31, 2008 and based on that assessment, determined that our internal controls over financial reporting were designed and operating effectively.

CAP REIT did not make any changes to the design of internal controls over financial reporting during the year ended December 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected.

The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurances that any design will succeed in achieving its stated goals under all potential conditions.

Section 8

RISKS AND UNCERTAINTIES

CAP REIT has been structured and operates in adherence to the stringent investment restrictions and operating policies 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.

Real Property Ownership

CAP REIT is committed to preserving the life safety of its residents and to ensuring its properties are well maintained. The multi-family rental business, like any other real estate enterprise, is capital intensive and is exposed to various risks associated with maintaining the infrastructure of its property portfolio.

For prudent management of its property portfolio, CAP REIT is required to make significant capital investments throughout the period of ownership of its properties in order to implement the above mandates, i.e, upgrade and maintain building structure, balconies, parking garages, electrical and mechanical improvements, etc., requiring continuous monitoring of its properties to ensure appropriate and timely capital repairs and replacements are carried out in accordance with its capital expenditure programs. In addition, CAP REIT is subject to financing risk as sufficient capital may not be available to carry out its planned capital expenditures and repair and refurbishment programs to upgrade its properties, or it may be exposed to operating business risks arising from structural failure, electrical or mechanical breakdowns, fire or water damage, etc., which may result in significant loss of earnings to CAP REIT.

All real property investments owned and operated by CAP REIT entail an inherent risk of liability. Management expects that from time to time CAP REIT will be subject to such lawsuits as a result of its business operations. It is CAP REIT's policy to protect against this risk by maintaining a comprehensive insurance program to cover general liabilities, i.e, fire, flood, rental loss, environmental insurance, etc., with policy specification limits and deductibles as deemed appropriate based on the nature of the risk of business, historical experience and industry standards. There can be no assurance that claims in excess of the insurance coverage or claims not covered by insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms.

On November 26, 2008, a tragic accident occurred at CAP REIT's property located at 135 Deguire Boulevard, St. Laurent, Quebec, resulting in one fatality. An investigation of the accident by the authorities is currently underway and CAP REIT is working closely with the authorities. The incident, while very unfortunate, is not expected to have a material impact on CAP REIT's financial results or operations. When the investigation is complete, CAP REIT will be in a position to provide further information on its findings.

Operating Risk

The major operating risk affecting financial performance arises from CAP REIT's ability to maintain stable or increasing average monthly rental rates combined with acceptable occupancy levels. Management has developed a focused program to build its brand as the 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.

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

Financing

CAP REIT is subject to risk associated with debt financing including the risk that CAP REIT may be unable to make interest or principal payments or meet loan covenants, the risk that defaults under a loan could result in cross-defaults or other lender rights or remedies under other loans, and, the risk that existing indebtedness may not be able to be refinanced or that the terms of such refinancing may not be as favourable as the terms of existing indebtedness. CAP REIT currently has access to the government-backed mortgage insurance program through the *National Housing Act,* which is administered by CMHC, and seeks to minimize its interest rate risk by ensuring the maturity dates of its mortgage portfolio are staggered over a number of years. However, there can be no guarantee that the provisions of the mortgage insurance program may not be changed in the future so as to make the cost of obtaining mortgage insurance prohibitive or of not being able to access the insurance program in the future. In addition, CAP REIT's Acquisition and Operating Facilities are at floating interest rates and, accordingly, changes in short-term borrowing rates will affect CAP REIT's cost of borrowing.

In addition, the general deterioration in global economic conditions has resulted in a liquidity and credit crisis, which may inhibit CAP REIT's access to long-term equity financing in the Canadian capital market. As a result of the recent credit crunch, it is possible that financing which CAP REIT may require in order to grow and expand its operations, upon the expiry of the term of financing, on refinancing any particular property owned by CAP REIT or otherwise, may not be available or, if it is available, may not be available on favourable terms. To protect Unitholders against these risks, management is focused on ensuring that sufficient mortgage debt capacity and credit facilities are available to carry on its business (see Liquidity and Capital Resources).

Government Regulations

Multi-family rental properties are subject to rent control legislation in most provinces in Canada. Such legislation in various degrees imposes restrictions upon the ability of a landlord to increase rents above an annually prescribed guideline or requires the landlord to give tenants sufficient notice prior to an increase in rent or restricts the frequency of rent increases permitted during the year. The annual rent increase guidelines as per the legislation attempt to link the annual rent increases to some measure of change in the cost of living index over the previous year. Such legislation also, in most cases, provides for a mechanism to ensure rents can be increased above the guideline increases for extraordinary costs. As a result, CAP REIT may in the future incur capital expenditures which will not be fully recoverable from the residents. The applicable legislation may be further amended in a manner which may adversely affect the ability of CAP REIT to maintain the historical level of cash flow from its properties. In addition, legislation provides for compliance with several regulatory matters involving tenant evictions, work orders, health and safety issues, fire and maintenance standards, etc.

CAP REIT is subject to a wide variety of laws and regulations across all jurisdictions and faces risks associated with legal and regulatory changes and litigation. CAP REIT retains external legal consultants to assist in remaining in compliance with legal and regulatory changes and maintain its ability to respond to litigation.

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 modified the tax treatment of certain publicly traded trusts and partnerships that are specified as 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 dividends 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 common with a number of other REITS, CAP REIT did not meet the technical REIT Exception as at October 31, 2006, June 12, 2007 or December 31, 2008 and accordingly, future income taxes in the amount of $63.2 million have been recorded as at December 31, 2008 based on the temporary differences that are expected to reverse on or after January 1, 2011. The change in the future income tax liability has been recorded as a provision in the consolidated statement of operations and comprehensive loss in the amount of $9.1 million for the year ended December 31, 2008 (2007 – $51.8 million) and to other comprehensive loss for $2.3 million. 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 statement of operations and comprehensive income (loss) at that time. Management is of the opinion that the nature of the items, which causes CAP REIT to be unable 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, 2008. (See also Future Income Taxes and note 9 to the consolidated financial statements.)

Environmental Matters

Under various laws, CAP REIT could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect an owner's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially also result in claims against the owner by private plaintiffs. It is CAP REIT's operating policy to obtain a Phase I environmental assessment, conducted by an independent and experienced environmental consultant, prior to acquiring a property. Phase I environmental assessments have been performed in respect of each of the properties. Where Phase I environmental assessments warrant further assessment, it is CAP REIT's operating policy to obtain Phase II or Phase III environmental assessments. Wherever required by environmental regulations, CAP REIT also carries out assessments to determine the presence of asbestos containing material (ACM) and underground storage tanks (UST) to ensure compliance with appropriate provincial legislation. CAP REIT maintains environmental liability insurance to protect Unitholders against such risks. Notwithstanding the above, CAP REIT is not aware of any environmental condition with respect to any of the properties that it believes would have a material adverse effect on CAP REIT.

Competition

The real estate business is competitive. Numerous other developers, managers and owners of properties compete with CAP REIT in seeking residents. The existence of competing developers, managers and owners and competition for CAP REIT's residents could have an adverse effect on CAP REIT's ability to lease suites in its properties and on the rents charged and could adversely affect CAP REIT's revenues and, consequently, its ability to meet its obligations.

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.

RELATED PARTY TRANSACTIONS

For the year ended December 31, 2008, CAP REIT paid construction management fees of $1.3 million (based on 4.5% of construction costs up to $20.0 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, 2008, 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, 2008, CAP REIT paid consulting fees of $0.07 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. For the year ended December 31, 2008, $0.5 million has been capitalized to income properties.

COMMITMENTS AND CONTINGENCIES

CAP REIT has entered into commitments for fixed price natural gas, hydro and land lease agreements as outlined in note 23 to the consolidated financial statements.

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 in the ordinary course of business. These matters are generally covered by insurance. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of CAP REIT.

SUBSEQUENT EVENT

Subsequent to December 31, 2008, pursuant to the NCIB, CAP REIT acquired 13,500 Units at a market value of $0.2 million.

Section 9

FUTURE OUTLOOK

Notwithstanding the tightening in the global credit markets and the deteriorating economic fundamentals in Canada experienced through the last half of 2008, management believes market conditions in the multi-unit residential rental market will continue to demonstrate positive trends due to a number of factors:

- The cost gap between owning and renting a home in Canada has increased to historic highs over the past two years. As a result of the relatively high cost of home ownership compared to renting, and consumer sentiment toward home ownership turning more negative due to the slowing economy and reduced expectations of homeprice gains, demand is increasing for high-quality rental accommodation.
- Housing starts are slowing in Canada after three years of significant increases. In addition, mortgage requirements for home purchases have tightened significantly, resulting in reduced availability of home purchase financing. Management believes these factors will also drive increased demand for apartment and townhouse rentals.
- The growing seniors' population in Canada is increasingly viewing rental accommodation as an affordable choice and is driving increased demand for apartments and townhouses across the country.
- New immigration policies in Canada propose a 40% increase in the number of new Canadians, another traditionally strong market for rental accommodation.
- The segment of the Canadian population aged 20 to 34 is expected to grow over the coming decade. This will also become a key driver for apartment demand as this so-called "echo boom" generation has the highest propensity to rent 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. Management also believes operating revenues will increase as it implements programs to enhance revenues from parking, commercial leases, laundry, cable and other income sources. In addition, numerous successful cost control initiatives have proven highly effective which, combined with rising revenues, should lead to stable growth in net operating income going forward.

CAP REIT believes the strong defensive characteristics of its property portfolio due to its diversification by both geography and property type will serve to mitigate any negative impact due to the slowing Canadian economy. Management is confident that its strong presence in Ontario, currently representing approximately 70% of total NOI, will benefit Unitholders over the long term, as the province's economy is not as exposed to the more volatile resource sectors in other regions of the country. 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.

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 and average monthly rents 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 and average monthly rents.

Second, management will continue to focus on reducing its operating costs as a percentage of total revenues.

Management is investing in various environment friendly energy initiatives including energy-efficient heating boilers and lighting systems, individual suite metering and energy purchasing programs to reduce or stabilize costs.

Third, management will continue to direct its efforts on its building infrastructure improvement programs to upgrade properties across the portfolio and reposition the portfolio by completing value-enhancing capital expenditures to enhance the life safety of its residents to improve its long-term cash flow-generating potential and increase its useful life over the long term.

Fourth, CAP REIT will continue to prudently focus on accretive acquisitions that meet its strategic criteria and enhance CAP REIT's geographic diversification. From time to time, CAP REIT will also identify for sale certain non-core assets that do not meet 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.

Fifth, CAP REIT will continue to effectively manage interest costs by leveraging its balance sheet strength and the stability of its property portfolio to reduce borrowings on its credit facilities, while appropriately staggering the maturity dates of its mortgage portfolio to ensure it is not exposed in any one year to a refinancing risk. Notwithstanding the recent rise in interest rate spreads in Canada and increased times to complete financings and refinancings, management believes that because of the continuing availability of lower-cost financing guaranteed by CMHC, CAP REIT is well positioned to meet its financing and refinancing objectives at reasonable costs.

CAP REIT will continue to maintain its conservative approach to its capital structure, leverage and coverage ratios and strive to further improve its distribution payout ratio. Management believes its successful equity financing and mortgage refinancing programs have resulted in 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 includes amounts based on management's informed judgements and estimates. Management is responsible for the integrity and objectivity of these consolidated financial statements. The financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements in all material respects.

To assist management in the discharge of these responsibilities, management has established the necessary internal controls designed to ensure that our financial records are reliable for preparing financial statements and other financial information, transactions are properly authorized and recorded, and assets are safeguarded.

As at December 31, 2008, our Chief Executive Officer and Chief Financial Officer and Secretary evaluated, or caused an evaluation under their direct supervision of, the design and operation of our internal controls over financial reporting (as defined in *Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings*) and, based on that assessment, determined that our internal controls over financial reporting were appropriately designed and operating effectively.

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 26, 2009

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, 2008 and 2007 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 consolidated financial statements present fairly, in all material respects, the financial position of CAP REIT as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
February 26, 2009

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity.

CONSOLIDATED BALANCE SHEETS AS AT DECEMBER 31, 2008 AND 2007

($ Thousands)

	2008	2007
Assets		
Income properties *(note 4)*		
Cost	$ **2,505,498**	$ 2,333,570
Less: accumulated depreciation	**(312,553)**	(240,258)
Net book value	**2,192,945**	2,093,312
Sundry assets *(note 5)*	**48,854**	60,522
Intangible assets *(note 6)*	**1,495**	1,796
Assets held for sale *(note 17)*	**–**	106,426
	$ **2,243,294**	$ 2,262,056
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages payable *(note 7)*	$ **1,472,822**	$ 1,395,321
Bank indebtedness *(note 8)*	**121,029**	103,066
Accounts payable and other liabilities	**75,019**	41,476
Security deposits	**18,852**	18,257
Distributions payable	**6,084**	6,032
Intangible liabilities *(note 6)*	**334**	540
Future income taxes *(note 9)*	**63,221**	51,789
Liabilities related to assets held for sale *(note 17)*	**–**	61,294
	1,757,361	1,677,775
Unitholders' Equity	**485,933**	584,281
	$ **2,243,294**	$ 2,262,056

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, 2008 and 2007

($ Thousands, except per Unit amounts)

	2008	2007
Operating Revenues		
Revenue from income properties	$ **320,418**	$ 293,978
Operating Expenses		
Realty taxes	**41,968**	39,303
Property operating costs	**105,517**	99,100
Total expenses	**147,485**	138,403
Income Before the Undernoted	**172,933**	155,575
Depreciation *(note 13)*	**72,007**	66,708
Amortization *(note 14)*	**2,982**	2,898
Trust expenses	**13,155**	10,928
	88,144	80,534
Income Before Interest Expense	**84,789**	75,041
Mortgage interest	**74,836**	69,444
Interest on bank indebtedness	**4,111**	6,206
Other income	**(1,886)**	(1,140)
	77,061	74,510
Income From Continuing Operations Before Other Costs and Income Taxes	**7,728**	531
Reorganization Costs *(note 15)*	**(1,599)**	–
Unrealized Loss on Derivative Financial Instruments *(note 16)*	**(17,627)**	–
Provision for Future Income Taxes *(note 9)*	**(9,134)**	(51,789)
Loss From Continuing Operations	**(20,632)**	(51,258)
Income From Discontinued Operations *(note 17)*	**17,155**	1,062
Net Loss	**(3,477)**	(50,196)
Other Comprehensive Loss *(note 12(b))*	**(29,046)**	(4,538)
Comprehensive Loss	$ **(32,523)**	$ (54,734)
Basic and Diluted Net Loss Per Unit		
Continuing operations	$ **(0.315)**	$ (0.849)
Discontinued operations	**0.262**	0.018
Basic and Diluted Net Loss Per Unit	$ **(0.053)**	$ (0.831)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY

For the Years Ended December 31, 2008 and 2007

($ Thousands)

	Note	Cumulative Capital	Cumulative Net Income	Cumulative Distributions	Accumulated Other Comprehensive Loss	Total
Unitholders' Equity, January 1, 2008		**$ 872,118**	**$ 85,630**	**$ (364,113)**	**$ (9,354)**	**$ 584,281**
Net loss		**–**	**(3,477)**	**–**	**–**	**(3,477)**
Distributions declared and paid		**–**	**–**	**(66,670)**	**–**	**(66,670)**
Distributions payable		**–**	**–**	**(6,084)**	**–**	**(6,084)**
Unit Issue costs	*12(a)*	**(128)**	**–**	**–**	**–**	**(128)**
Distribution Reinvestment Plan	*12(c)*	**12,661**	**–**	**–**	**–**	**12,661**
Unit Option Plan	*12(d)*	**340**	**–**	**–**	**–**	**340**
Employee Unit Purchase Plan	*12(f)*	**195**	**–**	**–**	**–**	**195**
Long-Term Incentive Plan	*12(g)*	**1,306**	**–**	**800**	**–**	**2,106**
Senior Executive Long-Term Incentive Plan	*12(h)*	**692**	**–**	**657**	**–**	**1,349**
Deferred Unit Plan	*12(i)*	**476**	**–**	**–**	**–**	**476**
Units cancelled	*12(j)*	**(10,070)**	**–**	**–**	**–**	**(10,070)**
Other comprehensive loss	*12(b)*	**–**	**–**	**–**	**(29,046)**	**(29,046)**
Unitholders' Equity, December 31, 2008		**$ 877,590**	**$ 82,153**	**$ (435,410)**	**$ (38,400)**	**$ 485,933**

	Note	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	*2(g) and (h), 12(b)*	–	167	–	(4,816)	(4,649)
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		103,134	–	–	–	103,134
Distribution Reinvestment Plan	*12(c)*	12,546	–	–	–	12,546
Unit Option Plan	*12(d)*	683	–	–	–	683
Employee Unit Purchase Plan	*12(f)*	188	–	–	–	188
Long-Term Incentive Plan	*12(g)*	1,485	–	798	–	2,283
Senior Executive Long-Term Incentive Plan	*12(h)*	558	–	210	–	768
Units cancelled	*12(j)*	(3,619)	–	–	–	(3,619)
Other comprehensive loss	*12(b)*	–	–	–	(4,538)	(4,538)
Unitholders' Equity, December 31, 2007		$ 872,118	$ 85,630	$ (364,113)	$ (9,354)	$ 584,281

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2008 and 2007

($ Thousands)

	2008	2007
Cash Provided By (Used In):		
Operating Activities		
Net loss	$ (3,477)	$ (50,196)
Items not affecting cash:		
Gain on sale of assets	(17,046)	–
Unrealized loss on derivative financial instruments *(note 16)*	17,627	–
Provision for future income taxes *(note 9)*	9,134	51,789
Depreciation *(note 13)*	72,007	69,133
Amortization *(note 14)*	2,982	2,969
Amortization of above and below market leases	(420)	(98)
Fair value adjustment of utility contracts *(note 2(g))*	36	(196)
Straight-line rent adjustment	(63)	(99)
Compensation component of LTIP, SELTIP and DUP awards granted	1,551	933
	82,331	74,235
Changes in non-cash operating assets and liabilities *(note 18(a))*	3,722	(2,694)
Cash Provided By Operating Activities	86,053	71,541
Financing Activities		
Mortgage financings	130,567	254,576
Mortgage principal repayments	(46,139)	(43,139)
Mortgages repaid on maturity	(38,108)	(25,698)
Mortgage financing costs	(1,113)	(1,966)
Bank indebtedness, net	17,963	10,116
Proceeds on issuance of Units	407	96,005
Net cash distributions to Unitholders *(note 18(b))*	(60,041)	(53,623)
Cancellation of Units	(10,070)	(3,619)
Amounts received under the LTIP and SELTIP	2,380	2,118
Cash (Used In) Provided By Financing Activities	(4,154)	234,770
Investing Activities		
Acquisition of income properties *(note 18(e))*	(88,562)	(227,611)
Capital improvements *(note 18(d))*	(55,515)	(51,543)
Disposition of income properties *(note 18(f))*	62,993	–
Investments	(378)	(33,134)
Change in restricted cash	(437)	5,977
Cash Used In Investing Activities	(81,899)	(306,311)
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, 2008 and 2007

($ 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. 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 three 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 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 improvements. 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 three 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 remaining amortization period of the underlying mortgage loans (typically 25 to 35 years) and are included in amortization expense. Unamortized amounts are expensed when the underlying mortgage loan has been discharged or fully repaid.

e) 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, 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.

f) 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 its 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 the purchase price was to land and buildings based on their respective fair values.

g) Financial instruments

Financial assets and financial liabilities

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:

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 differences between the fair value of the asset and its cost basis is included in other comprehensive loss. Differences accumulated in accumulated other comprehensive loss are transferred to net loss 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 designated 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 on 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 on initial recognition.

Determination of fair value

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

Subsequent to initial recognition, the fair 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 are included 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. At December 31, 2008, the change in fair value for those contracts not designated for its own use was an unrealized loss of $36 (2007 – 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 statement 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 on that transition date were examined for embedded derivatives.

As at December 31, 2008 and 2007, CAP REIT did not have any outstanding contracts or financial instruments with embedded derivatives that required bifurcation.

h) Hedging relationships

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive loss ("OCL"), while the ineffective portion is recognized in net loss. Should the cash flow hedging relationship become ineffective and hedge accounting no longer appropriate, previously unrealized gains and losses remain within accumulated other comprehensive loss ("AOCL") and are amortized to mortgage interest expense in the same periods during which the hedged items affect earnings, while future changes in the fair value of the hedging derivatives are recognized in the consolidated statement of operations and comprehensive loss.

i) Comprehensive loss

Comprehensive loss includes net loss and other comprehensive loss. Other comprehensive loss includes changes in the fair value of investments and the effective portion of cash flow hedges less any amounts reclassified to mortgage interest expense in the period. The components of comprehensive loss are disclosed in note 12(b).

j) Accumulated Other Comprehensive Loss ("AOCL")

AOCL is included in the consolidated balance sheet as a separate component of Unitholders' Equity and includes the unrealized gains and losses in changes in the fair market value of cash flow hedges and investments.

k) Impairment of long-lived assets

CAP REIT reviews its long-lived assets for impairment if events or circumstances indicate that the carrying value of the asset may be impaired. A recoverability analysis is performed based on estimated undiscounted future cash flows to be generated from the 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 asset is written down to its estimated fair value and an impairment loss is recognized.

l) 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.

m) 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.

n) Stock-based compensation

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 per Unit.

Deferred Units granted under the Deferred Unit Plan ("DUP") are recognized in compensation expense based on the closing market price of CAP REIT's Units on the date of grant (see note 12(i)). The Deferred Units are considered to be outstanding Units from the date of grant for basic and diluted earnings per Unit calculations.

o) Co-ownerships

CAP REIT carries out certain of its activities under co-ownerships and records its proportionate share of assets, liabilities, income and expenses of all co-ownerships in which it participates. In general, CAP REIT has recourse against all the assets of the co-ownerships in the event that CAP REIT is called upon to pay liabilities in excess of its proportionate share.

p) 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.

q) 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.

r) 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.

s) Comparative figures

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

t) Changes in accounting policies

The Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards that are effective for CAP REIT's fiscal year commencing January 1, 2008: Section 3862, Financial Instruments – Disclosures; Section 3863, Financial Instruments – Presentation; and Section 1535, Capital Disclosures.

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.

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

Disclosures required as a result of adopting these sections can be found in notes 21 and 22.

u) Future accounting changes

The CICA has issued a new accounting standard, Section 3064, Goodwill and Intangible Assets, which clarifies that costs can be capitalized only when they relate to an item that meets the definition of an asset. Section 1000, Financial Statement Concepts, was also amended to provide consistency with this new standard. The new and amended standards will be effective for CAP REIT's 2009 fiscal year. CAP REIT does not anticipate that the adoption of this standard, effective January 1, 2009, will significantly impact its financial results.

The CICA has also issued Section 1582, Business Combinations, which replaces Section 1581, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which together replace Section 1600. Under Section 1582, the purchase price used in a business combination is based on the fair value of shares exchanged at their market price at the date of exchange. Furthermore, virtually all acquisition costs will be expensed, which currently are capitalized as part of the purchase price. Contingent liabilities are to be recognized at fair value at the acquisition date and remeasured at fair value through earnings for each period until settled. Currently, only the contingent liabilities that are resolved and payable are included in the cost to acquire the business. In addition, negative goodwill will be recognized immediately in earnings, unlike the current requirement to eliminate it by deducting it from assets in the purchase price allocation. Sections 1601 and 1602 revise and enhance the standards for the preparation of consolidated financial statements subsequent to a business combination. All three sections come into effect for financial periods beginning January 1, 2011 with prospective application.

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian public entities will have to adopt IFRS effective for fiscal years beginning on or after January 1, 2011 (the "changeover date"). CAP REIT will issue consolidated financial statements in accordance with IFRS commencing in the first quarter ended March 31, 2011, with comparative information. The impact of the adoption of IFRS on the consolidated financial statements of CAP REIT will likely be significant and, as such, CAP REIT has begun to develop its convergence plan in order to transition its financial statement reporting, presentation and disclosure for IFRS to meet the January 1, 2011 deadline. CAP REIT continues the process of evaluating the potential impact of IFRS on its consolidated financial statements. The process will be ongoing as new standards and recommendations are issued by the International Accounting Standards Board. It is not CAP REIT's intention to early adopt IFRS prior to January 1, 2011.

Note 3 **Recent Property Acquisitions**

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

For the year ended December 31, 2008:

- On December 5, 2008, CAP REIT acquired a 153-suite, 19-storey, luxury apartment building in Quebec City, Quebec. The total acquisition costs of approximately $17,839 were satisfied by the assumption of a CMHC-insured mortgage of approximately $10,472 maturing in 2011 with an interest rate of 4.21%, a new $2,168 five-year mortgage with an interest rate of 3.62% and the balance from the Acquisition Facility.
- On September 1, 2008, CAPLP acquired an additional 11 land lease sites (nine near Bowmanville, Ontario and two in Grand Bend, Ontario) for total acquisition costs of $679, which were funded from the Land Lease Facility (note 8(b)).
- On August 29, 2008, CAP REIT acquired a 137-suite apartment building in Victoria, British Columbia. The total acquisition costs of $14,299 were satisfied by new CMHC-insured financing of $10,182 for a five-year term at 4.35%, with the balance from the Acquisition Facility.

- On July 31, 2008, CAP REIT acquired a 50% interest in a portfolio of eight high-quality properties in Toronto, Ontario totalling 784 suites. The total acquisition costs for the 50% interest of $47,902 were satisfied by the assumption of $15,010 of existing mortgages maturing between 2011 and 2019 at an average interest rate of 4.75%, new CMHC-insured mortgages of $14,658 for five-year terms at an average interest rate of 4.55% and the balance funded from the Acquisition Facility.
- On April 30, 2008, CAP REIT completed the acquisition of an apartment property located in Richmond, British Columbia consisting of 174 suites. The total acquisition costs of $24,164 were satisfied by the assumption of an existing first mortgage of $5,767 for an eight-year term at 4.6% and a new CMHC- insured mortgage of $6,767 for a five-year term at an interest rate of 4.45% and the balance from the Acquisition Facility.
- On April 8, 2008, CAPLP acquired nine land lease sites (six sites near Bowmanville, Ontario and three sites in Grand Bend, Ontario) for total acquisition costs of $639, which were funded from the Land Lease Facility (note 8(b)).
- On January 10, 2008, CAP REIT completed the acquisition of two adjoining apartment properties located in Toronto, Ontario consisting of 143 suites. The total acquisition costs of $14,289 were satisfied by a new CMHC-insured mortgage of $10,782 for a five-year term at an interest rate of 4.69% and the balance from the Acquisition Facility.

For the year ended December 31, 2007:

- On November 1, 2007, CAPLP acquired 25 land lease sites (18 sites near Bowmanville, Ontario and seven sites in Grand Bend, Ontario) for total acquisition costs of $1,247, which were funded from the Land Lease Facility (note 8(b)).
- On September 26, 2007, CAP REIT completed the acquisition of eight apartment buildings consisting of 748 suites located in Coquitlam, New Westminster and Victoria, British Columbia as well as Calgary, Alberta. The total acquisition costs of $96,381 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.
- On July 10, 2007, CAPLP completed the acquisition of two land lease communities in Ontario located near Bowmanville and in Grand Bend totalling 1,233 sites. The total acquisition costs of $76,745 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. The CAPLP Units were issued at a weighted average price of $19.45 per Unit and are exchangeable into CAP REIT Trust Units on a one-for-one basis. 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.

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

	2008	2007
The consideration paid consists of:		
New mortgages payable	$ 44,557	$ 155,495
Assumed mortgages payable	31,249	–
Bank indebtedness	44,005	72,100
New CAPLP Units	–	8,000
Other liabilities	–	16
	$ 119,811	$ 235,611
The allocation of consideration paid is as follows:		
Income properties		
Land	$ 33,149	$ 107,971
Buildings and improvements	85,565	125,452
Equipment	330	1,374
	119,044	234,797
Intangible assets		
Value of tenant in-place leases	891	1,222
Value of tenant relationships	115	–
Value of above-market leases	18	26
	1,024	1,248
Intangible liabilities		
Value of below-market leases	(257)	(434)
	$ 119,811	$ 235,611

Note 4. **Income Properties**

	Cost	Accumulated Depreciation	2008 Net Book Value
Freehold			
Land	$ 361,081	$ –	$ 361,081
Buildings and improvements	1,628,393	(228,088)	1,400,305
	1,989,474	(228,088)	1,761,386
Leasehold interest			
Buildings and improvements	462,036	(72,829)	389,207
Options to purchase	10,830	–	10,830
	472,866	(72,829)	400,037
Equipment	43,158	(11,636)	31,522
	$ 2,505,498	$ (312,553)	$ 2,192,945

	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

Leasehold interest – buildings and improvements represents buildings and improvements relating to three properties under long-term land leases and 15 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 represents 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 ranging from 2023 to 2027.

Note 5. **Sundry Assets**

		2008		2007
Prepaid CMHC premiums – net of amortization of $4,864 (2007 – $3,857)	$	**19,712**	$	18,122
Prepaid expenses		**2,836**		1,578
Tenant inducements		**212**		324
Other receivables		**4,951**		4,571
Restricted cash		**2,925**		2,488
Deposits on purchases (a)		**1,519**		1,751
Deposits		**612**		961
Investments		**14,270**		29,838
Leasehold improvements – net of amortization of $446 (2007 – $367)		**782**		715
Other assets – net of amortization of $692 (2007 – $365)		**1,035**		174
	$	**48,854**	$	60,522

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.

Note 6. **Intangible Assets and Liabilities**

		Cost		Accumulated Amortization		2008 Net Book Value
Intangible assets						
Value of tenant in-place leases	$	**15,084**	$	**(13,853)**	$	**1,231**
Value of tenant relationships		**1,571**		**(1,337)**		**234**
Value of above-market leases		**1,243**		**(1,213)**		**30**
	$	**17,898**	$	**(16,403)**	$	**1,495**
Intangible liabilities						
Value of below-market leases	$	**1,908**	$	**(1,574)**	$	**334**

		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

Note 7. **Mortgages Payable**

Mortgages payable bear interest at a year-end weighted average effective rate of 5.30% (2007 – 5.37%) and mature between 2009 and 2027. All mortgages payable, with the exception of $16,051, are financed at fixed interest rates. 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
2009	$ 246,752	16.7
2010	184,015	12.5
2011	237,048	16.0
2012	235,663	16.0
2013	155,597	10.5
Subsequent to 2013	417,709	28.3
	1,476,784	100.0
Deferred financing costs and fair value adjustments	(3,962)	
	$ 1,472,822	

Effective January 1, 2007, other deferred financing costs of $4,056 were reclassified as mortgages payable. As at December 31, 2008, fair value adjustments of $966 and ($4,928) of unamortized deferred financing costs are netted in mortgages payable.

Note 8. **Bank Indebtedness**

On April 1, 2008, CAP REIT transferred the beneficial interest in all of its properties along with related debt obligations to CAPREIT Limited Partnership ("CAPLP"). The Acquisition and Operating Facilities and the Land Lease Facility were restructured into one credit agreement (the "Credit Agreement"). On June 30, 2008, the Credit Agreement was renewed as summarized below.

a) Acquisition and Operating Facilities

The maximum amount available under the Acquisition Facility is $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 amount available under the Operating Facility is $50,000. The Acquisition Facilities mature on June 30, 2011 and June 30, 2009, respectively, while the Operating Facility matures on June 30, 2009. Floating charge debentures on income properties have been provided as security. At December 31, 2008, the weighted average floating interest rate for amounts drawn under these credit facilities is 3.38% (2007 – 6.00%).

As at December 31, the following balances are outstanding:

	2008	2007
Operating Facility	**$ 43,404**	$ 39,919
Acquisition Facility	**73,507**	59,975
	$ 116,911	$ 99,894

In addition, at December 31, 2008, CAP REIT has letters of credit outstanding in the amount of $3,856 (2007 – $3,301), which affect the maximum amount available under the facilities.

b) Land Lease Facility

The 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 and matures on June 30, 2009. Floating charge debentures on the land lease properties have been provided as security. At December 31, 2008, the borrowings outstanding for this facility were $4,118 (2007 – $3,172). In addition, CAPLP has letters of credit outstanding in the amount of $130 (2007 – $170), which affect the maximum amount available under the facility. At December 31, 2008, the weighted average floating interest rate for amounts drawn under this facility is 2.89% (2007 – 5.22%).

Note 9. **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 modified the tax treatment of certain publicly traded trusts and partnerships that are specified as 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 December 31, 2008, a future income tax liability in the amount of $63,221 has been recorded at December 31, 2008 (2007 – $51,789) based on the temporary differences that are expected to reverse on or after January 1, 2011. The change in the future income tax liability has been recorded as a provision to the consolidated statement of operations and comprehensive loss in the amount of $9,134 for the year ended December 31, 2008 (2007 – $51,789) and to other comprehensive loss for $2,298 (2007 – $nil) relating to unrealized loss on derivative financial instruments. 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 statement of operations and comprehensive income (loss) at that time. CAP REIT is not currently taxable and, accordingly, no current income taxes have been recorded as at December 31, 2008 and for the year then ended. CAP REIT has not exceeded the Normal Growth Guidelines.

A reconciliation of income tax expense for the year is as follows:

		2008		2007
Current income taxes at Canadian statutory tax rate	$	–	$	–
Provision for future income taxes relating to OCL (note 12(b))		2,298		–
Provision for future income taxes		9,134		51,789
Future income taxes	$	11,432	$	51,789

The future income tax liability is as follows:

		2008		2007
Future income tax liability balance, beginning of the year	$	51,789	$	–
Future income taxes relating to OCL (note 12(b))		2,298		–
Future income taxes		9,134		51,789
Future income tax liability, end of the year	$	63,221	$	51,789

Note 10. **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.

		2008		2007
Distributions declared (note 18(b))	$	72,754	$	66,802
Distributions Per Unit	$	1.080	$	1.080

Note 11. **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, including Deferred Units allocated under the DUP (28,672 Units (2007 – nil)), but excluding Units issued under the LTIP (1,164,744 Units (2007 – 794,744 Units)) and SELTIP (817,914 Units (2007 – 817,914 Units)). 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:

	2008	2007
Weighted average number of Units	65,411,875	60,386,653
Effect of dilutive Unit options, LTIP and SELTIP Units	205,271	382,660
Weighted average number of diluted Units	65,617,146	60,769,313

Note 12. **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, 2008	**66,606,085**	**411,311**	**67,017,396**
Issued during the year:			
Distribution Reinvestment Plan	**860,692**	**–**	**860,692**
Unit Option Plan	**27,400**	**–**	**27,400**
Employee Unit Purchase Plan	**12,542**	**–**	**12,542**
Long-Term Incentive Plan ("LTIP")	**370,000**	**–**	**370,000**
Deferred Unit Plan ("DUP")	**28,672**	**–**	**28,672**
Units cancelled	**(684,300)**	**–**	**(684,300)**
Units outstanding, December 31, 2008	**67,221,091**	**411,311**	**67,632,402**

	Trust Units	CAPLP Units	Total
Units outstanding, January 1, 2007	59,987,260	–	59,987,260
Issued during the year:			
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
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

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, the SELTIP and the DUP is 6,000,000 Units. The maximum available for future issuance under all Unit incentive plans as at December 31, 2008 is 1,410,596 Units (2007 – 1,816,810 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 $95,006. This includes $128 of issue costs incurred during the year ended December 31, 2008.

CAPLP 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 per Unit. 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.

b) Accumulated Other Comprehensive Loss ("AOCL") and Other Comprehensive Loss ("OCL")

		2008		2007
AOCL balance, beginning of year	$	(9,354)	$	–
Transition adjustment on adoption of accounting policies relating to:				
Loss on derivative financial instruments[1]		–		(5,638)
Gain on cash flow hedges accrued in prior years		–		822
Transition adjustments		–		(4,816)
Other comprehensive loss:				
(Loss) gain on derivative financial instruments[1]		(4,936)		666
Provision for future income taxes (note 9)		(2,298)		–
Loss on interest rate swap agreements		(5,583)		(1,631)
Loss on amounts designated as cash flow hedges settled in prior years and transferred to mortgage interest expense		(283)		(277)
Change in fair value of investments		(15,946)		(3,296)
Change in other comprehensive loss		(29,046)		(4,538)
AOCL balance, end of year	$	(38,400)	$	(9,354)

(1) The cumulative unrealized loss on derivative financial instruments, aggregating $9,908 before tax, will be amortized to the consolidated statement of operations and comprehensive loss in the same periods to which the hedged items affect earnings. The estimated amount of the loss that is expected to be reclassified to net income from AOCL in the next 12 months is $592.

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 cash distributions reinvested in additional Units.

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 2008 and 2007.

A summary of Unit option activity for the years ended 2008 and 2007 is presented below. All options are exercisable as at December 31, 2008.

	2008			2007		
	Number of Units		**Weighted Average Exercise Price**	Number of Units		Weighted Average Exercise Price
Options outstanding, beginning of year	419,600	$	13.35	471,000	$	13.35
Options exercised	(27,400)		12.42	(51,400)		13.28
Options cancelled	(5,000)		13.25	–		–
Options outstanding, end of year	387,200	$	13.42	419,600	$	13.35

The following Unit Option Plan grants are outstanding:

Exercise Price	Expiry Date	2008 Number of Units	2007 Number of Units
$11.85	December 17, 2010	**57,700**	78,100
$14.10	November 14, 2011	**151,000**	158,000
$13.73	April 4, 2012	**40,000**	40,000
$13.25	November 17, 2012	**138,500**	143,500
		387,200	419,600

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.

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 in 2008 and 2007.

The summary of Units previously issued under the Unit Purchase Plan is as follows:

Number of Units	2008	2007
Balance, beginning of year	**423,725**	423,725
Issued during the year	**–**	–
Balance, end of year	**423,725**	423,725

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, 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 $18 (2007 – $17).

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 the 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 (4.65% for awards granted in 2008, 4.88% and 4.56% for awards granted in 2007) and are required to apply cash distributions received by them on these Units toward the payment of interest and the remaining 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 the LTIP are as shown below:

Number of Units		2008		2007
Balance, beginning of year	$	**794,744**	$	899,828
Issued during the year		**380,000**		567,000
Transferred to SELTIP		**–**		(672,084)
Cancelled during the year		**(10,000)**		–
Balance, end of year		**1,164,744**		794,744
Value of LTIP Units granted during the year	$	**6,118**	$	11,248

The details of the LTIP Installment Receipts are as shown below:

Installment Receipts		2008		2007
Balance, beginning of year	$	**12,245**	$	12,824
Amounts granted, net of initial installment of $306 (2007 – $562)		**5,812**		10,686
Amounts transferred to SELTIP		**–**		(10,922)
Amounts cancelled		**(197)**		–
Principal repayments during the year		**(402)**		(343)
Balance, end of year	$	**17,458**	$	12,245

The Installment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the year, interest payments in the amount of $800 (2007 – $798) were credited to Unitholders' Equity in cumulative distributions.

On February 29, 2008, 380,000 Units were issued at $16.10. The fair value of the compensation costs for the Units granted on this day under the LTIP using the Black-Scholes option pricing model was estimated to be $960. As the Units granted vest one-third on the date of grant and one-third on each anniversary of the date of grant for each of the next two years, compensation cost of $320 was expensed in the consolidated statement of operations during the year ended December 31, 2008, with a corresponding amount included in Unitholders' Equity in cumulative capital.

On February 1, 2008, 10,000 Units previously issued on March 2, 2007 were cancelled. Accordingly, compensation costs of $11 previously expensed in 2007 were adjusted for in the year ended December 31, 2008. The compensation costs for 2008 and 2009 (remaining vesting period) will be decreased by $11 from $420 to $409.

On August 21, 2007, 190,000 Units were issued at $17.73. The fair value of the compensation costs for 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 anniversary of the date of grant for each of the next two years, compensation cost of $160 was expensed in the consolidated statement 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.

On March 2, 2007, 377,000 Units were issued at $20.90. The fair value of the compensation costs for 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 anniversary of the date of grant for each of the next two years, compensation cost of $420 was expensed in the consolidated statement of operations during the year ended December 31, 2007, 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:

	March 31, 2008	September 30, 2007	March 31, 2007
Risk-free interest rate	**3.70%**	4.38%	4.06%
Expected lives (years)	**10**	10	10
Expected volatility	**12.00%**	12.00%	12.00%
Dividend yield	**6.71%**	6.10%	5.25%

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 30 years. Participants are required to pay interest at a 30-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 the remaining 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 prepay 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 are shown below:

Number of Units		2008		2007
Balance, beginning of year		**817,914**		–
Issued during the year		–		145,830
Transferred from LTIP		–		672,084
Balance, end of year		**817,914**		817,914
Price per Unit issued during the year	$	–	$	17.73
Value of LTIP Units granted during the year	$	–	$	2,585

The details of the SELTIP Installment Receipts are shown below:

Installment Receipts		2008		2007
Balance, beginning of year	$	**13,302**	$	–
Amounts granted, net of initial installment of $nil (2007 – $129)		–		2,456
Amounts transferred from LTIP		–		10,922
Principal repayments during the year		**(227)**		(76)
Balance, end of year	$	**13,075**	$	13,302

The Installment Receipts are recognized as a deduction from Unitholders' Equity in cumulative capital. During the year, interest payments in the amount of $657 (2007 – $210) 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 compensation costs for 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 $749. As the Units granted vest one-third on the date of grant, and one-third on each anniversary of the date of grant for each of the next two years, compensation cost of $353 was expensed in the consolidated statement of operations during the year ended December 31, 2007, with a corresponding amount included in Unitholders' Equity in cumulative capital, and $198 will be expensed in each of the remaining vesting periods.

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:

	2008	2007
Risk-free interest rate	–	4.46%
Expected lives (years)	–	30
Expected volatility	–	12.00%
Dividend yield	–	6.10%

i) Deferred Unit Plan ("DUP")

During the year, CAP REIT implemented the DUP for the benefit of the non-executive trustees, as approved by the Unitholders on May 21, 2008. This plan gives the non-executive trustees the right to receive a percentage of their annual retainer in the form of deferred units ("Deferred Units"). Each trustee who elects to participate may be paid 25%, 50%, 75% or 100% (the "Elected Percentage") of his annual retainer payable in respect of a calendar year (the "Elected Amount"), subject to an annual maximum Elected Percentage established by the Compensation and Governance Committee, in the form of Deferred Units, in lieu of cash. CAP REIT will match the Elected Amount in the form of Deferred Units having a value equal to the volume weighted average price of all Units traded on the TSX for the five trading days immediately preceding the date on which board compensation is payable. The maximum Elected Percentage in respect of 2008 is 50% of a trustee's annual board compensation of $55.

The Deferred Units earn additional Deferred Units for the distributions that would otherwise have been paid on the Deferred Units. The Deferred Units and additional Deferred Units are credited to each trustee's Deferred Unit account and are not issued to the trustee until the trustee elects to withdraw such Units. Each trustee may elect to withdraw up to 20% of the Deferred Units credited to his Deferred Unit account only once in a five-year period. For the year ended December 31, 2008, total compensation costs of $476 (2007 – $nil) were expensed in relation to awards under the DUP.

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

		2008		2007
	Number of Units	**Average Price**	Number of Units	Average Price
Outstanding, beginning of year	–	$ –	–	$ –
Granted during the year	**28,672**	**16.42**	–	–
Outstanding, end of year	**28,672**	**$ 16.42**	–	$ –

j) Units Cancelled

During the year ended December 31, 2008, pursuant to a normal course issuer bid, 684,300 Units (2007 – 202,400) were acquired for cancellation at market prices aggregating $10,070 (2007 – $3,619).

Note 13. **Depreciation**

	2008	2007
Depreciation	$ 72,007	$ 69,133
Depreciation included with discontinued operations (note 17)	–	(2,425)
	$ 72,007	$ 66,708

Note 14. **Amortization**

	2008	2007
Amortization of other financing costs and CMHC premiums	$ 1,334	$ 1,228
Amortization of leasehold improvements	79	74
Amortization of tenant improvements	287	226
Amortization of intangible assets	1,282	1,441
	2,982	2,969
Amortization included in discontinued operations (note 17)	–	(71)
	$ 2,982	$ 2,898

Note 15. **Reorganization Costs**

These costs represent amounts incurred to complete the reorganization of CAP REIT's capital structure. These costs include legal, accounting and tax consulting involved with the following:

- Setting up of CAPLP and the issuance of CAPLP Units exchangeable into CAP REIT Units.
- Conversion from closed-end to an open-end trust structure including changes to the Declaration of Trust.
- Transfer of beneficial interest in all the properties, mortgage debt and trust debt obligations from CAP REIT to CAPLP.

Note 16. **Unrealized Loss on Derivative Financial Instruments**

During 2005, CAP REIT entered into interest rate forward contracts, aggregating $145,740, to hedge its exposure to the potential rise in interest rates for refinancings of mortgages maturing in 2009. The unrealized loss on these contracts to which hedge accounting treatment was applied (see note 2(h)), aggregating $5,638 as at January 1, 2007, the effective date of implementation of Section 3865, was recorded in AOCL and cumulative changes resulting from mark-to-market valuations during the period January 2, 2007 to September 30, 2008, aggregating $4,270, were reflected in OCL.

During the last quarter of 2008, management terminated the hedging relationship in respect of these interest rate forward contracts as it was determined that the criteria for hedge accounting treatment was no longer satisfied and, accordingly, ceased hedge accounting on a prospective basis effective September 30, 2008, the last date that hedge effectiveness testing was completed. As a result, the unrealized loss on these interest rate forward contracts of $9,908 included in AOCL at September 30, 2008 will be amortized to mortgage interest expense in the same periods during which the hedged items affect earnings. As hedge accounting is no longer applied to these contracts from October 1, 2008, the change in fair value of these contracts from October 1, 2008 to December 31, 2008, totalling $17,627, has been recognized in the consolidated statement of operations and comprehensive loss. The corresponding liability for the cumulative changes resulting from mark-to-market valuations, aggregating $27,535, has been set up in accounts payable and other liabilities. It is management's intention to terminate these contracts on or before the maturity dates of these contracts in 2009.

Note 17. **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 sale 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 $62,993 from these sales were used to repay bank indebtedness. A gain of approximately $17,046 was recognized for the year ended December 31, 2008.

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

	2008	2007
Operating revenues	$ **661**	$ 14,205
Operating expenses	**402**	7,189
Depreciation	–	2,425
Amortization	–	71
Mortgage interest	**138**	2,955
Interest on bank indebtedness	**12**	503
Income from discontinued operations	**109**	1,062
Recovery for future income taxes	–	–
Gain on sale of assets	**17,046**	–
Income from discontinued operations	$ **17,155**	$ 1,062

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

	2008	2007
Assets		
Income properties	$ –	$ 105,727
Sundry assets	–	594
Intangible assets	–	105
	$ –	$ 106,426

	2008	2007
Liabilities		
Mortgages payable	$ –	$ 59,860
Accounts payable and other liabilities	–	1,015
Security deposits	–	419
	$ –	$ 61,294

Note 18. **Supplemental Cash Flow Information**

a) Changes in non-cash operating assets and liabilities

	2008	2007
Prepaid CMHC premiums	$ (2,597)	$ (3,643)
Prepaid expenses	(1,258)	16
Tenant inducements	112	37
Other receivables	(353)	93
Other assets	(1,188)	(282)
Deposits on purchases	232	(1,751)
Deposits	349	784
Leasehold improvements	(146)	4
Accounts payable and other liabilities	7,976	1,563
Security deposits	595	485
	$ 3,722	$ (2,694)

b) Net cash distributions to Unitholders

	2008	2007
Distributions declared to Unitholders	$ 72,754	$ 66,802
Add:		
Distributions payable at beginning of year	6,032	5,399
Less:		
Distributions payable at end of year	(6,084)	(6,032)
Less:		
Distributions to Participants in the Distribution Reinvestment Plan	(12,661)	(12,546)
	$ 60,041	$ 53,623

c) Mortgages and loans

	2008	2007
Interest paid	$ 79,032	$ 78,455

d) Capital improvements

	2008	2007
Capital improvements	$ 52,877	$ 50,530
Change in accounts payable and other liabilities	2,638	1,013
	$ 55,515	$ 51,543

e) Acquisition of income properties

	2008	2007
Acquired properties (note 3)	$ 119,811	$ 235,611
Assumed debt (note 3)	(31,249)	–
Issuance of CAPLP Units (note 3)	–	(8,000)
Net proceeds	$ 88,562	$ 227,611

f) Disposition of income properties

	2008	2007
Proceeds	$ 127,600	$ –
Closing costs	(4,777)	–
Mortgages assumed by purchasers and discharged	(59,830)	–
Net proceeds	$ 62,993	$ –

Note 19. **Co-ownerships**

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

	2008	2007
Assets	$ 83,285	$ 35,743
Liabilities	61,193	31,895
Revenues	10,288	7,671
Expenses	4,434	6,458
Net income	5,854	1,213
Cash Provided By (Used In):		
Operating activities	$ 3,007	$ 2,111
Financing activities	$ (2,488)	$ (1,937)
Investing activities	$ (370)	$ (179)

Note 20. **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 2008 (excluding GST) amounted to $1,345 (2007 – $1,002) and have been capitalized to income properties. At December 31, 2008, there were construction management fees outstanding of $44 (2007 – $12) 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 the office space (which is based on fair market rents at the date the lease was entered into) for 2008 was $636 (2007 – $559), including property operating costs, and has been expensed as trust expenses. The lease expires on October 31, 2009. The minimum annual rental payments in 2009 are $282.

c) CAP REIT has a consulting agreement, expiring in May 2009, with a company owned by one of the trustees and officers. The total fees paid for 2008 (excluding GST) were $71 (2007 – $121) and have been expensed as trust expenses. At December 31, 2008, there were consulting fees outstanding of $8 (2007 - $17) 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. For the year ended December 31, 2008, $487 (excluding GST) (2007 – $38) has been capitalized to income properties and $16 (2007 – $38) is outstanding and included in accounts payable and other liabilities.

Note 21. **Financial Instruments**

a) Fair value of financial instruments

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

At December 31, 2008, the fair value of CAP REIT's mortgages payable is estimated to be $1,550,427 (2007 – $1,444,961) due to changes in interest rates since the dates the individual mortgages were financed. The fair value of the mortgages payable has been estimated based on current market rates for mortgages with similar terms and conditions.

b) Risk management

The main risks arising from CAP REIT's financial instruments are interest rate, liquidity and credit risks. CAP REIT's approach to managing these risks is summarized below.

Interest rate risk

CAP REIT is subject to the risks associated with debt financing, including the risk that mortgages and credit facilities will not be able to be refinanced on terms as favourable as those of the existing indebtedness. In addition, interest on CAP REIT's bank indebtedness is subject to floating interest rates. For the year ended December 31, 2008, the increase or decrease in net loss for each one percentage change in interest rates on floating rate debt amounts to $691. For the year ended December 31, 2008, a one percentage increase in interest rates would change the other comprehensive loss on interest rate swap agreements from $5,583 to $3,616 and would decrease net loss by $9,897 for the unrealized gain on derivative financial instruments. A one percentage decrease in interest rates would change the other comprehensive loss on interest rate swap agreements from $5,583 to $7,610 and would increase net loss by $10,281 for the unrealized loss on derivative financial instruments for the year ended December 31, 2008.

CAP REIT's objective of managing interest rate risk is to minimize the volatility of earnings. As at December 31, 2008, interest rate risk has been minimized as all mortgages payable, with the exception of $16,051 or 1.09%, (2007 – $1,139 or 0.08%) are financed at fixed interest rates, with maturities staggered over a number of years.

Liquidity risk

Liquidity risk is the risk that CAP REIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. Approximately 95.0% of CAP REIT's mortgages are CMHC-insured (excluding the land lease portfolio), which reduces the risk of mortgage refinancings. CAP REIT's overall risk for mortgage refinancings is further reduced as the mortgage insurance premiums are transferable between approved lenders and are effective for the full amortization period of the underlying mortgages, ranging between 25 to 35 years. To mitigate the risk associated with the refinancing of maturing debt, CAP REIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, CAP REIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments, distributions to Unitholders and provide future growth in its business. As at December 31, 2008, CAP REIT had undrawn lines of credit available in the amount of $94,484.

The contractual maturities and repayment obligations of CAP REIT's financial liabilities as at December 31, 2008 are as follows:

	2009	2010 – 2011	2012 – 2013	2014 onward
Mortgages payable	$ 246,752	$ 421,063	$ 391,260	$ 417,709
Bank indebtedness	47,522	73,507	–	–
Mortgage interest payable	68,138	106,826	62,120	81,948
Bank indebtedness interest	2,958	3,299	–	–
Accounts payable and accrued liabilities	75,019	–	–	–
Security deposits	18,852	–	–	–
Distributions payable	6,084	–	–	–
	$ 465,325	$ 604,695	$ 453,380	$ 499,657

Credit risk

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

CAP REIT monitors its risk exposure regarding obligations with counterparties (mainly Canadian chartered banks) through the regular assessment of counterparties' credit positions.

CAP REIT mitigates the risk of credit loss with respect to residents by evaluating the creditworthiness of new residents, obtaining security deposits wherever permitted by legislation, limiting its exposure to any one tenant and geographical diversification of its portfolio.

CAP REIT monitors its collection experience on a monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. All accounts receivable balances exceeding 30 days are written off to bad debt expense and recognized in the consolidated statement of operations and comprehensive loss. Subsequent recoveries of amounts previously written off are credited in the consolidated statement of operations and comprehensive loss. Accordingly, no allowance for doubtful accounts is established.

Note 22. **Capital Management**

CAP REIT defines capital as the aggregate of Unitholder's equity and debt. CAP REIT's objectives when managing capital are to safeguard its ability to continue to fund its distributions to Unitholders, meet its repayment obligations under its mortgages and credit facilities, and ensure sufficient funds are available to meet capital commitments. Capital adequacy is monitored against investment and debt restrictions contained in the Declaration of Trust and debt covenants in the Credit Agreement.

CAP REIT's Declaration of Trust permits the maximum amount of total debt to 70% of the gross book value of CAP REIT's total assets. Gross book value is defined as the book value of the assets of CAP REIT plus accumulated depreciation and amortization.

CAP REIT's Credit Agreement has covenants that provide for: i) the maintenance of an interest coverage ratio of 1.50 times; ii) a debt coverage ratio of 1.20 times, both calculated on a rolling four-quarter basis; and iii) tangible net worth of not less than $500,000. Interest coverage is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by interest expense. Debt coverage ratio is defined as earnings before interest, depreciation, amortization, income taxes, other and non-cash compensation costs divided by principal and interest payments. Tangible net worth is generally represented as Unitholders' Equity and defined as the sum of: i) Units issued; ii) contributed surplus; and iii) retained earnings after adding back provision for future income taxes payable to a maximum limit of $100,000.

The total capital managed by CAP REIT is summarized below:

	2008	2007
Mortgages payable (note 7)	$ 1,472,822	$ 1,395,321
Bank indebtedness (note 8)	121,029	103,066
Unitholders' equity	485,933	584,281
Total capital	$ 2,079,784	$ 2,082,668
Total debt to gross book value (%)	61.82	61.55

For the four quarters ended December 31,	2008	2007
Interest coverage ratio (times)	2.06	1.94
Debt coverage ratio (times)	1.30	1.26

	2008	2007
Tangible net worth	$ 549,154	$ 636,070

The Declaration of Trust also requires CAP REIT to distribute to its Unitholders each year an amount not less than the greater of: i) 85% of its Distributable Income (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.

CAP REIT is in compliance with all its investment and debt restrictions.

Note 23. **Commitments**

Natural gas and hydro

CAP REIT has entered into fixed price commitments in the aggregate amount of $18,875 for its natural gas and $1,184 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 (subject to revisions at periodic intervals) 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:

2009	$	736
2010		736
2011		736
2012		736
2013		733
Thereafter		29,323

Normal course issuer bid ("NCIB")

On June 20, 2008, CAP REIT announced that the TSX had approved its notice of intention to acquire up to 6,309,967 Units at market prices over the 12-month period ending June 24, 2009. Under this NCIB, 250,600 Units were acquired up to December 31, 2008 at market prices aggregating $3,739.

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 12-month period ended June 24, 2008, of which 617,300 were acquired to June 24, 2008 at market prices aggregating $9,587.

Note 24. **Contingencies**

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

Note 25. **Subsequent Event**

Subsequent to December 31, 2008, pursuant to the NCIB, CAP REIT acquired 13,500 Units at a market value of $169.

FIVE YEAR REVIEW

For the Years Ended December 31,

($ Thousands, except where noted)

	2008	2007	2006	2005	2004
Operating Revenues [1]	**$ 320,418**	$ 293,978	$ 271,096	$ 258,666	$ 200,901
Net Operating Income ("NOI") [1]	**$ 172,933**	$ 155,575	$ 141,160	$ 133,300	$ 105,505
Net Operating Income Margin (%) [1]	**54.0**	52.9	52.1	51.5	52.5
Net (Loss) Income [2]	**$ (3,477)**	$ (50,196)	$ 722	$ 12,809	$ 10,222
Income from Discontinued Operations [3]	**$ 17,155**	$ 1,062	$ 143	$ 11,470	$ 3,439
Distributable Income [4]	**$ 82,481**	$ 73,129	$ 66,160	$ 61,827	$ 52,298
Funds From Operations (FFO)	**$ 80,993**	$ 72,295	$ 65,443	$ 61,360	$ 50,349
Cash Distributions	**$ 72,754**	$ 66,802	$ 62,228	$ 57,552	$ 45,142
Payout Ratio (%)	**88.2**	91.3	94.1	93.1	86.3
Non-taxable Distributions (%) [4]	**38**	90	96	75	93
Net (Loss) Income Per Unit – Basic	**$ (0.053)**	$ (0.831)	$ 0.013	$ 0.240	$ 0.244
Distributable Income Per Unit	**$ 1.261**	$ 1.211	$ 1.170	$ 1.161	$ 1.251
Funds From Operations (FFO) Per Unit	**$ 1.238**	$ 1.197	$ 1.157	$ 1.152	$ 1.204
Cash Distributions Per Unit	**$ 1.080**	$ 1.080	$ 1.080	$ 1.080	$ 1.080
Weighted Average Number of Units (000s)	**65,412**	60,387	56,565	53,255	41,816
Number of Suites – Total	**28,892**	29,111	26,498	25,252	24,132
Number of Suites – CAP REIT's Share	**27,737**	28,348	25,735	24,489	23,045
Book Value of Income Properties [5]	**$ 2,192,945**	$ 2,093,312	$ 1,877,144	$ 1,908,083	$ 1,763,393
Unitholders' Equity	**$ 485,933**	$ 584,281	$ 594,483	$ 588,356	$ 575,700
Occupancy (%)	**98.5**	97.9	97.2	97.4	96.6
Mortgage Debt to Gross Book Value (%)	**57.1**	57.5	57.4	58.5	59.0
Interest Coverage (times)	**2.06**	1.94	1.96	1.94	2.03
Weighted Average Mortgage Interest Rate (%) [6] [7]	**5.30**	5.37	5.33	5.38	5.42
Weighted Average Mortgage Term (years) [7]	**5.0**	5.5	7.5	8.1	7.4
Net Income Return on Equity (%) [8]	**1.1**	0.3	0.1	2.2	2.4
Distributable Income Return on Equity (%)	**15.4**	12.4	11.2	10.6	12.4
Cumulative Compounded Return (%)	**306**	284	319	241	195
Unit Price at End of Year	**$ 15.74**	$ 16.03	$ 18.58	$ 16.15	$ 15.08

(1) 2006 has been restated for discontinued operations.

(2) 2008 and 2007 include a provision for future income taxes of $9,134 and $51,789 or equivalent to ($0.140) and ($0.858), respectively.

(3) Includes gain on property dispositions of $17,046 in 2008, $10,867 in 2005 and $2,559 in 2004.

(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) 2008 and 2007 net income return on equity exclude provision for future income taxes.

TRUSTEES, OFFICERS AND SENIOR MANAGMENT

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

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

Thomas Schwartz
President and Chief Executive Officer

Michael Stein
Chairman

Dino Chiesa
Vice-Chair

Yazdi Bharucha
Chief Financial Officer and Secretary

Mark Kenney
Chief Operating Officer

Maria Amaral
Vice President, Finance

¤ Audit Committee
* Compensation and Governance Comittee
‡ Investment Committee

UNITHOLDER INFORMATION

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
E-mail: 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
E-mail: 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 2008 – December 2008: $0.09

Annual Meeting of Unitholders

The Annual Meeting of Unitholders will be held at 4:30 p.m. on Wednesday, May 20, 2009 at
The Sheraton Centre
123 Queen Street West
Toronto, Ontario M5H 2M9

CAP REIT

www.capreit.net