CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

REPORT FOR THE SIX MONTHS ENDED JUNE 30, 2004

August 10, 2004

Report to Unitholders

On June 1, 2004 we completed the business combination agreement with Residential Equities Real Estate Investment Trust, the most important transaction in CAP REIT's history to date. The acquisition transformed CAP REIT into one of Canada's largest multi-family residential property owners with a national presence from coast-to-coast. Our portfolio almost doubled in size to 24,328 apartment and townhouse suites with a book value of just under $2 billion. The quality of our portfolio has also been significantly enhanced, while our increased geographic diversification has considerably reduced Unitholder risk. The total purchase consideration was $1.044 billion, which was satisfied by the issuance of just under 22 million CAP REIT Units, cash of $175 million, and the assumption of certain ResREIT debt and other liabilities.

Since the completion of the acquisition, we have made considerable progress in integrating the new properties and people. Head office operational and financial staff are being merged together in CAP REIT's offices and we are confident we are on track to achieve our targeted general and administrative savings of $0.5 million in 2004. On-site property management is being combined and steps are being taken to streamline policies, procedures, marketing programs and operating controls in order to achieve further operating and cost synergies over the next two years. Our refinancing strategy to repay the bridge loan of $200 used to complete the transaction has been completed ahead of schedule with $110 million being repaid in June 2004 and the balance to be repaid during the third quarter of 2004.

Our second quarter results include one month's contribution from the ResREIT acquisition, and already we are seeing the benefits of the transaction. Operating revenues rose 36.3% in the quarter, primarily due to acquisitions made over the last twelve months. Distributable income was also up over last year despite increased costs and continuing market weakness. The transaction was also accretive to Unitholders in the second quarter.

Average occupancy has decreased only slightly to 96.9% at quarter end from 97.8% for properties owned as at June 30, 2003. Average monthly rents also remained stable at $889 per suite as at June 30, 2004 compared to $890 last year for properties owned at June 30, 2003. We believe our performance continues to outperform the overall results currently being experienced in our markets.

Including the new ResREIT properties, portfolio occupancy was approximately 95.8% and average monthly rent was $882 as at June 30, 2004. The decline is due to the weaker market conditions and to a small number of properties, including some acquired in the ResREIT transaction, that are experiencing higher than average vacancies. To meet this challenge, we are aggressively introducing new marketing strategies and repositioning initiatives to increase occupancies. We are also continuing with our suite renovation program in order to attract and retain tenants in these and other properties.

Looking ahead, while we may be experiencing a modest decline in the sector's performance, we anticipate that the rental residential sector's proven track record of growth and stability will soon resume. In fact, we believe the market has now stabilized and we could see some gradual improvement through the balance of the year. As a result, we expect to achieve an NOI margin of approximately 52% for 2004 and meet our 85% payout ratio target for the third consecutive year. More importantly, under present circumstances, we anticipate to meet our target of distributable income of $1.28 per Unit in 2004. A further $0.07 per Unit is expected to be achieved once all projected savings from the acquisition are achieved within two years.

(Signed)
Thomas Schwartz
President and Chief Executive Officer

(Signed)
Michael Stein
Executive Chairman

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECOND QUARTER 2004

OVERVIEW

Canadian Apartment Properties Real Estate Investment Trust ("CAP REIT") is a growth-oriented investment trust owning interests in multi-unit residential rental properties, including apartments and townhouses, located in major urban centres across Canada. As at June 30, 2004, CAP REIT had ownership interests in a portfolio that included 24,328 residential suites (CAP REIT's share – 23,241 suites) well diversified by geographic location and asset class.

CAP REIT's objectives are to provide its Unitholders long-term, stable and predictable monthly cash distributions while growing distributable income, cash distributions and Unit value through active property management, accretive acquisitions and strong financial management. Since its Initial Public Offering (IPO) in May 1997, CAP REIT has increased monthly cash distributions to Unitholders by 51%.

On June 1, 2004 CAP REIT completed a combination agreement with Residential Equities Real Estate Investment Trust ("ResREIT"), creating one of Canada's largest multi-family residential property owners with a national presence from coast-to-coast. The total purchase consideration for ResREIT's acquisition was $1.044 billion, which was satisfied by the issuance of 21.964 million CAP REIT Units aggregating $339.1 million, cash of $175 million and the remainder in assumed debt and other liabilities.

Since the completion of the acquisition of ResREIT on June 1, 2004, management has made considerable progress in integrating the new properties and people. Head office operational and financial staff are being merged together in CAP REIT's offices and management believes it is on track to achieve its targeted savings in general and administrative costs of approximately $0.5 million for 2004. In addition, on-site property management is being combined and steps are being taken to streamline policies, procedures, marketing programs and operating controls in order to achieve further operating and cost synergies over the next two years. Management's refinancing strategy to repay the $200 million bridge loan used to complete the transaction with new mortgage financings has been completed ahead of schedule with $110.0 million being repaid in June 2004 and the balance to be repaid during the third quarter of 2004.

As a result of this progress, management expects to achieve the projected annual cost savings of approximately $3.5 million over the next two years through reduced general and administrative costs, enhanced purchasing synergies and organization savings through the elimination of duplicative head office and property management functions. In addition, the combination is expected to enhance CAP REIT's operating platform in the majority of its markets, providing additional opportunities to realize future property management and operating synergies. Under present circumstances, management expects to achieve its distributable income target of $1.28 per Unit in 2004. Management anticipates a further $0.07 per Unit to be achieved from the projected savings over the next two years. This forecast does not include any contribution from future acquisitions or the contribution from additional cost savings or synergies that management may achieve.

Management also believes the combination with ResREIT will provide additional benefits to Unitholders over the long term, including:

- ***Leading Market Position***: CAP REIT is now one of the largest owners and managers of residential real estate in Canada.
- ***Broadened Geographic Diversification:*** CAP REIT's portfolio spans major Canadian urban cities from Vancouver to Halifax.
- ***Greater Liquidity:*** It is expected that Unitholders will enjoy substantially greater liquidity as CAP REIT has been transformed into one of Canada's largest REITs.

The following management's discussion and analysis of the results and financial position for the three and six months ended June 30, 2004 and 2003 should be read in conjunction with the attached financial statements and notes thereto, in addition to management's discussion and analysis of the results and financial position for the year ended December 31, 2003 contained in CAP REIT's 2003 annual report. Certain statements in this discussion could be considered as forward-looking information. This forward-looking information is subject to certain risks and uncertainties that could result in actual results differing materially from these forward-looking statements. These risks and uncertainties are more fully described later in this discussion and in other regulatory filings, such as the Annual Information Form, all of which can be obtained on SEDAR at www.sedar.com. The information in this discussion and analysis is based on information available to management as of August 10, 2004.

SELECTED ANNUAL INFORMATION

Year Ended December 31 ($ Thousands except per Unit amounts)	2003	2002	2001
Operating Revenues	$132,162	$116,049	$ 99,109
Net Income	28,692	27,573	23,064
Net Income per Unit basic	1.001	0.990	0.956
Net Income per Unit diluted	0.998	0.986	0.948
Total assets	839,261	783,214	621,300
Total long-term liabilities	504,964	453,291	351,263
DI[1]	36,026	34,447	28,584
DI per Unit [1]	1.257	1.236	1.185
Distributions declared per Unit	30,771	29,423	25,356
Payout ratio (%)	85.4	85.4	88.7

(1) Non-GAAP measure (see page 5)

Revenues have increased over the last three years mainly due to new acquisitions and rental increases from tenant renewals and turnovers.

Net income has increased over the last three years as a result of increases in revenues exceeding growth in operating costs due to synergies and cost savings combined with effective management of its debt portfolio.

The increases in total assets represent the effect of property acquisitions completed and capital expenditures incurred to further enhance the long-term value of the portfolio.

The increases in total liabilities represent primarily the increase in mortgages payable, due to the assumption of mortgages on acquisitions and refinancings completed over the years.

Distributions to Unitholders have gradually increased over the years as a result of increases in distributable income (see section on Distributable Income).

RESULTS OF OPERATIONS

Operating Revenues and Net Operating Income

CAP REIT strives to maximize operating revenues through active strategies that maximize occupancies across the property portfolio while achieving optimum average monthly rents in accordance with local market conditions. As a result of its capital expenditure programs and active, hands-on property management activities, CAP REIT seeks to be the Landlord of Choice in its markets. Results for the three and six months ended June 30, 2004 include one month's contribution from the acquisition of ResREIT completed on June 1, 2004.

Six Months Ended June 30 ($ Thousands)	2004	2003	2002
Operating Revenues	$ 78,491	$ 65,351	$ 54,498
Operating Expenses	38,275	31,382	25,266
Net Operating Income	40,216	33,969	29,232
NOI Margin	51.2%	52.0%	53.6%
Rental Suites (at 100%)	24,328	12,676	11,673
Average Occupancy	95.8%	97.8%	98.2%

Operating Revenues

Revenues from income properties have risen in each of the past three years due primarily to the acquisition of new apartment buildings and townhouses. The acquisition of the ResREIT properties completed on June 1, 2004 contributed to the consolidated results for one month through the first six months of 2004. Despite the weakening demand for rental accommodation experienced through the first half of 2004 and during 2003 (see discussion in Properties and Markets below), average occupancy in CAP REIT's portfolio has decreased slightly to 96.9% from 97.8% for properties owned as at June 30, 2003. Management believes its vacancy rates continue to outperform the overall average vacancy of 3% to 5% currently being experienced in its markets. However, a number of properties, including certain properties acquired in the ResREIT transaction, are experiencing higher than average vacancies therefore, management has directed its attention to enhancing marketing strategies and/or repositioning initiatives to increase occupancy in these properties. In addition, to attract and retain tenants, management embarked on a program late in 2002 to enhance the interiors of suites in its properties. Included as vacancies were 48 suites under renovation as at June 30, 2004, and 38 suites as at June 30, 2003. The suite renovation program was not active for the six months ended June 30, 2002. Not including these suites, the effective occupancy for the entire portfolio was 96.0% as at June 30, 2004 and 98.1% at June 30, 2003. As a result of CAP REIT's hands-on management style and its programs to enhance its properties, average monthly rents for the portfolio owned as at June 30, 2003 remained stable at $889 per suite as at June 30, 2004 compared to $890 at June 30, 2003.

Revenues in the second quarter of 2004 increased 36.3% to $44.5 million from $32.6 million in 2003. The increase is largely due to the one-month's contribution from the ResREIT properties.

Operating Expenses and Net Operating Income

Operating expenses have risen over the last three years due primarily to the increase in the size of the property portfolio. The acquisition of the ResREIT properties effective June 1, 2004 increased expenses for one month in the period. In addition, rising energy costs increased expenses in the first half of 2004 and 2003. Repair and maintenance, advertising and other marketing costs have also increased over the last three years in order to maintain maximum occupancies across the portfolio. Insurance rates were higher in 2004 than in 2003. Realty taxes were also higher in 2004 compared to 2003.

Net Operating Income (NOI) is not a measure defined by generally accepted accounting principles ("GAAP"). NOI is a key measure of operating performance in the real estate industry and includes all rental revenues generated at the property level, less related direct costs such as utilities, property taxes, insurance, and onsite maintenance wages and salaries. It may not, however be comparable to similar measures presented by other real estate trusts or companies. NOI in 2004 included one-month's contribution from the ResREIT properties. Despite the cost increases outlined above, NOI as a percentage of revenues decreased only slightly to 51.2% for the six months ended June 30, 2004 compared to 52.0% in 2003 and 53.6% in 2002.

In the second quarter of 2004 NOI increased 34.9% to $24.7 million from $18.3 million in 2003. The increase is largely due to the contribution in June of the ResREIT properties, offset by the increased operating expenses as outlined above. As a percentage of revenues NOI in the second quarter of 2004 was 55.6% compared to 56.2% last year.

Net Income

CAP REIT's objectives include maximizing net income through strong financial management and proactively managing its debt portfolio to obtain the lowest interest cost while reducing exposure to interest rate risk by staggering the maturities of its mortgage portfolio.

Six Months Ended June 30 ($ Thousands except per Unit amounts)	2004	2003	2002
Net Operating Income	$40,216	$33,969	$29,232
Depreciation	13,668	4,431	3,195
Amortization	1,848	311	219
Trust Expenses	2,013	2,162	1,808
Mortgage Interest	16,799	13,622	11,386
Other Interest – net	1,605	1,018	(106)
Gain on Property Disposition	-	2,110	-
Net Income	4,283	14,535	12,730
Net Income per Unit – basic	$0.131	$0.510	$0.462
Net Income per Unit – diluted	$0.131	$0.509	$0.460

Depreciation and Amortization

Depreciation expense has increased significantly in 2004 due to a number of factors. First, to conform with the new requirements of the Canadian Institute of Chartered Accountants (CICA), CAP REIT has, effective January 1, 2004, changed its method of depreciation for properties from the sinking fund method to the straight-line method. Of the $9.2 million increase in depreciation expense in the first six months of 2004 compared to the prior year, $6.7 million was due to the change in accounting policy. Secondly, depreciation costs increased due to the growth in CAP REIT's property portfolio, including the new ResREIT properties acquired on June 1, 2004. Thirdly, depreciation expense in 2004 and 2003 includes the impact of CAP REIT's program begun late in 2002 to enhance the interiors of suites in a number of its properties. These suite renovations are being amortized on a straight-line basis over 10 years.

The amortization of deferred financing costs related to CMHC mortgage insurance premiums rose through the first six months of 2004 compared to 2003 and 2002 due to mortgage refinancings aimed at taking advantage of low interest rates. In addition, as a result of the ResREIT transaction, CAP REIT amortized approximately $0.5 million in the second quarter of 2004 related to the amortization of intangible assets arising from the purchase of the ResREIT properties (see Income Properties and Other Assets). Amortization expense in 2004 also included $1.03 million in one-time underwriting fees and related costs associated with the $200 million bridge loan used to complete the ResREIT transaction. This deferred financing cost is being amortized completely in the second and third quarters of 2004.

Depreciation and amortization expenses increased in the second quarter to $9.7 million from $2.4 million in 2003 due primarily to the factors outlined above.

Mortgage and Other Interest

Mortgage interest expense has increased over the last three years due to the assumption of debt associated with the acquisition of new properties and top-up mortgage financings, offset by a slight decrease in the weighted average interest rate. Interest expense for the quarter increased as a result of refinancings of $110.0 million completed to paydown the bridge facility and the assumption of $431 million of ResREIT mortgages at an effective interest rate of 4.93%. Interest coverage (defined as earnings before interest, depreciation and amortization divided by interest expense) was 2.1 times in the first six months of 2004 compared to 2.2 times in 2003 and 2.4 times in 2002.

Other interest costs in 2004 and 2003 relate to borrowings under CAP REIT's acquisition and operating facilities. The increase in 2004 compared to 2003 was due to interest on the $200 million bridge loan used to complete the ResREIT transaction. Interest costs were also positively impacted by reduced interest rates in 2004 and 2003. In 2002, CAP REIT had significant cash balances through the first four months of the year due to the successful offering of Trust Units completed in the fourth quarter of 2001. These cash balances were not invested in acquisitions through the first four months of the year and thus generated additional interest income in the first quarter of 2002.

Mortgage interest in the second quarter increased to $9.3 million from $6.8 million in 2003 due primarily to the addition of the ResREIT mortgage portfolio and the other factors outlined above.

Net Income

Net income in 2004 was significantly reduced due to the changes in depreciation and amortization costs outlined above, as well as the increased interest and other costs related to the completion of the ResREIT transaction. Net income in the first quarter of 2003 included a gain on the sale of a property of $2.1 million or $0.074 per Unit. There were no property sales in 2004 or 2002. Net income in the first quarter of 2002 was reduced by $0.02 per Unit due to due diligence costs, and cash balances from the November 2001 financing not being invested in income producing properties.

Distributable Income

CAP REIT calculates Distributable Income ("DI") as defined in its Declaration of Trust, which provides for a minimum 85% payout ratio of its DI calculated on an annual basis. Accordingly, CAP REIT adds depreciation to its net income for the period (excluding gains on property dispositions) to arrive at DI. The calculation of DI in 2004 also adds back the amortization of intangibles and one-time amortization of deferred financing costs (for underwriting fees and related costs for the bridge facility), related to the ResREIT transaction. DI is not a measure defined by generally accepted accounting principles ("GAAP"), nor does it have a standard definition and as such may not be comparable to other trusts that use similar terms. Management believes DI is the key indicator for determining the distribution paying capacity of CAP REIT. In the table below, is a reconciliation of net income to DI.

Six Months Ended June 30 ($ Thousands except per Unit amounts)	**2004**	**2003**	**2002**
Net Income	$ 4,283	$14,535	$12,730
Add Depreciation	13,668	4,431	3,195
Add Amortization of Intangibles	455	-	-
Add Amortization of one-time Deferred Financing Costs	1,031	-	-
Total	$19,437	$18,966	$15,925
Less Gain on Property Disposition	-	2,110	-
DI	$19,437	$16,856	$15,925
DI per Unit	$ 0.595	$ 0.592	$ 0.578
Distributions declared	$17,645	$14,972	$14,486
Distributions declared per Unit	$ 0.540	$ 0.525	$ 0.525
Payout Ratio	90.8%	88.8%	91.0%
Effective Payout Ratio (including DRIP, before property gain)	78.7%	74.5%	77.0%
Weighted Average Number of Units (000's)	32,643	28,482	27,551

Distributable income in the second quarter of 2004 increased to $12.8 million or $0.353 per Unit from $9.6 million or $0.336 per Unit last year due mainly to one-month's contribution from the new ResREIT properties.

Total distributions declared in 2004 were higher than the prior year due to the increase in monthly cash distributions to $0.09 per Unit from $0.0875 per Unit, effective with the October 2003 distribution and the issuance of 21.964 million Units related to the ResREIT transaction on June 1, 2004. The payout ratio in the second quarter was 76.5% compared to 78.2% in last year's second quarter. Management believes it is on track to achieve its 85% target payout ratio for the full 2004 year.

Funds from Operations

Funds from operations ("FFO") is a measure of the operating performance based on the funds generated from the business before reinvestment or provision for other capital needs. FFO is not a measure defined by generally accepted accounting principles ("GAAP"). FFO as presented is in accordance with the recommendations of the Canadian Institute of Public and Private Real Estate Companies ("CIPPREC"). 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 the Trust's operating performance and is an indicative measure of CAP REIT's cash generating activities. In the table below is a reconciliation of net income to FFO.

Six Months Ended June 30 ($ Thousands except per Unit amounts)	**2004**	**2003**	**2002**
Net Income (before Gain on Property Disposition)	$ 4,283	$12,425	$12,730
Add Gain on Property Disposition	-	2,110	-
Net Income	$ 4,283	$14,535	$12,730
Add Depreciation	13,668	4,431	3,195
Add Amortization of Intangibles	455	-	-
FFO	$18,406	$18,966	$15,925
FFO per Unit	$ 0.564	$ 0.666	$ 0.578
Weighted Average Number of Units (000's)	32,643	28,482	27,551

Total funds from operations in the first quarter of 2003 includes $2.1 million or $0.074 per Unit from the gain on the property disposition. There were no property dispositions in 2004 or 2002.

Stabilized Portfolio Performance

June 30	2004	2003
Stabilized Suites	11,484	
Operating Revenues ($ millions)	$ 64.2	$ 64.2
Net Operating Income ($ millions)	$ 32.2	$ 33.3
Net Operating Income Margin	50.2%	51.9%
Growth in Operating Revenues	(0.1)%	
Decline in NOI	(3.4)%	

Stabilized properties for the six months ended June 30, 2004 are defined as all properties owned by CAP REIT for a 24-month period or greater and, therefore, do not take into account the impact on performance of acquisitions completed during 2004 and 2003, which includes the ResREIT portfolio acquired on June 1, 2004.

For the stabilized portfolio which represents 49.4% of the total suites owned as at June 30, 2004, operating revenues decreased by 0.1% due to a slight decrease in average rents. However, operating costs rose by 3.5% in 2004 due primarily to higher expenditures in repair and maintenance, insurance rates, energy costs, advertising and other marketing costs incurred to maintain maximum occupancies across the portfolio. As a result, NOI declined by 3.4% in the first half of 2004.

QUARTERLY PERFORMANCE

($ Thousands, except per Unit amounts)	Q2, 04	Q1, 04	Q4, 03	Q3, 03	Q2, 03	Q1, 03	Q4, 02	Q3, 02	Q2, 02	Q1, 02
Revenues	44,472	34,019	33,949	32,862	32,631	32,720	31,208	30,343	28,209	26,289
Net Operating Income	24,723	15,493	18,003	18,872	18,331	15,638	16,873	17,170	15,900	13,332
Gain on Property Sale	-	-	-	-	-	2,110	-	-	-	-
Net Income	3,346	937	6,315	7,842	7,306	7,229	7,032	7,811	7,364	5,366
DI	12,823	6,614	8,872	10,298	9,597	7,259	8,872	9,650	9,034	6,891
Net Income per Unit (basic)	$0.092	$0.032	$0.218	$0.273	$0.255	$0.255	$0.250	$0.278	$0.265	$0.197
Net Income per Unit (diluted)	$0.092	$0.032	$0.217	$0.272	$0.255	$0.254	$0.249	$0.277	$0.265	$0.195
DI per Unit	$0.353	$0.228	$0.307	$0.358	$0.336	$0.256	$0.314	$0.344	$0.325	$0.253

CAP REIT has steadily grown revenues over the past two years as a result of accretive acquisitions, improving average rents and stable occupancies. The second quarter of 2004 also includes one month's results from the ResREIT acquisition, completed on June 1, 2004. Beginning in the second quarter of 2003, CAP REIT began to experience a gradual weakening in demand in its markets as further discussed below. In 2004, net income has also been reduced by the change in accounting policy for depreciation outlined above. In addition, the second quarter of 2004 included additional depreciation expense related to the ResREIT properties, as well as the amortization of intangibles and one-time deferred financing costs related to the bridge loan used to complete the ResREIT transaction. The weighted average number of Units outstanding also increased in the second quarter of 2004 due to the ResREIT acquisition. The first quarter of 2003 included a gain of $2.1 million on the sale of a non-core property. The fourth and first quarters of each year tend to generate weaker performance due to increased consumption of energy in the winter months.

INCOME PROPERTIES AND OTHER ASSETS

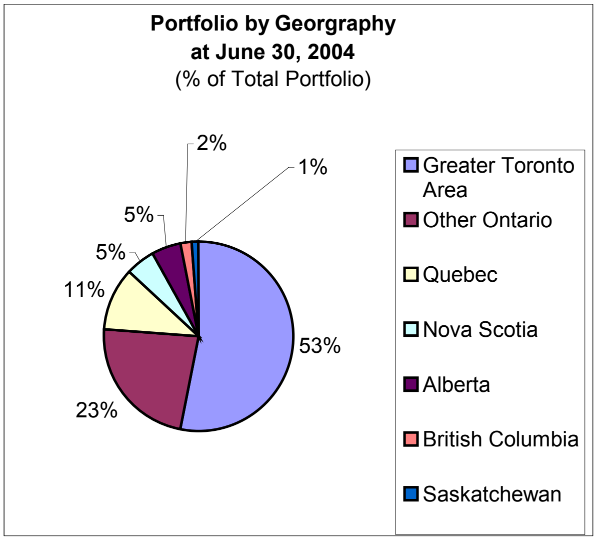
As at ($ Thousands except where noted)	June 30 2004	Dec 31 2003	June 30 2003	June 30 2002
Income Properties:				
- Freehold	$1,399,480	$810,482	$768,603	$696,327
- Leasehold Interest	415,146	-	-	-
- Leasehold Options	10,808	-	-	-
- Equipment	11,979	11,332	9,554	6,219
Total Income Properties	$1,837,413	$821,814	$778,157	$702,546
Deposits and Sundry Assets	15,861	7,723	8,247	5,478
Deferred Financing Costs	13,119	8,351	6,744	6,555
Intangible Assets	12,364	-	-	-
Cash and Cash Equivalents	-	1,373	1,036	594
Total Assets	$1,878,757	$839,261	$794,184	$715,173

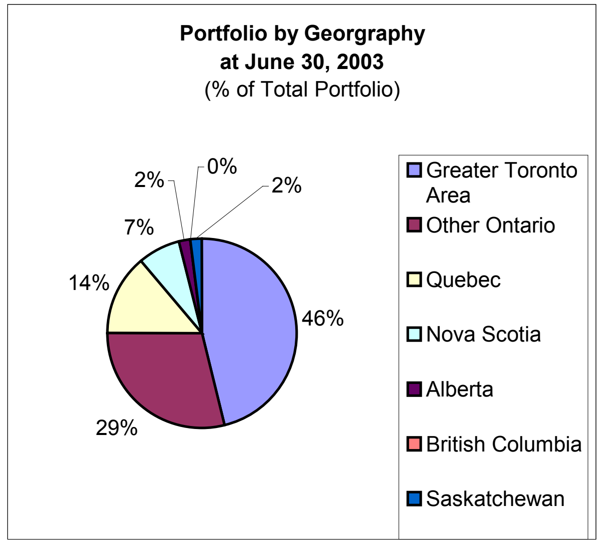
The significant changes to CAP REIT's balance sheet as at June 30, 2004, compared to December 31, 2003 related primarily to the acquisition of ResREIT completed on June 1, 2004. CAP REIT now has leasehold interests as well as freehold ownership of its property portfolio. Leasehold interest is the estimated fair value of buildings and improvements and prepaid rents paid by ResREIT at date of acquisition relating to properties under long-term land leases and operating leases. CAP REIT has fixed price options to acquire each operating lease over a ten-year period with expiry dates ranging from 2024 to 2037. Leasehold options is the estimated fair value with respect to the fixed price option to purchase the leasehold interests described above. As of June 30, 2004, three properties have land leases and 15 properties have operating leases.

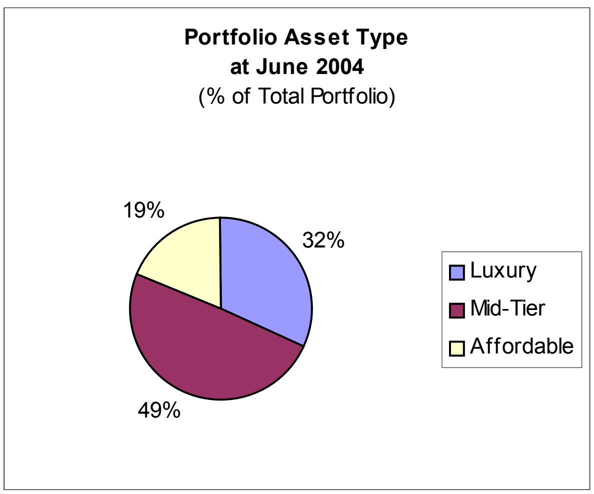
In accordance with GAAP, a portion of the ResREIT purchase price has been allocated to intangible assets for the value of tenant in-place leases and tenant relationships. These intangible assets are being amortized on a straight-line basis over the expected term of the leases or relationships, estimated to range from 6 months to 5 years.

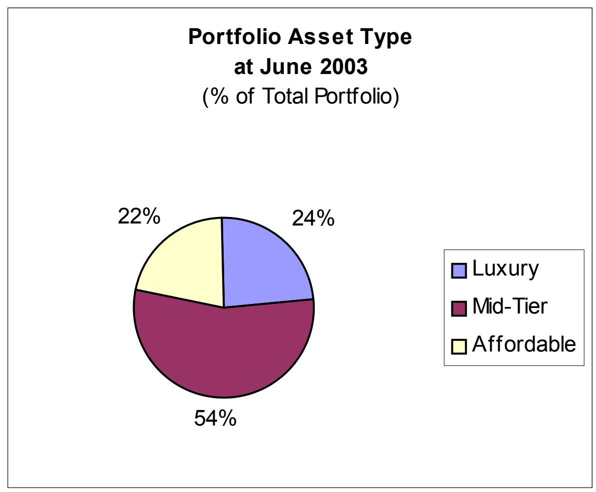
Deferred financing costs increased significantly as at June 30, 2004 compared to December 31, 2003 due to one-time underwriting fees and other related costs of $1.875 million related to a $200 million bridge loan utilized to complete the ResREIT transaction. These fees are being amortized over the second and third quarters of 2004. Normal refinancing costs including CMHC and lender fees, premiums and related legal costs also increased due to the mortgage refinancings completed in June 2004. These will be amortized over longer terms.

CAP REIT's property portfolio continues to be well diversified by geography and balanced among suite sizes and demographic segments. One of CAP REIT's strategic objectives is to mitigate Unitholder risk by ensuring it is not overly exposed to any one geographic region or demographic group. With the acquisition of the ResREIT properties on June 1, 2004, CAP REIT achieved one of its key strategic objectives of significantly enhancing the quality and diversity of its property portfolio.









CAPITAL IMPROVEMENTS

Since its IPO in May 1997, CAP REIT has invested approximately $86.8 in capital expenditures aimed at upgrading its properties to increase future operating cash flow and enhance the long-term value of its portfolio. These investments have also improved the quality of life for tenants and enhanced CAP REIT's brand as the Landlord of Choice. Through 2003 and the first six months of 2004, including the new portfolio, CAP REIT has increased capital expenditures to attract and retain tenants in a highly competitive marketplace. During the first half of 2004 approximately $9.7 million (including the new portfolio) was invested on capital improvement projects, of which $2.8 million was for acquisition capital expenditures, $2.7 million for capital programs, $4.1 million for suite improvement costs, and $0.1 million for intensification costs. The acquisition of the new ResREIT properties on June 1, 2004 will increase capital expenditures in 2004, and management now expects to spend approximately $35 million on capital projects for all of 2004. Capital expenditures were $9.7 million in the first six months of 2003 as compared to $7.9 million in 2002.

Late in 2002 management embarked on a program to enhance the interiors of suites in a number of properties in certain markets, including significant kitchen and bathroom upgrades and other major improvements. These major capital projects are designed to enhance property values over the long term and to attract and retain tenants. In the first half of 2004, 303 suites were improved at a capitalized cost of approximately $4.1 million. Related costs in the first six months of 2003 were $3.1 million for 275 suites. Management is evaluating the newly acquired ResREIT portfolio and will be implementing its suite improvement program in these properties as well. As a result, management now expects to spend approximately $9.0 million on its suite improvement program as part of the total $35 million for all of 2004. CAP REIT's suite enhancement program results in each renovated suite being unavailable for occupancy for approximately four weeks.

CAP REIT funds its capital improvement program through a combination of retained income, cash distributions reinvested from its Distribution Reinvestment Plan, and funds generated by its mortgage refinancing activities. Management believes these sources will be sufficient to fund current and future capital improvement programs.

LIQUIDITY AND CAPITAL RESOURCES

As at ($ Thousands except where noted)	June 30 2004	Dec 31 2003	June 30 2003	June 30 2002
Mortgages Payable	$1,049,173	$ 504,964	$ 450,749	$ 412,810
Total Liabilities	1,284,387	569,082	525,960	454,228
Unitholders' Equity	594,370	270,179	268,224	260,945
Total Liabilities and Unitholders' Equity	1,878,757	839,261	794,184	715,173
Mortgage Debt to Gross Book Value (%)	54.5	58.0	54.9	56.3
Total Debt to Gross Book Value (%)	64.0	62.6	61.5	61.9
Weighted Avg. Mortgage Interest Rate (%)	5.48	6.04	6.11	6.30
Weighted Avg. Mortgage Term to Maturity (yrs)	6.3	7.1	7.0	7.8

Mortgage and Other Debt

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

With the completion of the ResREIT acquisition on June 1, 2004, increased mortgage debt of $431 million was assumed at an effective rate of 4.93%. In addition, during the second quarter $110.0 million of the new mortgage financings was raised to repay a portion of the $200 million bridge loan used to complete the ResREIT transaction. As a result, the weighted average interest rate on CAP REIT's total mortgage portfolio at June 30, 2004 was 5.48% compared to 6.04% as at March 31, 2004 and 6.04% as at December 31, 2003. The weighted average term to maturity was 6.3 years as at June 30, 2004 compared to 7.2 years as at March 31, 2004 and 7.1 years as at December 31, 2003. In order to ensure that CAP REIT is not overly exposed to interest rate risk, management has been successful in staggering the maturity dates of its mortgage portfolio. During 2005 to 2007 only 12.8% of its total mortgage debt will mature. Management expects that upon completion of the refinancing of the remaining borrowings on the bridge loan the weighted average interest rate will be approximately 5.45% and the weighted average term to maturity will increase to approximately 8 years.

Through the balance of 2004, CAP REIT will be repaying regular principal payments of $14.6 million and refinancing maturing mortgages totalling $23.1 million for total principal repayments of $37.7 million.

Bank indebtedness increased as at June 30, 2004 from the year-end due to the bridge loan used to complete the ResREIT acquisition. Of the $200 million borrowed under this loan, $110.0 million was repaid in June 2004 with new mortgage financing. The balance of $90 million is expected to be repaid during the third quarter of 2004 with new mortgage financings.

During the first quarter of 2003, a $2.8 million mortgage was discharged in connection with the disposition of the property in Mississauga, Ontario.

The break down of future principal repayments, including mortgage maturities during the year and weighted average interest rates as at June 30, 2004, are as follows:

	Principal Repayments ($000's)	Mortgage Maturities ($000's)	Total Debt ($000's)	% of Total Debt	Weighted Avg Interest Rate (%)[1]
Year					
2004	$ 14,648	$ 23,081	$ 37,729	3.6	5.9
2005	31,448	21,283	52,731	5.0	4.3
2006	31,960	43,371	75,331	7.2	4.5
2007	29,732	70,218	99,950	9.5	5.8
2008	28,916	77,352	106,268	10.1	5.1
2009	24,004	173,913	197,917	18.9	5.3
2010	19,925	67,563	87,488	8.3	5.8
2011	15,203	147,801	163,004	15.5	5.4
2012	11,633	47,599	59,232	5.7	5.9
2013	8,951	73,567	82,518	7.9	5.4
2014-2021	21,731	65,274	87,005	8.3	6.0
	$ 238,151	$ 811,022	$ 1,049,173	100.0%	

[1] rates for maturing mortgages only

Liquidity

Short-term liquidity broadly includes amounts reinvested after distributions to Unitholders plus the amount available on undrawn credit facilities. As at June 30, 2004, CAP REIT's borrowings on its operating, acquisition and bridge facilities were $183.1 million compared to $40.5 million as at December 31, 2003 and $53.7 million as at June 30, 2003. Bank indebtedness as at June 30, 2004 included $90.0 million outstanding on the bridge facility used to complete the ResREIT acquisition. Undrawn amounts on its acquisition and operating credit facilities were $32 million as at June 30, 2004.

Unitholders' Equity

Unitholders' equity as at June 30, 2004 was $594.4 million compared to $270.2 million as at December 31, 2003 and $268.2 million at June 30, 2003. The significant increase in 2004 is due to the issuance of 21.964 million CAP REIT Units aggregating $339.1 million in June 2004 related to the acquisition of ResREIT, partially offset by the negative impact on net income resulting from the change in accounting policy for the depreciation of properties and new amortization charges discussed earlier. In addition, in June 2004, CAP REIT acquired 0.4 million Units for cancellation under its approved Normal Course Issuer Bid (NCIB) for a total cost of $4.6 million or an average of $12.23 per Unit. There were no public offerings of CAP REIT Units in 2004, 2003 or 2002. With the completion of the ResREIT transaction, and including the six successful public offerings completed since its Initial Public Offering in May 1997, CAP REIT's total market capitalization has risen to $630 million as at June 30, 2004, a 668% increase from $82 million as at the date of its IPO. As of June 30, 2004, management and trustees owned approximately 3.7% of CAP REIT's issued and outstanding Units.

Units Outstanding

The Declaration of Trust authorizes the issuance of an unlimited number of a single class of Units. Each Unit represents an equal interest in the Trust with all outstanding Units. All Units outstanding from time to time shall participate pro-rata in any distributions by CAP REIT. Each Unit is entitled to one vote at all meetings of Unitholders.

	June 30, 2004	June 30, 2003
Units outstanding, beginning of period	28,937,484	28,300,115
Issued during the period:		
Pursuant to ResREIT combination	21,964,039	-
Distribution Reinvestment Plan	180,455	153,155
Unit Option Plan	40,500	85,000
Unit Purchase Plan	-	136,394
Employee Unit Purchase Plan	4,325	31,108
Units cancelled under NCIB	(374,700)	-
Units outstanding, end of period	50,752,103	28,677,772

Distribution Reinvestment Plan

CAP REIT's Distribution Reinvestment Plan (DRIP) continues to attract Unitholders. CAP REIT's DRIP allows Unitholders to receive an additional 5.0% of their distributions in the form of additional Units, allowing Unitholders to cost-effectively increase their holdings in CAP REIT. As of June 30, 2004, participation in the DRIP had fallen to approximately 8.6% of Units outstanding compared to 15% at June 30, 2003. The decline is due to the issuance on June 1, 2004 of 21.964 million Units related to the ResREIT transaction as new Unitholders had not yet enrolled in CAP REIT's DRIP plan. Management expects the participation rate to increase to approximate historical levels in the future.

RISK MANAGEMENT

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

Operating Risk

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

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

CAP REIT operates under rent control legislation in most of its major markets. On April 20, 2004 the Government of the Province of Ontario announced that it intended to introduce legislation to repeal the current *Tenant Protection Act (1997)* and introduce a new bill that would govern landlord and tenant relations. The proposed new legislation could impact CAP REIT's revenues and average rents as guidelines on rent increases could change under the proposed new legislation. The Government has stated it intends to consult with the owners of apartment properties in determining such items as rent increase guidelines and other issues. CAP REIT has operated successfully in periods of legislated rent control in the past, and believes its strategies to foster tenant loyalty and build its brand will continue to result in CAP REIT being considered a preferred landlord in its chosen markets.

CAP REIT's growth in the past has come from its focused acquisition program. Management has demonstrated an ability to locate and complete property purchases at accretive capitalization rates, including the completion of the ResREIT combination in June 2004. 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. In addition, there can be no assurance that anticipated cost savings from synergies and integration of operations from the business combination with ResREIT will be achieved.

Interest Rate Risk

Interest rate risk is minimized by ensuring that debt maturities are staggered over a number of years and by taking advantage of low interest rate environments to blend, extend and refinance mortgages to extend the average term to maturity. This strategy helps protect Unitholders from future significant increases in interest rates. In addition, the amount of floating rate debt incurred by CAP REIT is restricted to less than 10% of total indebtedness by its Declaration of Trust. To reduce its exposure to floating interest rate risk, Management may also employ hedging strategies from time to time. For example, from April to May 2004 Management entered into interest rate forward contracts to hedge its exposure to rising interest rates on the refinancing of borrowings on the $200 million bridge loan used to complete the ResREIT transaction. As at June 30, 2004, there were no outstanding forward contracts. As at June 30, 2004, $13.4 million of mortgages (1.3% of total indebtedness) were on a floating rate basis.

Capital Risk

A residential rental business, like any other real estate enterprise, is capital intensive. Since its initial public offering, CAP REIT has invested approximately $86.8 million in capital expenditures to enhance its properties. The acquisition of the ResREIT portfolio will significantly increase capital expenditures going forward. CAP REIT is exposed to the risk of being unable to fund its capital expenditure and repair and refurbishment programs to upgrade its properties. Management is also focused on ensuring sufficient mortgage debt capacity and unutilized credit facilities are available.

Environmental Risk

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

Commitments

CAP REIT has entered into commitments for fixed price gas contracts, land leases and property management services as outlined in note 15 to the consolidated financial statements.

RELATED PARTY TRANSACTIONS

For the six months ended June 30, 2004 CAP REIT paid construction management fees of $0.2 million (based on 4.5% of construction costs) in consideration for construction management services provided by a company controlled by two trustees and officers of CAP REIT in connection with the capital improvement program for the properties.

For the six months ended June 30, 2004 CAP REIT paid rent for head office space in the amount of $0.2 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 in February, 2006 and provides for yearly minimum rental payments of $223,000.

FUTURE OUTLOOK

Through the first half of 2004 the multi-unit residential rental business continued the weakening trend experienced in 2003, resulting in a modest increase in vacancy rates and minimal increases in average rents. There were three main reasons for these weakening market fundamentals. First, lower mortgage interest rates have reduced the cost gap between owning and renting and helped to make home ownership more affordable. Second, condominium completions were higher, particularly in downtown core areas, and first time buyers taking possession have vacated their rental suites. Third, immigration and youth job growth remained weak, resulting in reduced demand from these traditionally strong demographic groups.

Looking ahead, CAP REIT has defined a number of strategies to meet the current market challenges and to achieve its objectives of providing Unitholders with stable and predictable monthly cash distributions while growing distributable income and Unit value over the long term.

First, management will maintain its focus on maximizing occupancy rates in accordance with local conditions in each of its markets. Since inception in May 1997, CAP REIT's hands-on management style, focus on tenant 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. CAP REIT will be applying this proven property management style to the recently acquired ResREIT properties over time. However, management expects the current weaker market conditions may result in overall vacancy rates increasing slightly with little or no increase in average rents. Programs such as rental rate incentives and other programs may negatively impact distributable income until such time as markets stabilize.

Second, management will continue to direct its capital resources primarily on its program to upgrade suites in a number of specific properties across the portfolio. Suites under renovation are not available for occupancy for approximately four weeks, and thus may increase portfolio vacancy rates at any one time.

Third, CAP REIT will continue to increase the size of the portfolio over the long term through acquisitions that meet its strategic criteria. However, for the foreseeable future management will direct its attention on ensuring the integration of the ResREIT assets, properties and people proceeds smoothly. Management may also take advantage of the current high valuations for rental residential properties to sell certain properties where management believes it has maximized potential.

Fourth, CAP REIT will continue to take advantage of the current low interest rate environment to refinance and top-up its mortgage portfolio to reduce interest cost while appropriately staggering the maturity dates of its mortgage portfolio to ensure it is not exposed in any one year to a refinancing risk. These initiatives will include reviewing the ResREIT mortgage portfolio with the view to reducing its costs and risk profile.

With the completion of the ResREIT acquisition on June 1, 2004, CAP REIT effectively doubled the size of its property portfolio and was transformed into one of Canada's largest residential landlords with properties in all major Canadian cities from coast to coast. Management believes the integration and combination of the ResREIT, properties and people are proceeding smoothly, and that it is on track to achieve the anticipated cost savings resulting from the acquisition and to meet its expected distributable income target of $1.28 per Unit in 2004. Management also anticipates that it will achieve its target 85% payout ratio again in 2004.

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

QUARTERLY CONSOLIDATED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED

JUNE 30, 2004

(UNAUDITED)

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Balance Sheets as at June 30, 2004 and December 31, 2003
(Unaudited - $ thousands)

	June 30 2004	December 31 2003
Assets		
Income properties *(note 4)*		
Cost	$ 1,882,672	$ 853,405
Less: Accumulated depreciation	(45,259)	(31,591)
Net book value	1,837,413	821,814
Deposits and sundry assets *(note 5)*	15,861	7,723
Deferred financing costs *(note 6)*	13,119	8,351
Intangible assets *(note 7)*	12,364	–
Cash and cash equivalents	–	1,373
	$ 1,878,757	$ 839,261
Liabilities and Unitholders' Equity		
Liabilities		
Mortgages payable *(note 8)*	$ 1,049,173	$ 504,964
Bank indebtedness *(note 9)*	183,087	40,527
Accounts payable and other liabilities	29,300	12,039
Security deposits	18,259	8,514
Distributions payable	4,568	3,038
	1,284,387	569,082
Unitholders' Equity	594,370	270,179
	$ 1,878,757	$ 839,261

The notes form an integral part of the consolidated financial statements.

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Income
(Unaudited - $ thousands, except Unit and per Unit amounts)

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
Operating Revenues				
Revenue from income properties	$ 44,472	$ 32,631	$ 78,491	$ 65,351
Operating Expenses				
Realty taxes	6,161	4,502	11,032	9,107
Property operating costs	13,588	9,798	27,243	22,275
Total expenses	19,749	14,300	38,275	31,382
Net Operating Income	24,723	18,331	40,216	33,969
Depreciation	7,991	2,291	13,668	4,431
Amortization	1,673	155	1,848	311
Trust expenses	1,191	1,243	2,013	2,162
	10,855	3,689	17,529	6,904
Income Before Interest Expense	13,868	14,642	22,687	27,065
Mortgage interest	9,267	6,796	16,799	13,622
Loan interest	1,305	596	1,701	1,106
Interest income	(50)	(56)	(96)	(88)
	10,522	7,336	18,404	14,640
Income Before the Undernoted	3,346	7,306	4,283	12,425
Gain on property disposition *(note 13 (f))*	–	–	–	2,110
Net Income	$ 3,346	$ 7,306	$ 4,283	$ 14,535
Net Income per Unit				
Basic	$ 0.092	$ 0.255	$ 0.131	$ 0.510
Diluted	$ 0.092	$ 0.255	$ 0.131	$ 0.509
Weighted Average Number of Units *(note 11)*				
Basic	36,277,748	28,574,250	32,643,215	28,481,866
Diluted	36,299,199	28,646,983	32,707,445	28,545,888

See accompanying notes to consolidated financial statements.

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statement of Unitholders' Equity
For the Six Months Ended June 30, 2004
(Unaudited - $ thousands)

	Note	Cumulative Capital	Cumulative Net Income	Cumulative Distributions	Total
Unitholders' Equity, January 1, 2004		$ 292,564	$ 111,906	$ (134,291)	$ 270,179
Net income		–	4,283	–	4,283
Distributions declared and paid		–	–	(13,077)	(13,077)
Distributions payable		–	–	(4,568)	(4,568)
New Units issued	3	339,147	–	–	339,147
Distribution Reinvestment Plan	12(b)	2,412	–	–	2,412
Unit Option Plan	12(c)	520	–	–	520
Employee Unit Purchase Plan	12(e)	58	–	–	58
Units cancelled	12(f)	(4,416)	–	(168)	(4,584)
Unitholders' Equity, June 30, 2004		$ 630,285	$ 116,189	$ (152,104)	$ 594,370

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statement of Unitholders' Equity
For the Six Months Ended June 30, 2003
(Unaudited - $ thousands)

	Note	Cumulative Capital	Cumulative Net Income	Cumulative Distributions	Total
Unitholders' Equity, January 1, 2003		$ 284,006	$ 83,214	$ (103,520)	$ 263,700
Net income		–	14,535	–	14,535
Distributions declared and paid		–	–	(12,463)	(12,463)
Distributions payable		–	–	(2,509)	(2,509)
Distribution Reinvestment Plan	12(b)	2,040	–	–	2,040
Unit Option Plan	12(c)	1,012	–	–	1,012
Unit Purchase Plan	12(d), 13(b)	1,865	–	–	1,865
Employee Unit Purchase Plan	12(e)	44	–	–	44
Unitholders' Equity, June 30, 2003		$ 288,967	$ 97,749	$ (118,492)	$ 268,224

See accompanying notes to consolidated financial statements.

CANADIAN APARTMENT PROPERTIES REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(Unaudited - $ thousands)

	Three Months Ended June 30 2004	Three Months Ended June 30 2003	Six Months Ended June 30 2004	Six Months Ended June 30 2003
Cash Provided By (Used In):				
Operating Activities				
Net Income	$ 3,346	$ 7,306	$ 4,283	$ 14,535
Items not affecting cash:				
Depreciation	7,991	2,291	13,668	4,431
Amortization	1,673	155	1,848	311
Gain on property disposition	–	–	–	(2,110)
Cash from Operations	13,010	9,752	19,799	17,167
Changes in non-cash operating assets and liabilities (*note 13 (a)*)	2,125	(1,225)	2,474	(1,522)
Cash from Operating Activities	15,135	8,527	22,273	15,645
Financing Activities				
Mortgage financings	128,744	6,458	136,576	18,098
Mortgage principal repayments	(3,675)	(2,675)	(7,259)	(5,304)
Mortgages repaid on maturity	(12,172)	(6,458)	(15,825)	(14,366)
Bank indebtedness	82,185	6,592	83,591	8,669
Proceeds of issuance of Units	95	861	578	1,056
Net cash distributions to Unitholders *(note 13 (c))*	(6,699)	(6,234)	(13,703)	(10,423)
Deferred financing costs incurred	(5,140)	(17)	(5,585)	(83)
Purchase of Units	(4,584)	–	(4,584)	–
Cash used in Financing Activities	176,305	(1,331)	171,340	(2,353)
Investing Activities				
Disposition of income properties (*note 13 (f)*)	–	–	–	4,289
Acquisition of income properties (*note 13 (d)*)	(185,241)	(111)	(185,241)	(6,811)
Capital improvements	(6,383)	(6,681)	(9,745)	(9,734)
Cash used in Investment Activities	(191,624)	(6,792)	(194,986)	(12,256)
Change in Cash and Cash Equivalents During the Period	(184)	262	(1,373)	1,036
Cash and Cash Equivalents, Beginning of Period	184	774	1,373	–
Cash and Cash Equivalents, End of Period	$ –	$ 1,036	$ –	$ 1,036

See accompanying notes to consolidated financial statements.

1. Organization of the Trust

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

2. Significant Accounting Policies

Basis of presentation

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles consistent with those disclosed in CAP REIT's financial statements included in the annual report for the year ended December 31, 2003 with the exception of the changes noted below. Those annual financial statements should be read in conjunction with these interim financial statements as the disclosures are more extensive. These interim consolidated financial statements do not include all the information and disclosures required for annual financial statements.

CAP REIT's results for the three and six months ended June 30, 2004 are not necessarily indicative of the results that may be expected for the full year due to seasonal variations in utility costs. CAP REIT has historically experienced higher utility expenses in the first and fourth quarters as a result of the winter months which create variations in the quarterly results.

Principles of consolidation

The consolidated financial statements include the accounts of CAP REIT and all of its subsidiaries. All inter-entity transactions and accounts have been eliminated.

Income properties

Effective January 1, 2004, CAP REIT adopted a new method of depreciation for buildings, applied prospectively, to conform with new requirements of the Canadian Institute of Chartered Accountants (CICA). CAP REIT has changed from the sinking fund method of depreciation to the straight-line method over the estimated remaining useful life of the respective properties. The impact of this change for the three and six months ended June 30, 2004 was an increase in depreciation expense and a decrease in net income of $2,994 and $6,741, respectively.

Intangible assets

In accordance with the CICA Emerging Issues Committee Abstracts No. 137 and No. 140, effective for property acquisitions initiated after September 12, 2003, a portion of the purchase price is allocated to intangible assets for the fair value of tenant in-place leases and tenant relationships. The value of tenant in-place leases and tenant relationships are amortized over the expected term of the leases or relationships, estimated by management to range from 6 months to 5 years and is included in amortization expense. 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.

Impairment of long-lived assets

Effective January 1, 2004, CAP REIT adopted prospectively the recommendations of CICA Handbook Section 3063, "Impairment of Long-lived Assets". This new standard requires a two-step process for determining when an impairment of income properties and other long-lived assets should be recognized in the financial statements. When impairment is determined to exist, the impaired asset is written down to fair value. Prior to January 1, 2004 income properties were recorded at the lower of cost less accumulated depreciation and net recoverable amount. This change in accounting policy had no impact on adoption or during the current reporting period.

Derivative instruments

Effective January 1, 2004, CICA Accounting Guideline 13 established specific conditions for the application of hedge accounting. During the period CAP REIT entered into interest rate forward contracts to hedge its exposure to rising interest rates on the refinancing of borrowings on its bridge facility to conventional fixed rate mortgages. As hedge accounting has been applied, any realized gain or loss resulting from the settlement of these forward contracts will be deferred and amortized to mortgage interest expense over the term of the related mortgages. As at June 30, 2004, there were no outstanding forward contracts.

Stock-Based compensation

During the fourth quarter of 2003 CAP REIT adopted, on a prospective basis, effective January 1, 2003, the fair value based method of accounting for all Unit-based options granted on, or after, January 1, 2003, and as such, compensation expense is recognized based on the fair value method of accounting and the fair value is charged to income as an expense over the vesting period. As no options were issued during 2003 and for the six months ended June 30, 2004, the adoption of this method of accounting has had no impact on the compensation expense for the three and six months ended June 30, 2004 and 2003.

Comparative figures

Certain comparative figures have been reclassified to conform to the current period's presentation.

3. Business Combination

On June 1, 2004, CAP REIT completed a business combination with Residential Equities Real Estate Investment Trust ("ResREIT") pursuant to a Combination Agreement dated March 29, 2004 that outlined an offer to purchase the ResREIT Units and subsequent merger (the "Combination Agreement" or "Offer"). In accordance with the terms of the Combination Agreement, CAP REIT acquired 100% of the issued and outstanding Units of ResREIT for a combination of cash and CAP REIT Units. For each outstanding ResREIT Unit, ResREIT Unitholders received either: (i) $18.60 in cash, subject to a maximum aggregate cash amount of $175,000 and pro-rata for elections exceeding this amount (the "Cash Option") or (ii) 1.216 Units of CAP REIT (the "Unit Option").

As at June 1, 2004, there were 27,471,150 ResREIT Units issued and outstanding which were exchanged for 21,964,039 CAP REIT Units and cash of $175,000. The value ascribed to the CAP REIT Units issued to ResREIT Unitholders was $15.441 per Unit, representing the average closing price for the Units on the Toronto Stock Exchange for the five trading days before and after, March 30, 2004, the date of the announcement of the Offer. The transaction has been accounted for using the purchase method. Earnings from this acquisition are included in the consolidated statement of income from June 1, 2004, the date of acquisition.

(Unaudited - $ thousands, except Unit and per Unit amounts)

The assets acquired, consideration given and liabilities assumed, at fair value on June 1, 2004 are estimated as follows:

The consideration paid consists of:		
Units issued (21,964,039 Units at $15.441 per Unit)	$	339,147
Cash		175,000
Closing costs		12,717
		526,864
Assumed mortgages payable		430,717
Assumed bank indebtedness		61,418
Other liabilities		25,930
	$	1,044,929
Income properties		
- Freehold	$	592,374
- Leasehold interest		427,098
- Equipment		50
		1,019,522
Intangible assets		12,819
Other Assets		10,112
Cash acquired		2,476
Total Purchase Price	$	1,044,929

Included in leasehold interest is the estimated fair value of the options to purchase the leasehold properties of $10,808.

As at June 30, 2004, the determination of the purchase price is based on Management's best estimates. The allocation of the purchase price to fair values of assets acquired and liabilities assumed may be subject to adjustment.

The assumed liabilities of ResREIT include closing costs paid with respect to the acquisition in the amount of $9,958.

4. Income Properties

	June 30 2004	December 31 2003
Freehold		
? Land	$ 198,792	$ 112,342
? Buildings & improvements	1,242,406	727,788
Leasehold interest		
? Buildings & improvements	416,290	–
? Options to purchase	10,808	–
Equipment	14,376	13,275
	$ 1,882,672	$ 853,405
Less: accumulated depreciation	(45,259)	(31,591)
Net book value	$ 1,837,413	$ 821,814

Depreciation on freehold buildings and improvements is recorded on a straight-line basis over their estimated useful life not exceeding 40 years. Capital improvements are amortized on a straight-line basis over their estimated useful lives ranging from 3 to 10 years.

(Unaudited - $ thousands, except Unit and per Unit amounts)

Leasehold Interest – buildings & improvements represent the fair value of building and improvements, and prepaid rents paid by ResREIT as at the date of acquisition relating to the three properties under long-term land leases *(note 15)* and the fifteen operating leases. There are no future obligations with respect to the operating leases. The carrying value is amortized on a straight-line basis over the remaining term of the leases, approximately 30 years.

Leasehold Interest – options to purchase, represent the fair value at date of acquisition of the options to acquire the leasehold properties under operating leases at their lease expiry dates ("carrying value"). The carrying value is evaluated for impairment annually or more frequently when events have occurred that would suggest an impairment. Impairment would be recognized when the estimated fair value of the option is lower than the carrying value. Should a decision be made to not exercise an option, the value ascribed would be expensed at that date. Otherwise, on acquisition of title, the carrying value would form part of the purchase price of the income properties. Options are exercisable by CAP REIT at the end of the leasehold terms.

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

5. Deposits and Sundry Assets

	June 30 2004	December 31 2003
Loans receivable *(note 12 (d))*	$ 1,784	$ 3,121
Leasehold improvements – net of accumulated amortization of $150 (2003 - $119)	638	634
Prepaid and other receivables	9,381	3,759
Deposits	4,058	209
Total	$ 15,861	$ 7,723

Included in Deposits is $2,303 (2003 – $Nil) for funds held in trust to be used for future capital expenditures.

6. Deferred Financing Costs

	June 30 2004	December 31 2003
CMHC mortgage insurance premiums	$ 10,490	$ 7,857
Other financing costs	5,939	2,442
	16,429	10,299
Less: accumulated amortization	(3,310)	(1,948)
Net book value	$ 13,119	$ 8,351

Included in Other financing costs are underwriting fees and other related costs aggregating $1,875 ($844 net of accumulated amortization) relating to the bridge facility (*note 9*) which is being amortized over the outstanding term of the funds advanced. The funds advanced under the bridge facility are expected to be repaid during the remainder of 2004.

(Unaudited - $ thousands, except Unit and per Unit amounts)

7. Intangible Assets

	June 30 2004	December 31 2003
Value of tenant in-place leases, net of accumulated amortization of $439	$ 11,383	$ –
Value of tenant relationships, net of accumulated amortization of $16	981	–
Net book value	$ 12,364	$ –

8. Mortgages Payable

Mortgages payable bear interest at a weighted average rate at June 30, 2004 of 5.48% (December 31, 2003 – 6.04%) and mature between 2004 and 2021. 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
Six months remaining in 2004	$ 37,729	3.60
2005	52,731	5.03
2006	75,331	7.18
2007	99,950	9.53
2008	106,628	10.13
Subsequent to 2008	676,804	64.53
	$ 1,049,173	100.00

9. Bank Indebtedness

CAP REIT has an annual revolving operating facility with a maximum amount of $15,000. In addition, during the quarter, it increased its three-year revolving term facility from $70,000 to $115,000 for acquisitions, and obtained a new one–year bridge facility of $200,000, the proceeds of which were used to complete the business combination *(note 3)*. The operating and bridge facilities mature on May 31, 2005 and the acquisition facility matures on May 31, 2007. Second charges and a floating charge debenture on income properties have been pledged as security. As at June 30, 2004, the weighted average interest rate for amounts drawn under these credit facilities is 4.37% (December 31, 2003 – 4.45%).

The following balances are outstanding:

	June 30 2004	December 31 2003
Operating facility	$ 5,262	$ 4,999
Acquisition facility	87,792	35,528
Bridge facility	90,033	–
Total	$ 183,087	$ 40,527

In addition, as at June 30, 2004, CAP REIT has letters of credit outstanding in the amount of $4,982 (December 31, 2003 - $3,575), which affects the maximum available under the facilities.

(Unaudited - $ thousands, except Unit and per Unit amounts)

10. Distributions

CAP REIT distributes to Unitholders on or about the 15th day of each month in each calendar year, an amount calculated on an annual basis, of not less than 85% of distributable income in accordance with CAP REIT's Declaration of Trust.

The following tables set out CAP REIT's distributions to Unitholders:

	Six Months Ended June 30	
	2004	**2003**
Distributions declared (note 13 (c))	$ 17,645	$ 14,972
Distributions per Unit	$ 0.540	$ 0.525

11. Per Unit Calculations

Per Unit calculations are based on the weighted average number of Units outstanding for the period. 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. The following table provides a reconciliation between the outstanding weighted average number of Units and number of diluted Units:

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
Weighted average number of Units	36,277,748	28,574,250	32,643,215	28,481,866
Effect of dilutive Unit options	21,451	72,733	64,230	64,022
Weighted average number of diluted Units	36,299,199	28,646,983	32,707,445	28,545,888

The following Unit options have been excluded from the diluted calculations because the options' exercise price was greater than the weighted average market price of the Units.

Exercise Price	Number of Units	
	2004	**2003**
$14.10	185,000	–
$13.73	100,000	–
$13.25	156,000	–
	441,000	–

(Unaudited - $ thousands, except Unit and per Unit amounts)

12. Unitholders' Equity

a) *Authorized - Unlimited, voting Units*

The number of issued and outstanding Units comprises the following:

	June 30 2004	June 30 2003
Units outstanding, beginning of period	28,937,484	28,300,115
Issued during the period:		
New Units issued *(note 3)*	21,964,039	–
Distribution Reinvestment Plan	180,455	153,155
Unit Option Plan	40,500	85,000
Unit Purchase Plan	–	136,394
Employee Unit Purchase Plan	4,325	3,108
Units cancelled *(note 12 (f))*	(374,700)	–
Units outstanding, end of period	50,752,103	28,677,772

b) *Distribution Reinvestment Plan*

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

c) *Unit Option Plan*

Under the terms of the Unit Option Plan, the maximum number of Units reserved for issuance to Trustees, officers and employees of CAP REIT is 2,233,000 Units (June 30, 2003 - 2,233,000). Units are granted based on a performance incentive for improved service and enhancing profitability and vest on grant.

There were no options granted in 2003 and in the six months of 2004.

A summary of Unit option activity for the six months ended June 30, 2004 and June 30, 2003 is presented below. All options are exercisable as at June 30, 2004.

	Six Months Ended June 30 2004		Six Months Ended June 30 2003	
	Number of Units	Weighted Average Exercise Price	Number of Units	Weighted Average Exercise Price
Options outstanding, beginning of period	693,000	$ 12.95	890,500	$ 12.84
Options exercised	(40,500)	12.84	(85,000)	11.91
Options forfeited	–	–	(20,000)	13.73
Options outstanding, end of period	652,500	$ 12.95	785,500	$ 12.92

The following Unit Option Plan grants are outstanding at:

		Number of Units	
Exercise Price	Expiry Date	June 30 2004	June 30 2003
$9.50	December 21, 2003	–	7,000
$10.40	December 23, 2004	27,000	47,000
$ 9.60	February 22, 2005	28,000	28,000
$11.85	December 17, 2010	156,500	161,000
$14.10	November 14, 2011	185,000	202,500
$13.73	April 4, 2012	100,000	120,000
$13.25	November 17, 2012	156,000	220,000
		652,500	785,500

(Unaudited - $ thousands, except Unit and per Unit amounts)

d) 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. For the year ended December 31, 2003, $400 (2002 - $622) was accrued as an estimate for incentive compensation for the executives and expensed in the statement of income. Subsequent to the 2003 year-end, incentive compensation of $412 was awarded to the executives of which $341 was applied as principal repayments to reduce loans receivable and $71 was paid in cash.

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. The maximum number of Units reserved for issuance under the Plan is 437,000 Units (June 30, 2003 - 437,000). Under the contracts finalized in 2003, no new Units were issued and no new loans to purchase Units were granted to the executives during 2003 and the six months of 2004 for compensation earned after 2002.

The summary of Units previously issued under the Unit Purchase Plan and loans granted thereunder (included in deposits and sundry assets) is summarized below.

Number of Units	**June 30 2004**	**June 30 2003**
Balance, beginning of period	423,725	287,331
Issued during the period	–	136,394
Balance, end of period	423,725	423,725
Price per Unit, issued	$ –	$ 13.67

	June 30 2004	**December 31 2003**
Loans receivable, beginning of period	$ 3,121	$ 2,129
Loans granted	–	1,243
Loans matured and repaid	(877)	–
Principal repayments	(460)	(251)
Loans receivable, end of period	$ 1,784	$ 3,121

The loans granted were for three-year terms and bore interest at the rate of prime plus 0.25% and are with recourse to the executive officers. The loans are secured by the Units as well as distributions on the Units. Incentive compensation declared and earned is applied against repayment of the loans. In addition to the principal repayments during the period, interest payments in the amount of $47 (December 31, 2003 - $146) were received on the loans.

e) Employee Unit Purchase Plan

Under the terms of the Employee Unit Purchase Plan the maximum number of Units reserved for issuance to CAP REIT employees is 30,000 (December 31, 2003 - 30,000). The terms of the Employee Unit Purchase Plan grant employees a right to receive an additional amount equal to 10% of their contributions paid in the form of additional Units. This additional amount is expensed as compensation upon issuance of the Units. The amount expensed for the six months ended June 30, 2004 was $5 (June 30, 2003 – $4).

f) Units Cancelled

Subsequent to a normal course issuer bid, during the quarter 374,700 Units were acquired for cancellation at market prices aggregating to $4,584. The weighted average carrying value of the Units of $4,416 has been charged to cumulative capital while the remainder of the proceeds of $168 has been charged to cumulative distributions.

(Unaudited - $ thousands, except Unit and per Unit amounts)

13. Supplemental Cash Flow Information

a) Changes in Non-cash Operating Assets and Liabilities

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
Loans receivable	$ 54	$ 68	$ 1,337	$ 728
Leasehold improvements	(32)	(42)	(35)	(74)
Prepaid and other receivables	(500)	13	(1,707)	(279)
Deposits	1,901	(19)	1,803	293
Accounts payable and other liabilities	761	(1,160)	1,026	(2,135)
Security deposits	(59)	(85)	50	(55)
	$ 2,125	$ (1,225)	$ 2,474	$ (1,522)

b) Proceeds of Issuance of Units

During the quarter ended March 31, 2003, proceeds of $1,865 from the issuance of Units under the Unit Purchase Plan were funded by loans receivable of $1,243 after applying incentive compensation earned of $622. This amount was reported as changes in non-cash operating assets and liabilities. No Units were issued under the Unit Purchase Plan during the six months ended June 30, 2004.

c) Net Cash Distributions to Unitholders

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
Distributions declared to Unitholders	$ 9,807	$ 7,508	$ 17,645	$ 14,972
Plus distributions payable beginning of period	2,615	2,495	3,038	–
Less distributions payable at end of period	(4,568)	(2,509)	(4,568)	(2,509)
Less distributions to participants in the Distribution Reinvestment Plan	(1,155)	(1,260)	(2,412)	(2,040)
	$ 6,699	$ 6,234	$ 13,703	$ 10,423

d) Acquisition of Income Properties

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
Acquired properties *(note 3)*	$ 1,044,929	$ 111	$ 1,044,929	$ 8,603
Assumed debt *(note 3)*	(518,065)	–	(518,065)	(1,792)
Units issued *(note 3)*	(339,147)	–	(339,147)	
Cash acquired	(2,476)	–	(2,476)	
	$ 185,241	$ 111	$ 185,241	$ 6,811

e) Mortgages and Loan

	Three Months Ended June 30		Six Months Ended June 30	
	2004	**2003**	**2004**	**2003**
Interest paid	$ 9,781	$ 7,540	$ 17,700	$ 14,980

(Unaudited - $ thousands, except Unit and per Unit amounts)

f) Disposition of Income Property

	Six Months Ended June 30	
	2004	**2003**
Property disposed (net of closing costs of $52)	$ –	$ 7,813
Mortgage discharged	–	(2,762)
Vendor take back mortgage	–	(762)
Net proceeds	$ –	$ 4,289

On March 31, 2003, CAP REIT sold an income property for a sale price of $7,865 and realized a gain of $2,110. The vendor take back mortgage provides for interest only payments at the rate of 2.7% for 2003 and 9% thereafter until maturity. The mortgage matures March 31, 2005 and is secured by the property.

14. Related Party Transactions

CAP REIT has entered into construction management agreements with a company that is controlled by two trustees and officers of CAP REIT to provide construction management services to carry out the capital improvements for the properties. The total construction management fees for the six months ended June 30, 2004 amounted to $224 (June 30, 2003 - $311) and have been capitalized to income properties. At June 30, 2004 there were $49 construction management fees outstanding in accounts payable and other liabilities (June 30, 2003 - $128).

CAP REIT has a lease for office space with a company in which one of the trustees and officers has an 18% beneficial interest. The rent paid for office space (which is based on fair market rents at the date the lease was entered into) for the six months ended June 30, 2004 was $196 (June 30, 2003 - $190) and has been expensed as general and administrative expenses. The lease expires in February 2006 and provides for yearly minimum rental payments of $223.

15. Commitments

Gas Contracts

CAP REIT has entered into fixed price gas contracts in the aggregate amount of $8,256 for its natural gas requirements. These contracts, which range from one to three years, fix the price of natural gas for a portion of CAP REIT's gas requirements.

Land Leases

Three of the properties have land leases with various expiry dates between March 31, 2045 and March 31, 2070. Generally, each lease provides for a nominal annual rental and an additional rental calculated from the results of property operations. Minimum annual rentals for the next five years under these leases, exclusive of participation payments, are as follows:

2004	$366*
2005	$758
2006	$773
2007	$773
2008 and thereafter	$773

*Rental payments under one land lease will be renegotiated in 2004 under the terms of the land lease.

Property Management

Pursuant to the business combination *(note 3)*, CAP REIT assumed property management agreements ("management agreements") and an accounting services agreement ("accounting agreement") with Greenwin Property Management Inc. ("Greenwin") to provide full property management services for four properties and accounting and administrative services for the remaining ResREIT properties. The agreements commenced March 1, 2004 and have a five year term expiring February 28, 2009.

Subsequently, on June 8, 2004, the agreements were amended to provide for 90 days' written notice of termination by either party. In such event, CAP REIT must pay Greenwin a termination payment of $350. For each month Greenwin provides services after December 31, 2004 up to September 30, 2005, the termination payment is reduced by $17. Thereafter, the termination payment will be fixed at $200.

Under the management agreements, annual property management fees payable to Greenwin are 3.25% of gross rental revenues and under the accounting agreement, 1.3% of gross receipts. During the month of June 2004, CAP REIT incurred property management and accounting fees of $155.

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STOCK EXCHANGE LISTING

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